2026-8-4

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Dollar weakens sharply against yen

BY MAYUKO ONO AND ELAINE KURTENBACH

THE ASSOCIATED PRESS

TOKYO >> The U.S. dollar weakened sharply Monday against the Japanese yen after U.S. President Donald Trump and Japan's finance minister confirmed both sides had intervened in markets.

Before late last week, the dollar was trading above 163 yen, touching 40-year highs. After regulators were suspected of stepping in, it fell below 160 yen.

Early Monday, after the official announcement of the intervention, the dollar fell to nearly 155.20 yen. That's a big drop for the exchange rate. The dollar was trading at 156.70 yen early Monday Eastern time.

Even though it has attracted millions of bargain-hunting tourists, the yen's prolonged weakness against the dollar has been a source of frustration for Tokyo. Since Japan imports so much of what it consumes, a weak currency pushes prices higher. High oil prices have amplified that problem and that's putting pressure on the administration of Japanese Prime Minister Sanae Takaichi to do more to address the rising cost of living.

Efforts earlier this year to raise the value of the yen against the dollar did little to budge the exchange rate.

Note

Normally foreign exchange markets determine the relative values of currencies, but there are many factors that shape what happens in the markets.

A big gap between interest rates in the U.S. and Japan has led investors to sell yen and buy dollars to take advantage of the higher yields from dollar-denominated assets. Both the Bank of Japan and the Federal Reserve kept their interest rates unchanged at meetings last week, maintaining that gap.

So, last week, when the dollar slipped below 160 yen and stayed there, the U.S. side was suspected of lending a hand.

Officials usually stay mum on such actions. But on Sunday, Trump confirmed that the U.S. side had helped, and Japanese Finance Minister Satsuki Katayama likewise issued a statement saying the finance ministry had purchased yen in coordination with the U.S. Treasury Department.

"We will not hesitate to conduct further joint intervention," she said.

Such overt acknowledgment of market intervention is rare, said Neil Newman, managing director and head of strategy at Astris Advisory Japan. He said the last big example was when governments intervened following a massive earthquake and tsunami disaster in northeastern Japan in 2011.

When asked why Washington was helping, Trump said Sunday that "We have a good relationship with Japan. We're very strong — very, very strong financially — and they are, you know, they have a weakening yen, and they wanted a little bit of help, and we're always there for Japan. Japan's been very good to us, with the exception, of course, of Pearl Harbor."

Trump said the U.S. got "financial benefit" out of the intervention, calling it a "signal of friendship."

"It's also good for the world economy," he said.

A weaker dollar makes U.S.-made goods more competitive, reducing their costs in yen terms, and might help increase American exports to Japan, Newman said.

"It's very rare that the Americans will work with the Japanese on this, but there is an alignment of interests here basically between Japan and America," Newman said.

It was a "low-cost" way for Washington to pay a favor to a key U.S. ally, while also protecting the stability of foreign exchange and bond markets, Shigeto Nagai, head of Japan economics for Oxford Economics, said in a report.

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WSJ Print Edition

U.S. Helps Japan, And Itself, With Move To Aid Yen

Currency's slide had potential to increase interest rates, put investment at risk

BY JASON DOUGLAS

TOKYO—In carrying out their first joint effort in a generation to boost the yen, the U.S. and Japan are seeking to contain tremors that could be triggered by a cratering Japanese currency.

The yen's slide to a 40-year low indirectly threatened to bump up U.S. interest rates and risked throwing a wrench into plans to pull billions of dollars of Japanese investment into the U.S.

By propping up first Argentina's currency and now the yen, President Trump is showing he is prepared to help allies who are battling financial markets, a contrast to the hands-off approach long favored by U.S. policymakers except in moments of exceptional peril.

Before the U.S. and Japanese governments stepped into the foreign-exchange market to buy the yen on Friday, the Japanese currency had been trading at its lowest level against the dollar in four decades. Earlier bouts of solo intervention had fizzled, sparking anxiety in Tokyo about faster inflation and a bigger import bill for energy as war with Iran strangles oil supplies.

In afternoon trade in Asia on Monday, the yen had recovered to around 156 to the dollar following the U.S.-Japan move, from a pre-intervention low of close to 164—the weakest the currency had been since 1986.

