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MARKET CONTEXT · JAPAN INBOUND CAPITAL INTELLIGENCE #003

The entry leg is gone; the hedge now pays

Sources: ECB reference rates via frankfurter, 2026-09-08; Reuters via Investing.com (yen), 2026-09-08; Ministry of Finance JGB yields, 2026-09-08; Ministry of Finance intervention data, 2026-08-28; Bank of Japan statement (31 July)

What moved. USD/JPY on the ECB reference rate went 160.16 (1 September), 159.60, 156.01, 156.25, 154.75 (7 September), 154.30 (8 September); the yen touched 152.89 intraday on 8 September, "surpassing levels reached during Japan's July intervention" and its strongest since February, about 4% stronger in September and the best G10 performer. The 10-year JGB closed at 2.987% on 1 September, 3.006% on 2 September and 2.935% on 7 September; the 2-year closed at 1.852% on 7 September, after touching 1.730% on 31 August, its highest since April 1995; the 30-year reached a record 4.18% on 1 September on Reuters' count, against a Ministry of Finance end-of-day figure of 4.131%. Swap rates price a 98% chance the BOJ raises its policy rate 25bp to 1.25% at the 17–18 September meeting, up from 88% on 30 August; OIS imply about 75bp of cumulative hikes by April 2027. The Bank raised the call rate to around 1.0% on 16 June by 7-1 and held on 31 July by 8-1, with Takata Hajime dissenting for 1.25%; Takata and Tamura Naoki, whose terms both end on 23 July 2027, are pressing for faster hikes before they leave. US Treasury Secretary Bessent said at the G20 that "Abenomics, which was a reflation policy, has probably reached its end" and told Japan to "get busy on interest rate hikes". Second-quarter GDP was revised up to 1.4% annualised; July real wages rose 2.4%, the biggest gain since May 2021. Nomura's Dominic Bunning: "it's going to be quite challenging for the BOJ to hike faster than the market has priced in".

The intervention arithmetic. The Ministry of Finance spent ¥15,399.3bn on intervention between 30 July and 26 August, a record ($96.5bn); the securities line of official reserves fell from $927,332m at end-July to $839,559m at end-August, a drop of $87,773m [S]. After the July intervention the yen reached a reported 155.20. The market has now taken the yen past that level without spending a dollar of reserves [S]. Japanese investors have net sold ¥3tn of overseas debt this year, with hedging costs cited, and SoftBank Group's ¥1tn retail bond cleared at a 4.75% coupon, its highest in 17 years.

How this changes the entry maths for a USD investor. The hedging decision is now the main call, and the arithmetic favours hedging. A dollar investor who sells yen forward is paid the rate gap, not charged it. SOFR at 3.65% minus the BOJ's 1.00% is about 2.65% a year received. After a BOJ move to 1.25% and a Fed hike (about 60% priced) it is about 2.75%; if the Fed holds, about 2.40% [S]. That is a policy-rate estimate, not a forward quote, and it ignores cross-currency basis (the extra charge or credit the market adds to the rate gap when swapping one currency for another). So a hedged dollar allocation keeps the asset return, adds roughly 2.5% of carry, and drops a currency bet that no longer has a cheap starting point. On the same arithmetic a 3% ten-year JGB hedged into dollars is about 5.6% [S], the first time in a generation yen fixed income clears a dollar hurdle — sized against a curve that is still steepening. JPY Hedging BoJ Policy Fed Rate Path

The equity-side trap. Anyone long TOPIX or the Nikkei is short yen through the exporters [S]. Toyota's FY2027 forecast assumes ¥160 to the dollar (raised from ¥150), with the change adding ¥480bn of FX effect to a ¥3,400bn operating-income forecast; Bloomberg puts its sensitivity at about ¥50bn of operating income per ¥1 of yen appreciation, consistent with Toyota's own bridge of ¥420bn on the dollar line for a ¥10 move. At ¥153.5 the full-year gap is ¥6.5 × ¥50bn = ¥325bn, 9.6% of the forecast, or about ¥244bn (7.2%) for the nine months not yet booked [S]. Honda assumes ¥155, Subaru ¥155, Mazda ¥155, Suzuki ¥158 with a ¥0.9bn sensitivity per ¥1, Mitsubishi Motors ¥154; only Nissan, at ¥150, has an assumption the yen has not yet beaten. This is the argument for the domestic-asset side of Japan — banks, real estate, the low-PBR targets — over the export complex where passive foreign money sits.

The financing-leg risk. The FSA will examine whether banks "are adequately assessing the credit risks associated with their lending to overseas nonbank lenders and real estate firms" and "review investment and lending policies, project screening, and risk management for data centers"; the measure goes into the draft 2026 supervisory-priorities document. Kyodo's account of the same draft names overseas-business monitoring and insurance sales as the pillars, not real estate or data centres; the FSA's July monitoring report already covered real-estate loans and overseas-fund lending. No LTV cap, pricing floor or timetable has been issued. Read it as a signal that onshore leverage for foreign property and data-centre buyers will be underwritten harder, not that it has been withdrawn.

How to act: decide the hedge ratio on every Japan position before this month's FOMC and the BOJ meeting on 17–18 September; have the FX line and ISDA capacity ready before the meetings. Re-run exporter exposure at ¥153–154 against the guidance table; second-quarter results in late October reset the assumptions. After 18 September, the 2-year JGB (1.83–1.85%) is the cleanest read on how much of the 75bp-by-April path survives, and the hawks' dissents in the statement show whether they are winning before their July 2027 term-ends.

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