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Leo Lewis and **David Keohane** in Tokyo

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In early September, the top foreign exchange experts at Japan's biggest banks started taking calls from investors and regulators with two big questions: how big is the yen carry trade, and how close is it to unwinding?

The short answers from the Tokyo forex gurus — “nobody exactly knows” and “a lot closer than we would like” — were of little comfort to them.

The yen carry trade is the term for when hedge funds and others use Japan's currency to access low-cost financing to make bets in markets across the world. For almost 30 years, investors have borrowed the cheap, stable yen in order to fund higher-yielding investments elsewhere, exploiting differences in interest rates and, in particular, the fact that until this month the central bank benchmark rate had not risen above 1 per cent since 1995.

But every so often, those differences threaten to shrink, or the value of the yen shifts with unexpected speed. Investors exit carry trades and dump the acquired assets — fuelling spectacular spasms in global markets from emerging economy debt and Nasdaq stocks to cryptocurrencies and luxury property.