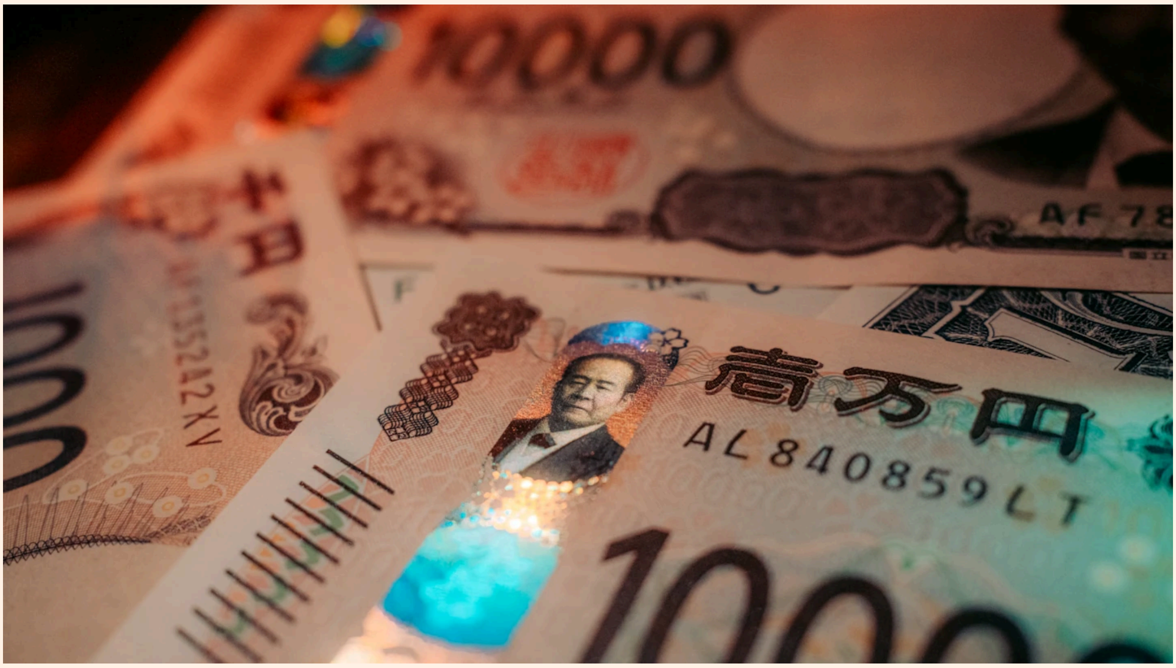
Opinion **The Long View**

The US bares its financial weak spot

Yen intervention points to the squishy underbelly of American weakness

KATIE MARTIN



US involvement in the yen smacks of rational self-interest © Kentaro Takahashi/Bloomberg

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The US Treasury's adventures in the Japanese yen may sound like rather abstract stuff — the kind of "big macro" event that excites chin-stroking wannabe central bank governors and tiresome nerds who live for the inner workings of the currencies market. (OK, fine, guilty as charged on the second point. I blame a misspent youth.)

It is also, on a superficial level, quite straightforward and uncontroversial. Japan's currency has been tumbling for months, seemingly beyond the level justified by gaps between global interest rates alone. Japan wanted help and the US, its steadfast ally, was happy to oblige, buying some yen, spooking the speculators and promising further joint action if the market doesn't behave. The whole thing might possibly even work — a rarity in a market that routinely humbles anyone seeking to tame it.

So far so simple, a generous expression of solidarity from the US and a reminder that in the short term at least, this superpower can bend even currencies — the biggest market on the planet — to its will.

Underpinning all this, though, is a set of tensions that warrant close attention beyond the ranks of currency-market anoraks. The whole episode strikes at the heart of some of the US's key economic contradictions and vulnerabilities, and the limits of its powers.

Among the chattering classes of global market watchers, few are convinced by the explanation put forward by the US for its involvement in a faraway currency. In an interview with Nikkei, Treasury secretary Scott Bessent suggested the yen purchases he directed were aimed at lessening the risk of a broader Asian currency crisis, saying that "many Asian currencies follow the Japanese yen". It is a stretch to believe a 1998-style crisis was really on the cards here, but Bessent is of course correct in asserting that some big Asian currencies have been declining for some time.

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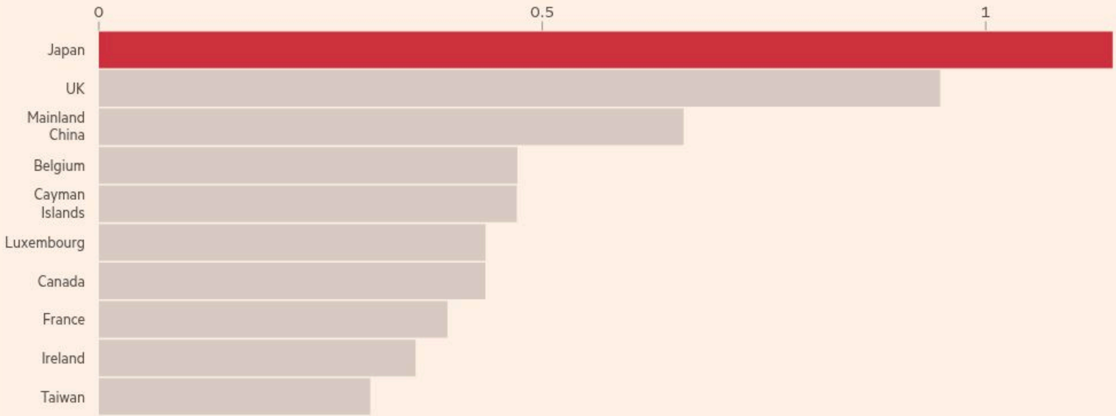
Japan holds Treasuries Washington cannot afford to see sold

Estimated holdings of US Treasury securities by country ($tn)



FINANCIAL TIMES Source: US Department of the Treasury • Data as of May, 2026 | Treasury data is collected from US custodians and may not identify the ultimate owner of securities held through financial centres

Kit Juckes, a currencies analyst at Société Générale, points out that together, Japan, China and South Korea account for about 18 per cent of US trade, and that their currencies have devalued by around 9 per cent over the past decade.

