

The FX Trader The JPY rally next objectives

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Summary: The JPY rally enters its fifth day in the most persistent broad strengthening move in at least a year. There may be more strength to come for the yen before more significant two-way price action develops. Elsewhere, the broader USD status awaits Friday's US August CPI and AUDNZD hits a fresh 13-year high.

The Japanese yen rally enters its fifth day in the most persistent move of size, measured in time, in well over a year. The confluence of factors we outlined in our most recent update have inspired the market to adjust the JPY more persistently higher. The factors range from a more hawkish Bank of Japan and the clear signals emanating from Japan's huge GPIF pension fund on reallocation to Japanese bonds (inferred more than explicit) to the strong bid for the longest-dated Japanese government bonds (JGBs) over the last couple of weeks. Even overnight we have evidence of strong investment flows into Japan, or at least stronger confidence in Japan's bonds: despite oil prices near cycle highs and a strong sell-off wave in European bonds on Monday, Japan's 10-year JGB yield dropped almost four basis points (as of this writing early Tuesday in Europe) and the 30-year JGB yield fell nearly five basis points to well below 3.97% to nearly its lowest in a month. The Germany-Japan ten-year yield spread bottomed out in early July near 12 basis points and has blown wider since then – especially over the last week where it has widened from near 35 basis points to nearly 50 basis points. Unlike prior regimes, however, the widening of the spread in Germany's/Europe's favour is more of an expression of relative confidence in Japan's bond market.

Bottom line: The yen move is increasingly mature, with the move from 160.00+ to 153.00 perhaps half or more than half of wherever the move completes. Japan's authorities may think they have made most of their point if USDJPY can achieve the general 150.00 area and generally "stick" down there without rebounding sharply into 155.00+. A more two-way and technical market may then soon develop in JPY crosses, therefore. Eventually, the move can head to the giant 140.00 area, but somewhere below 150.00, the tone of Japanese officialdom will rapidly shift to less posturing. Japan's Goldilocks scenario is a stabilized and modestly firmer yen, not a strong one.

Chart focus: EURJPY Ichimoku EURJPY has sold off sharply and hit new lows for 2026. The technical developments are many, but the most recent bearish confirmation in the weekly Ichimoku picture is the break of the lagging span through the price bars (circled in red). A more important trend signal would be a breaking down of the price through the entire kumo or cloud (shaded area), which will take a lot of doing, although eventually the rising cloud will mean that even staying near or slightly below current levels will eventually see the price action interacting with the cloud. In terms of the next levels to watch to the downside, the major 2024 high before the carry trade meltdown just above 175.00 looms, but the bigger one still is perhaps the former 169.95 top from way back in 2008. I think a fairer long-term price for EURJPY is somewhere deep into the range between that 170.00 level and the big 155.00 support zone from 2024-2025.

Elsewhere, the US dollar lacks direction here, actually rather interesting after the positive Friday jobs report, which was however not positive enough to merit a sticky USD rally. The weight of USDJPY selling is one factor at work against the greenback, but the market was never set up to focus much on

this jobs report after Fed Chair Warsh made it clear, if in confusing terms, that the Fed's focus is predominantly on inflation risks. (Waller's dovish talk no help there).

Bottom line on the US dollar: The market is still confused by Fed Chair Warsh and what will happen at the September FOMC meeting but seems very primed to react to the Friday US August CPI data, should it surprise in either direction, as the tip-off for whether that meeting will bring a rate hike. EURUSD looks hopeless rangebound here until we either break above 1.1700 or perhaps below 1.1500, although the downside range stretches all the way to 1.1325.

Odds and ends: EURSEK rebounded sharply, perhaps on the fresh rise in European yields as Sweden's low policy rate weighs, but as well, Europe risks a darkening economic outlook under the pressure of rising energy prices, with both oil and gas pinned near cycle highs and the latter at downright painful levels heading into the colder months. Sweden's economy traditionally has been seen as very leveraged to the European growth outlook. And AUDNZD tested above 1.2300 for the first time since 2013, likely on rebounding metals prices (London copper hit s record high yesterday) that favour the Aussie, but we also have the drift of NZD weakness from the reaction to the less hawkish downshift at the most recent RBNZ. Assistant Governor Silk of the RBNZ will be speaking on Wednesday in NZ – actually 2340 GMT today on the European calendar.

FX Board of G10 and CNH trend evolution and strength. Note: If unfamiliar with the FX board, please see a video tutorial for understanding and using the FX Board.

The Japanese yen strength has reached extreme levels as measured by our trending indicator, but can still progress higher even as the intensity fades. Still, some two-way price action is inevitable. Elsewhere, the USD dollar negative reading looks excessive and is skewed by the strength of the USDJPY move. CHF remains weak, as does SEK and increasingly NZD after the recently less hawkish than expected RBNZ.

Table: NEW FX Board Trend Scoreboard for individual pairs.

AUDJPY is late, but not the last major JPY pair to join the crowd of G10 JPY crosses in the negative trending column. (NOKJPY will flip negative later today unless we see a sharp rally, and the same even goes for XAUJPY – see in the lower table). In G10 USD pairs, outside of USDJPY, some USD pairs are barely hanging on to their status as bearish (for USD).

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