21 JULY 2026

Weekly Market Snapshot
Why should the Yen rebound?

Weekly Recap

- The US and Iran have continued to exchange strikes, with US forces targeting additional Iranian sites after Tehran-backed Houthi militants in Yemen threatened to blockade Saudi Arabia in the Red Sea. The oil price has briefly breached USD 90 bbl.
- The new UK Prime Minister, Andy Burnham, has appointed his cabinet. The most surprising appointment of the evening was Burnham's decision to appoint former Defence Secretary John Healey as Chancellor of the Exchequer.
- Media reports last week suggested that the EU ~~has~~ had set up an emergency crisis task force, partly to deal with a potential trade conflict with China.
- US June core inflation eased to 2.63% y/y, missing forecasts. Fed rate hike pricing has fallen to 31 bps by December, down from 43 bps.

Market perfomance			
EQUITY REGIONAL*	Level	Week ago	YtD
S&P 500 COMPOSITE	7458	-1.3%	8.7%
STOXX EUROPE 600 E	640	-0.4%	8.0%
FTSE 100 UK	10525	-0.04%	6.0%
NIKKEI 225	64141	-2.2%	31.6%
MSCI EM	1621	-2.2%	15.1%
Bond yields (10 yr)	Level	Week ago*	YtD*
UK	4.79	+6	+56
Germany	2.93	+8	+29
USA	4.49	+1	+43
Japan	2.77	0	+63
Credits	Spread	Week ago**	YTD**
EUR IG	77	+1	-2
EUR HY	266	+1	-18
US IG	75	-1	-1
US HY	271	-3	-10
EM HY ($)	220	+2	-10
CURRENCY	Level	Week ago	YtD
EUR/USD	1.14	0.0%	-2.8%
EUR/GBP	0.85	-0.4%	-2.6%
USD/JPY	162.50	0.2%	3.7%
COMMODITY (USD)	Level	Week ago	YtD
Crude Oil WTI	84	4.9%	47.4%
BBG Industrial Metals (TR)	445	-0.7%	8.2%
BBG Precious Metals (TR)	1058	-1.6%	-8.7%
Gold	4006	-1.2%	-7.2%
Silver	56	-3.8%	-20.8%
Copper	13622	0.0%	7.7%

Source LSEG as of 21-July-2026
**bps* ***Spread*

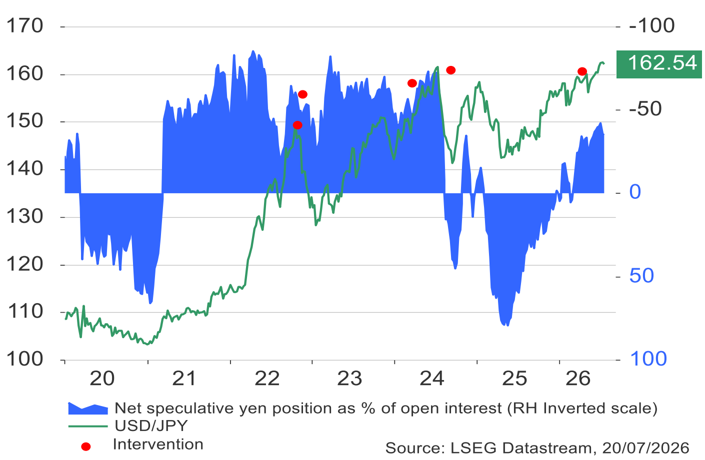
Snapshot

The Bank of Japan (BoJ) intervened in the foreign exchange (FX) market in late April and early May ~~2026~~, selling over USD 70 billion to stabilise the yen after the USD/JPY pair surpassed 160 (value of one USD). With the yen currently hovering at around 162, the markets are speculating that the BoJ's next intervention threshold could be near 165.

While FX interventions provide temporary relief, rate hikes are seen as the sustainable solution to strengthen the yen. **The BoJ is expected to implement 25bp hikes every four to five months, with the next likely in October 2026. The policy rate is projected to reach 2% by Q4 2027 and 2.50% by September 2028, supporting a gradual appreciation scenario for the yen.**

A joint US-Japan intervention, though unlikely, could dramatically alter market dynamics. **The 12-month target for USD/JPY stands at 155, signalling moderate upside potential for the yen.**

SPECULATIVE YEN POSITIONS AND USD/JPY



Source: LSEG Datastream, 20/07/2026

Gurminder SINGH
Investment Strategist Forex
BNP Paribas Wealth Management

BoJ's recent FX intervention

The Bank of Japan (BoJ) recently intervened in the foreign exchange (FX) market by selling over USD 70 billion in late April and early May. This intervention was triggered when the USD/JPY exceeded 160 (value of one USD). The depreciating currency has increased import costs and worsened the cost-of-living crisis, a critical issue for voters. While government subsidies have been introduced to alleviate these pressures, they have raised concerns in the bond market, further complicating Japan's economic landscape.