"The Trump administration delivers for America's trusted partners," Treasury Secretary Scott Bessent, who made a fortune trading currencies and other assets for George Soros's investment firm, said in a message on his official account on X. He said the U.S. wouldn't

hesitate to intervene again to "correct the substantial undervaluation of the Japanese yen."

U.S. intervention in currency markets on behalf of another country is rare.

Washington stepped in to help Tokyo in 2011, in that case to weaken the yen rather than prop it up. The Japanese currency was surging at the time in the aftermath of a major earthquake.

The U.S. last helped strengthen the yen in 1998, when the global economy was reeling from the Asian financial crisis.

There are a variety of reasons why the U.S. wants a stronger yen. Note A rapid and disorderly decline in the currency could spill over into other assets, especially as the yen is a popular funding currency because of the gap in interest rates between Japan and the rest of the world, including the U.S.

The lure of this "carry trade" has been lessened by a small rise in Japanese interest rates, and may diminish further thanks to the U.S.-Japan intervention, but past crises have shown the risk of disorderly stampedes out of carry trades. "The U.S. would be concerned about a rapid selloff in the yen that undermined global financial stability," said Paul Cavey, who runs East Asia Econ, a consulting firm that provides data and analysis on the region's economies.

For the U.S. in particular, if Japan chose to support its currency by selling some of its vast holdings of U.S. Treasurys, that could add to the pressure on U.S. bond yields and interest rates when they are already rising on fiscal concerns and uncertainty over Federal Reserve policy.

Bessent's Japanese counterpart, Satsuki Katayama, said on Monday that Japan planned to use a pandemic-era borrowing facility to get dollars from the Federal Reserve rather than sell down its Treasury holdings to finance future intervention. Bessent said he would encourage the Fed to "upsize" the little-used Foreign and International Monetary Authorities Repo Facility.

A weak Japanese currency also makes it harder for Japanese firms to finance a planned $550 billion in investments in the U.S., a cornerstone of a 2025 trade pact and a priority for Trump.

Trump has long spoken of his preference for a weaker dollar to narrow the U.S. trade deficit and support the return of manufacturing to the U.S.

Japan isn't the first ally his administration has helped on currencies. An early beneficiary was Argentina under President Javier Milei, a libertarian and Trump supporter. The U.S. set up a swap line with Argentina to provide access to U.S. dollars and the Treasury under Bessent has bought Argentine pesos to prop up its currency.

Trump has struck up a rapport with Japanese Prime Minister Sanae Takaichi, a conservative who was close to the late Shinzo Abe, Japan's longest-serving leader and a friend of the U.S. president.

Bessent, who in 2013 made around $1 billion in a matter of months betting against the yen, on Monday praised Takaichi's economic plans, likening them to Abe's signature "Abenomics" policies that boosted job growth and helped end deflation in Japan.

Speaking to reporters on Air Force One, Trump said Japan had asked for help and the U.S. was happy to oblige. "They wanted a little bit of help and we're always there for Japan. Japan has been very good to us," he said, "with the exception, of course, of Pearl Harbor."

Japan isn't in the same economic straits as Argentina. Unlike Buenos Aires, Tokyo has abundant foreign-exchange reserves and Japan's economy is growing again after decades of stagnation and falling prices.

Even so, the yen has been under pressure from a combination of investor anxieties, including over fiscal policy, debt and quickening inflation.

Note

In common with other Asian currencies, such as the South Korean won and Indian rupee, the yen has also been struggling as capital races to the U.S. in search of higher returns from the artificial-intelligence boom. The war with Iran has piled pressure on the currencies of Japan and other energy importers.

Japan in April and May burned through some $70 billion of foreign-exchange reserves to prop up the yen, only to have it weaken again. Preliminary data suggest Japan has spent around $50 billion in this latest burst of intervention. It isn't clear how much the U.S. deployed to boost the yen, though Bessent was photographed on Friday with a todo list that included buying $5 billion to $10 billion of yen.

By joining forces with the U.S., Tokyo is hoping the latest round of intervention will be more successful, said Brad Setser, a senior fellow at the Council on Foreign Relations and a former Treasury official.

With both countries ready to intervene, "it will now be much more costly to be short the yen," he said.

How many Japanese yen $1 buys

Note: Scale inverted to show yen's appreciation
Source: Tullett Prebon