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The First Since 1998: Why Washington Joined Tokyo in Buying Yen

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The First Since 1998: Why Washington Joined Tokyo in Buying Yen

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Every fact web-verified against primary sources

> *Japan's Finance Ministry and the US Treasury confirmed on August 3, 2026 that they had jointly intervened in currency markets the previous Friday to support the yen, the first coordinated US-Japan yen-buying operation since 1998, and signalled readiness to act again.*

THE INTERVENTION

PARAMETER	DETAIL
Confirmed	**3 August 2026**; intervention conducted the preceding Friday
Announced by	US Treasury Secretary **Scott Bessent** and Japanese Finance Minister **Satsuki Katayama**
Last comparable joint action	**1998**
Yen movement	Strengthened over **1 per cent** to about **155.20** per dollar
Prior low	Near **164** per dollar in July, a 40-year low
Stated basis	The Joint Statement of the Japanese and US Finance Ministers of September 2025, citing "excessive volatility and disorderly movements"

WHAT CURRENCY INTERVENTION ACTUALLY IS

A central bank or finance ministry intervenes by buying or selling its own currency in the foreign exchange market to influence its price. To **support** a weakening currency, the authority sells foreign reserves and buys its own currency.

The critical distinction, and a standard examination point:

TYPE	MECHANISM	MONETARY EFFECT
Unsterilised intervention	The intervention is allowed to change the domestic money supply	Alters monetary conditions; more effective but constrains domestic policy
Sterilised intervention	The central bank conducts offsetting open-market operations so the domestic money supply is unchanged	Leaves monetary policy free, but the effect on the exchange rate is generally weaker and shorter-lived

Most modern intervention by advanced economies is sterilised, which is precisely why its effects tend to be temporary unless it is reinforced by a change in the underlying policy divergence.

WHY THE YEN WAS FALLING, AND WHY COORDINATION SIGNALS DIFFICULTY

The yen's weakness reflects an **interest-rate differential**. When one economy runs materially higher policy rates than another, capital flows toward the higher-yielding currency, weakening the lower-yielding one. This is the **carry trade**: borrowing in a low-rate currency to invest in a higher-rate one, which mechanically sells the funding currency.

Unilateral intervention against a differential of this kind is fighting the fundamentals. It can slow a move and punish speculative positioning, but it cannot reverse a trend the rate gap is producing.

Coordinated intervention is different in one specific respect: when the counterpart country's authorities participate, markets read it as a signal that both governments regard the level as unacceptable, which raises the perceived risk of holding positions against it. That signalling value is the main reason coordination is used, and the reason it is used rarely. A country that coordinates is disclosing that acting alone has stopped working.

WHY THIS MATTERS FOR INDIA

CHANNEL	RELEVANCE
Precedent for managed float regimes	India operates a managed float in which the RBI intervenes to curb volatility rather than target a level; the episode is a live case study in the limits of that approach
The impossible trinity	A country cannot simultaneously have a fixed exchange rate, free capital movement and independent monetary policy; intervention is where that constraint becomes visible
Carry-trade unwinding	Sharp yen appreciation can force unwinding of yen-funded positions in emerging markets, including India, transmitting volatility with no domestic cause
Reserve adequacy	Intervention capacity depends on reserves, which is why reserve accumulation is a policy objective rather than an accident

UPSC RELEVANCE

GS Paper 3: Indian economy; effects of liberalisation; external sector; capital markets; monetary policy.

GS Paper 2: Effect of policies and politics of developed countries on India's interests.

Prelims pointers:

- **Sterilised intervention** offsets the money-supply effect through open-market operations; **unsterilised** does not.
- The **impossible trinity**, or trilemma: a fixed exchange rate, free capital mobility and independent monetary policy cannot all be held at once.
- **Carry trade**: borrowing in a low-interest currency to invest in a higher-yielding one.
- India operates a **managed float**, with the RBI intervening to curb volatility rather than defend a level.
- The last comparable joint US-Japan yen intervention was in **1998**.

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THE INTERVENTION:

Confirmed 3 August 2026 by US Treasury Secretary Scott Bessent and Japanese Finance Minister Satsuki Katayama; conducted the preceding Friday.

First coordinated US-Japan yen-buying intervention since 1998.

Yen strengthened over 1 per cent to about 155.20 per dollar, from a 40-year low near 164 in July.

Framed under the September 2025 Joint Statement of the Japanese and US Finance Ministers, citing "excessive volatility and disorderly movements".

CONCEPTS:

Sterilised versus unsterilised intervention: whether the money-supply effect is offset.

Impossible trinity: fixed exchange rate, free capital mobility and independent monetary policy cannot coexist.

Carry trade: borrowing in a low-rate currency to invest in a higher-rate one, mechanically weakening the funding currency.

INDIA LINK: THE RBI OPERATES A MANAGED FLOAT, INTERVENING AGAINST VOLATILITY RATHER THAN DEFENDING A LEVEL; YEN-CARRY UNWINDING CAN TRANSMIT VOLATILITY TO INDIAN MARKETS WITH NO DOMESTIC CAUSE.

Sources: Reuters, Reserve Bank of India, Ministry of Finance, Japan

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