

FX Daily: Japan's 2026 FX intervention campaign begins

Market participants widely believe that Tokyo authorities intervened in USD/JPY yesterday. This marks the first action of what could be a long campaign to keep USD/JPY under 160 this year. Elsewhere, financial markets remain happy to ignore the stagnation part of this stagflationary shock as US earnings perform well. Yet, the dollar can hold gains



Tokyo has fired the starting pistol on its 2026 intervention campaign

Due to the 4 May UK bank holiday, the next edition of the FX Daily will be published on Tuesday, 5 May

➔ USD: Japan will have sold a lot of dollars

We should have seen it coming, really. USD/JPY was trading above 160 heading into the start of a series of global May Day holidays, and just like it did in 2024, it very much looks like Japan has intervened again. Back in 2024, the Bank of Japan did follow up its \$30bn plus sales of FX on 29 April with another (smaller) round of intervention on 1 May. And this will mean investors will be bracing for potentially more intervention through the early part of next week, given further public holidays in Japan and around the globe. Back in 2024, that intervention in thin markets was worth a move all the way to 152, but it only bought Tokyo some time before USD/JPY traded to a new

high two months later. The same applies today. Unless [Washington gets involved](#), we think there will be good demand for USD/JPY near 155, given high energy prices, hesitant BoJ tightening, and a Fed being blown off its easy course.

What could have been \$30bn of dollar sales yesterday, plus healthy equity markets, has seen the dollar weaker across the board. Lower oil prices have certainly helped here, and there has even been some suggestion that Tokyo might have intervened in crude oil futures markets, too. Yet the Iranian hardliners are showing no signs of conciliatory steps, and few will have any confidence that the recent dip in energy futures is sustainable. With a slowdown in hard activity surely just around the corner, we doubt the dollar needs to fall too far at the moment.

For today, the US focus will be on the April manufacturing ISM and a TV appearance from the Federal Reserve's Stephen Miran – the first Fed speaker after this week's split [FOMC decision](#). He's expected to sound dovish, having again voted for a rate cut this week. But inflation expectations are rising, the Fed is becoming more cautious, and the market will struggle to price in renewed Fed easing until oil prices turn substantially lower.

DXY should continue to find support near 98.00 and can gravitate back to 98.50.

Chris Turner

➔ EUR: ECB had little bearing on the euro

Given the volatility in oil markets yesterday, it has been hard to disentangle how much impact communication from the European Central Bank has had on short-dated euro interest rates and the euro. The conclusion is probably not too much, given that a June rate hike is still priced around 90%. The 10bp fall in short-dated EUR swap rates was probably more oil than [ECB driven anyway](#). That said, at least the ECB was sounding tough enough to protect the euro, and its job is to keep tightening expectations and market-based interest rates high enough to avoid an unwelcome drop in real interest rates.

We tend to favour EUR/USD continuing to trade in a 1.1650-1.1750 range in the near term and do not expect the dollar to return to its benign bear trend until there is a lot more clarity in the Gulf.

Chris Turner

➔ GBP: A confusing picture

Sterling presents a confusing picture at the moment. Some read yesterday's Bank of England communication as dovish, even though our take is that it is laying the groundwork for a [hike in June](#). That dovish read by some may have been influenced by witnessing the decent fall in short-dated GBP swap rates – even though that move was probably driven by lower oil prices. And if oil prices were lower and GBP rates were falling faster than EUR rates, that should have been EUR/GBP bullish, based on the relationship between oil, rates and FX we have seen since the war broke out. But no, EUR/GBP fell on the day. That may have been a function of month-end flows, where equity portfolio managers were rebalancing into UK asset markets after their underperformance in April.

Clearly, it is a confusing picture and one that leaves major EUR/GBP support vulnerable at 0.8600/8610 in holiday-thinned trading conditions. We think sterling should be underperforming soon – but both we and most investors have been saying that for a long time.

Chris Turner

➔ CEE: Rates remain wild while FX is stable

The end of the week should be quiet in CEE after a series of data yesterday and wild rates moves following core markets. Most countries in the region will be closed today for a public holiday. However, the market will have some time to process yesterday's initial sell-off and subsequent rally in rates before the weekend and the closed UK market on Monday, when liquidity in the CEE region is usually scarce.

Rates saw some relief, especially at the long end of the curve, following the rally in core markets. However, the front-end remains largely unchanged with around 80bp of rate hikes priced in in Poland and the Czech Republic for this year, while Hungary is still expected to remain on hold for the whole of this year before opting for some rate cuts next year. The increasing likelihood of a rate hike from the ECB and now from the BoE increases the likelihood, in our opinion, that National Bank of Poland and Czech National Bank pricing can materialise, although our economists' [baseline remains unchanged](#).

Of course, if we see a rapid de-escalation of the conflict in the Middle East, it is the front-end that will see the most relief. Still, the market will leave some room for rate hikes solely because of the ECB and a potential second round of inflation. This makes the current markets complicated, and the sequence of events can be pretty mixed from the current point. However, one thing remains unchanged – and that's CEE FX, which has seen little attention since the beginning of the conflict. Nothing will change on that front in the coming days, but in the medium-term, central banks' reactions to a potential ECB rate hike could increasingly come into play.

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