

FX Focus

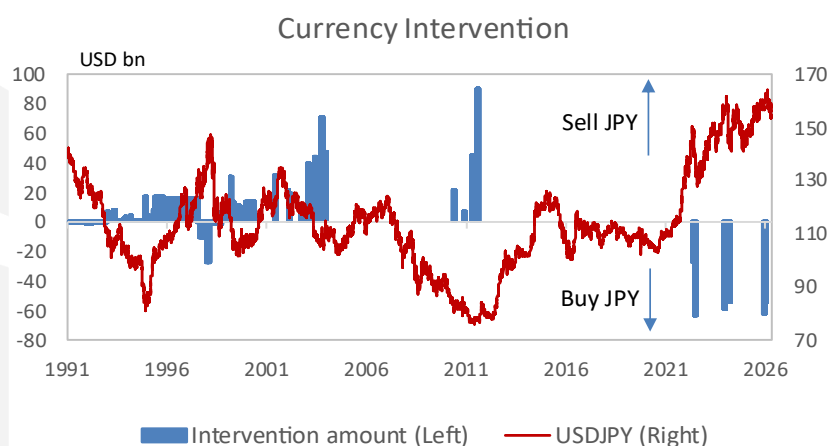
JPY Nearing Turning Point

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- We revise our end-2026 USDJPY forecast to 155 from 160 and target 150 by end-2027 as Japan's deep currency undervaluation could become harder for investors to ignore.
- Faster BoJ normalisation and the prospect of greater FX hedging should gradually narrow rate-driven headwinds that have weighed on the JPY for years.
- Potential repatriation by GPIF and other Japanese investors could become a powerful new source of JPY demand, reinforcing the currency's recovery story.

The JPY remains one of the most undervalued currencies globally. Unlike the CNY, however, its cheap valuation has done little to stem depreciation pressures. USDJPY surged to a 40-year high in July 2026, prompting a rare, coordinated intervention by Japan and the US. The move triggered a sharp squeeze in speculative short JPY positions and underscored policymakers' growing discomfort with excessive currency weakness. While the risk of renewed intervention would rise if USDJPY moves above 160 again, intervention alone is unlikely to deliver a lasting recovery without support from domestic policy shifts.

Currency intervention is unlikely to deliver a lasting JPY recovery unless supported by domestic policy shifts

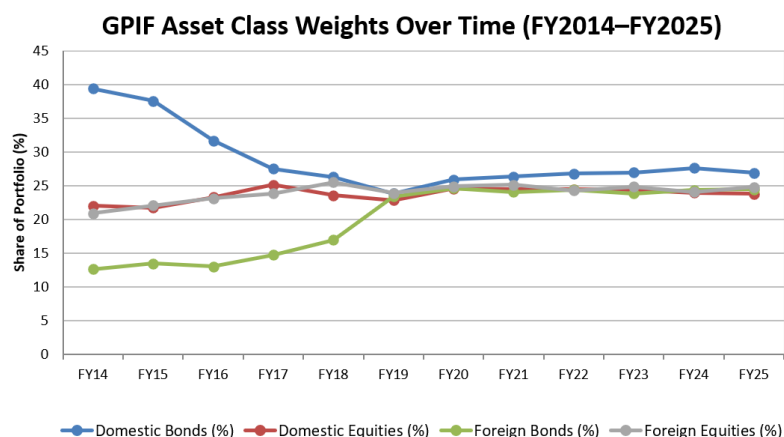


Source: Bloomberg, OCBC Group Research

That support may finally be emerging. The Bank of Japan (BoJ) appears increasingly willing to normalise policy at a faster pace, gradually narrowing the gap with other major central banks. While the BoJ is unlikely to out-hawk the Fed in the near term, the direction of travel has become more supportive for the JPY. A narrower rate differential should also encourage Japanese investors and corporates to increase hedging of their overseas exposures.

A more constructive JPY story extends beyond the BoJ. It also hinges on the potential reversal of Japanese portfolio outflows. The Government Pension Investment Fund (GPIF) and other major institutional investors remain heavily invested overseas after years of ultra-low domestic yields. GPIF's sharp increase in foreign asset allocations in 2014 coincided with a roughly 20-yen rise in USDJPY over the following four months. Any meaningful shift back toward domestic assets could therefore provide a significant tailwind for the currency.

Waiting for a GPIF shift that could lift the JPY



Source: GPIF, OCBC Group Research

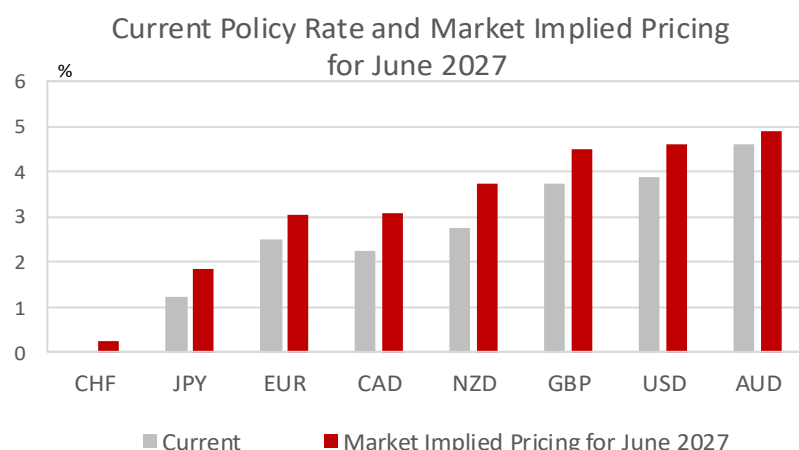
While evidence of such a shift remains limited, market attention has focused on GPIF's unusual August meeting, which sparked speculation that the fund may consider increasing domestic investment and, by extension, support JPY repatriation. We expect further policy initiatives aimed at channelling more Japanese savings back into domestic assets.

Against this backdrop, we are revising our end-2026 USDJPY forecast to 155 from 160 and target 150 by end-2027. We expect

the JPY's deep undervaluation to become a more important driver of FX performance as policy and flow dynamics turn increasingly supportive.

As the JPY strengthens, the CHF is likely to remain the preferred funding currency for carry trades. This view is reinforced by our expectation that the Swiss National Bank keeps policy rates at 0% through at least year-end, preserving the CHF's role as a low-yielding funding currency. That said, CHF funding is not without risk. The currency could reassert its safe-haven appeal should French political or fiscal risks intensify.

As the JPY strengthens, the low-yielding CHF is likely to remain the preferred funding currency



Source: Bloomberg, OCBC Group Research

Improving prospects for JPY appreciation add to the impact of firmer currency management across Asia, led by the ongoing gradual appreciation of the CNY. Together, these developments should help constrain USD upside and support our view of only a moderate USD rally into year-end, even with the US remaining on the favourable side of the energy divide. A more substantial USD rally would likely require clearer evidence that inflation is being driven by excess demand rather than supply-side shocks such as higher energy prices.

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