This is a problem for the US on a couple of fronts. One is that weak currencies in Asia make the region's exports much cheaper and imports from the US much more expensive. Weakness in Asian currencies has often been framed by the US as a form of unfair exporting advantage. Any brute-force efforts to correct this, though, come with really ugly trade-offs, not so much for Asia as for the US. Japan, for instance, can meaningfully push up the yen in one of two ways: a massive rise in Japanese interest rates or massive sales from its enormous pile of US Treasury bonds.

Jacking up interest rates is tricky for domestic political reasons but also because it makes Japanese government bonds a more alluring bet for local and even global investors than Treasuries. And if Japan were to step up its already substantial sales of US assets, this would inflict direct harm on the US through lower US bond prices and higher US borrowing costs.

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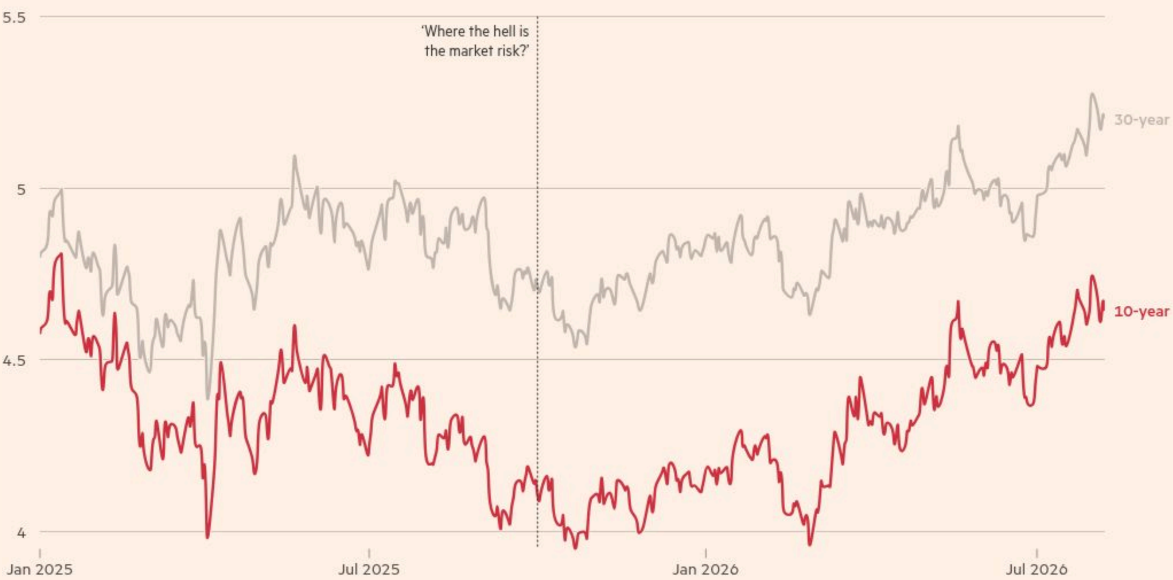
US borrowing costs have risen since Bessent questioned ‘market risk’

Treasury yields (%)



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Source: LSEG

The fact is, despite the bluster on trade, on defence, on geopolitics, the US needs friends and allies. It needs the world to buy its bonds and cannot afford for overseas powers to avoid or even sell them. It lives on borrowed money, far outstripping other advanced economies with the size of its fiscal deficit.

Early last year, Bessent was clear that low bond yields were a key focus for the second Trump administration. “Where the hell is the market risk?” he said to the FT later that year. He had a point — at the time, US bond markets were looking pretty cheerful, with benchmark US 10-year borrowing costs down at around 4 per cent.

Well, the market risk is now here. It is far from crisis point, but it is here nonetheless. Those borrowing costs are now at around 4.6 per cent, and 30-year rates are north of 5 per cent for the first time since the great financial crisis, in part because doubts have crept in over the Federal Reserve’s true willingness to tackle sticky inflation with higher interest rates.

The US still enjoys its famous exorbitant privilege. Investors are casting a critical eye at new Fed chair Kevin Warsh over his puzzling communications style, but his privileged position at the centre of the world's still-dominant reserve currency — the dollar — does give him leeway that other central bankers still look on with envy. But the burst of weakness in Treasury markets now in play does suggest investors are testing both him and Bessent.

Japan benefits from this extremely rare joint intervention to boost the yen. The weakness in its currency cranks up import prices and intensifies inflation, and if the US can help to slow or even arrest its decline, that is a win.

But the US involvement in the yen smacks of rational self-interest. The real beneficiary here is the US — a feature highlighted by the fact any future interventions will be filtered through a Fed facility that limits immediate sales of Treasuries.

On one level, this is a magnanimous effort to help Japan at a time of need. The side effect of it, though, is to remind the world where the squishy underbelly of US weakness really lies.

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