Japanese yen turbulence continues to threaten global financial markets

Nick Beams
9 September 2026

US Treasury Secretary Scott Bessent and his counterparts in the Japanese government are walking a tightrope as they seek to raise the value of the yen against the US dollar and stabilise it.

If they slip and fall off, it could have significant consequences for the US and global markets, such is the fragility of the international financial system, shot through as it is with speculative trades and contracts.

The issue of the yen's value started to come into greater international prominence earlier this year as it continued to fall against the dollar. This was despite threats from the Ministry of Finance (MoF) and Japanese Finance Minister Satsuki Katayama that they would intervene against short sellers—those who seek to profit from a further decline—and boost its value.

The threats had no effect and Bessent became concerned that Japan would start to sell dollars to halt the yen's fall, which adds to the government's economic problems by boosting inflation via higher prices for imports.

Fearing such an action, Bessent organised a joint intervention with the MoF under which Japan would obtain money from the Treasury Department's Exchange Stabilisation Fund to back the value of the yen without having to sell US dollars. The US support would be provided by the sale of US holdings of euros to purchase yen.

This unusual set of arrangements—the European Central Bank was not even informed of the action the US was to take with its currency—had one aim: to prop up the yen without selling dollars.

In a letter to Senator Elizabeth Warren, the top Democrat on the Senate Banking Committee who had asked what legal and financial analysis was behind the use of the stabilisation fund, Bessent outlined some of his fears in abusive tones.

He wrote that Warren's letter of August 13, two weeks after the intervention, "reveals that you know even less about foreign exchange markets than you do about banking" and went on to recommend "an entry level course in international finance for you and your staff, or I can give you a tutorial on Foreign Exchange for Dummies."

The tone of the Bessent letter revealed the intense hostility of the Trump administration to any kind of Congressional oversight, while its content displayed the nervousness over the state of the US financial system.

Noting that Japan is a major holder of US Treasuries, as Warren had done—Japan, with more than $1 trillion, is now the largest foreign government holder of US bonds—he wrote that "disorderly yen markets can trigger forced unwinds, which would destabilise global markets and ultimately raise borrowing costs for American families and businesses."

He was referring to a situation where if Japan sold Treasury bonds to obtain dollars with which to support the yen, this would lead to a fall in their value and a rise in the yields (interest rates) at the longer end of the bond market leading to a general rise in corporate and government borrowing costs.

He likened the yen intervention to that carried out earlier in the year to support the Milei regime in Argentina, where the ESF was used to "stabilise Argentina in its moment of acute, short-term illiquidity and to prevent the problem from becoming a broader regional crisis." Such crises in the past have impacted on the US, such is the closely integrated nature of the international financial system.

Bessent subsequently revealed his concerns over the issue of longer-term debt by announcing that, henceforth, Treasury bond buybacks would be lifted from $2 billion to $4 billion per operation and allowed

Treasury officials to indicate that money from the Treasury General Account of around $1 trillion, through which the government finances its day-to-day activities, could also be tapped if necessary.

The joint US-Japan intervention at the end of July did lift the value of the yen, but only marginally, and it soon began to fall back again. Consequently, the US has been insisting that the Bank of Japan (BoJ) begin lifting interest rates at its meeting on September 17–18 in order to provide a more long-term prop for the yen.

This was main issue discussed between Bessent and Japanese Finance Minister Katayama and the governor of the BoJ, Kazuo Ueda, at the recent meeting of the G20 finance ministers and central bankers.

After saying that he was “not going to tell them what to do,” when asked if the central bank should consider successive interest rate increases to combat the weak yen, Bessent made it clear he was doing precisely that.

“I’m going to say that I do think we probably reached the end of Abenomics, which was a reflationary program,” he said.

Abenomics was the name given to the economic and financial program of former Prime Minister Shinzo Abe, which attempted, largely without success, to revive the low-growth Japanese economy through, among other things, ultra-low interest rates.

Bessent has said that he expected the BoJ to “do the right thing.”

Responding to claims that Bessent had exerted pressure, Katayama said: “There was absolutely no sense whatsoever that I had received any demands from him or that I had been pressed or interrogated about anything.”

It should not always be concluded that reality is the opposite of such statements, but they always need to be taken with a large grain of salt for, as Jean-Claude Juncker, the Prime Minister of Luxembourg, said during the crisis of the euro in 2011–2012: “When it becomes serious, you have to lie.” And the yen situation is certainly becoming more serious.

The expectation that the BoJ will at least raise its rate by 0.25 percentage points next week and indicate a more “hawkish” stance in the future combined with the US pressure is influencing the currency market. The yen began this week by surging to a six-month high of 154 to the dollar compared to the level 164 before the US-Japan intervention. So far this month it has risen by around 3.4 percent, with some analysts concluding that it has changed course for the longer term.

This would take pressure off Japan to intervene and sell dollars, the motivation for the Bessent intervention.

But, as so often happens in the world of international finance, the apparent “solution” to one problem immediately brings another to the surface.

In this case it is the effect of rising interest rates on the so-called “carry trade” and it may also lead to Japanese investors taking money out of the US to take advantage of higher rates at home, where the yield on 10-year bonds has risen to 3 percent, the highest in three decades.

The carry trade, through which investors borrow money in Japan at very low rates to invest in US assets returning a higher rate, has long been a part of the international financial landscape. But there are fears that if Japanese rates rise it will cause market disturbance as happened in 2024 when the BoJ raised its rate to 0.25 percent.

While the size of the carry trade is difficult to gauge, it has been estimated that outstanding cross-border yen borrowing has increased by two thirds from 216 trillion yen ($1.41 trillion) in December 2021 to 360 trillion yen ($2.35 trillion) in March this year.

According to Shrikant Kale, an analyst at the financial firm Jeffries which made the estimate, as reported in the *Financial Times* (FT), “the current cycle is by far the largest carry trade build-up of the past three decades” meaning that the BoJ would have to move very cautiously in order to avoid instability.

The FT has noted that some analysts worry that a “disorderly unwind could send shockwaves across the global financial system” and cited a note from JP Morgan that if the yen were to go to 155 to the dollar it could spark a wave of selling of US bonds.

This is because as yen appreciates the value of the Japanese debt held by investors rises and they must sell some of the US bonds they have purchased to meet it, with a possible snowballing effect, precisely the situation which Bessent has sought to avoid.