US-Japan joint intervention

When the BoJ intervenes, it liquidates part of its securities portfolio, primarily US Treasuries to buy Yen. Recent data revealed a USD 74 billion decline in the BoJ's securities holdings in May. Coordination with US authorities remains critical. In January 2026, US and Japanese regulators jointly conducted a "rate check" that was interpreted as a coordinated effort. The USD/JPY pair fell sharply, illustrating how such cooperation can be effective. Historically, however, the United States has been hesitant to intervene in FX markets, allowing market forces to set values unless volatility endangers financial stability.

Strategic Yen support

Market dynamics for USD/JPY remain challenging, with the JPY hovering at around 162. The lack of intervention at this level may lead markets to anticipate a new threshold near 165. While FX interventions provide temporary support, they are not a sustainable long-term solution. A different approach put forward by the government is to rebalance the Government Pension Investment Fund's (GPIF) portfolio towards a larger allocation of Japanese bonds and equities. This would channel sizeable capital into yen-denominated assets, raise domestic demand and support the yen's appreciation without direct market intervention. The 2014 GPIF rebalancing demonstrates that such a strategy can generate sizeable FX moves, even when this policy change is implemented gradually.

Looking for a stronger Yen

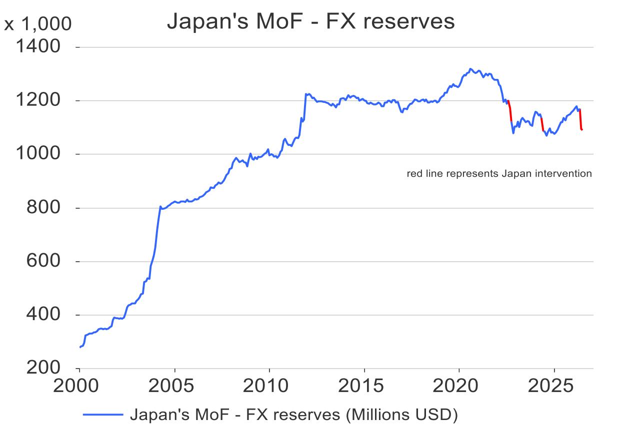
Inflation expectations remain elevated. After stripping out the most recent policy effects, core CPI inflation sits just under 3%, already above the Bank of Japan's 2% target. The upward price momentum, driven by firm level price setting expectations, ongoing yen depreciation and future expansionary fiscal measures, raises the risk of a medium-term inflation overshoot. This pushes the BoJ toward faster tightening.

In line with that inflationary pressure, we expect the BoJ to lift the policy rate by roughly 25 bps every four to five months. The next increase is likely in October, although a September move is gaining traction. At this pace, the policy rate would be around 2.00% by Q4 2027 and reach a terminal level of 2.50% by September 2028. Rate hikes remain a very effective way to support the currency and curb the currency weakness.

A second potential catalyst (aside from the GPIF's portfolio rebalancing, which remains unlikely for now), could be a coordinated intervention with the US Treasury, which would markedly shift market dynamics.

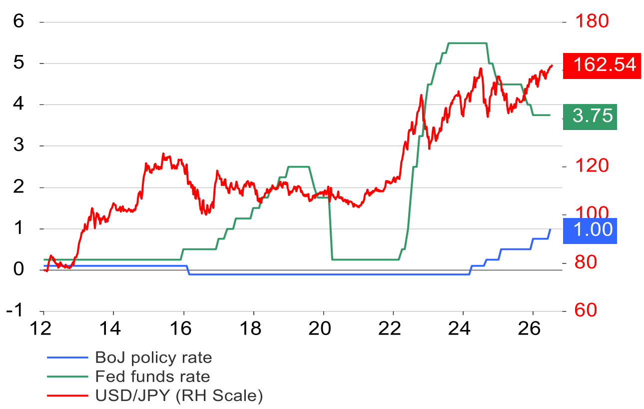
Based on this outlook, our 12-month target for USD/JPY stands at 155, implying moderate upside potential for the yen.

JAPAN HAS OVER USD 1TN IN FOREIGN RESERVES TO BE USED



Source: LSEG Datastream, Jul 22

JAPAN, US POLICY RATES AND USD/JPY



Source: LSEG Datastream, Jun 26

CONNECT WITH US

wealthmanagement.bnpparibas

DISCLAIMER

BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world