

**Goldman Sachs The Markets**  
**Currencies, rates, and a volatile yen**  
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**Sam Grobart:** While the US Fed holds steady, we take a look at something that's been considerably more active, the Japanese yen. This is *The Markets*.

Hi, I'm Sam Grobart. Today, I'm joined by Lindsay Matcham, who's on the Future Sales Trading Team in Global Banking and Markets. Lindsay, thanks so much for joining us today.

**Lindsay Matcham:** Good to see you, Sam. Thanks for having me.

**Sam Grobart:** So I want to get to what's been going on in Japan lately, but we are recording the day after the US Fed met and I want to note that. How has the market responded to the comments made by Chair Powell?

**Lindsay Matcham:** The market response has been fairly muted in equity land. I'd say that much of the response has been in currencies and rates. So he was

pretty dovish. So we've seen the yields move lower, the dollar move lower, the US 2-year is now 35%. Equities have been a little bit muted. They saw it off into the close last night surprisingly, but they bounced this morning. They're digesting the news.

**Sam Grobart:** Okay, so not a ton of activity related to that so far, but let's pivot to something that has been a bit more active. We've been seeing some significant movement in the Japanese yen lately. For starters, Lindsay, can you just explain what's been happening over the past couple of weeks?

**Lindsay Matcham:** Sure. As you say, the Japanese yen's been very volatile, and it's devalued pretty aggressively towards the kind of 160 mark. Essentially, recently what we've seen is a macro picture that's really played its part in that, right? So we've had US-led global growth resulting in a risk-on environment coupled with high US yields. And this is a very negative environment for the yen, which is normally a safe haven.

**Sam Grobart:** And so how did we get here? How did we get to this sort of 160 level that we're talking about?

**Lindsay Matcham:** Japan have recently been exiting their negative interest rate policy, and it's been pretty dovish. So last week, we had a meeting, a BoJ meeting on Friday, which, again, was pretty dovish. Ueda, the governor of the Bank of the Japan, said essentially that they were going to keep monetary policy very accommodative. There were no rate hikes. And so we've seen that kind of devaluation up to 160 last week, which was really precipitated by the kind of dovish BoJ meetings we've seen recently.

**Sam Grobart:** So of course Japan has been coming out of its yield curve control regime. Meanwhile, the Fed moving in the opposite direction has been hiking rates over the past several months or year. How is that playing a factor in where we are today?

**Lindsay Matcham:** Yeah, it's playing a big factor. You know, it's all about that rate differential. So you've got the BoJ, who have been in their YCC regime since 2016, keeping rates at zero, versus the Fed who are or have been hiking rates aggressively since March '22, right? And so to put that in context, we're looking at a 2-year Japanese

swap rate currently pricing at 65 BPS versus a US 2-year at just under 5%. So that rate differential is huge and has played a big role in the dollar-yen pricing.

**Sam Grobart:** And then this week, is it that we've seen effectively what might be considered a possible intervention?

**Lindsay Matcham:** Yeah, correct. So actually, a few days ago but also last night, nothing confirmed but the timing and the extent of the moves would suggest that.

**Sam Grobart:** And what does that mean when we talk about an intervention? What are we suggesting might have happened?

**Lindsay Matcham:** We're suggesting that the BoJ are coordinating with the MoF, the ministry of finance, to essentially buy back their currency. So, you know, sell their dollars to buy back Japanese yen in order to strengthen the currency.

**Sam Grobart:** One of the outcomes of Japan's effort to control two decades of deflation has been this explosion of

government debt. I'm just going to rattle off a few statistics here. Japan's debt to GDP percentage is 260%. For comparison's sake, the US is at 121%. How concerned are investors about these numbers in the context of these currency moves?

**Lindsay Matcham:** Yeah, an explosion of debt to GDP is always a concern for investors. Japan's debt to GDP has been manageable in the past because rates have been ultra low. The debt is denominated in yen, which is a safe haven currency, and much of the debt is held in Japan. But within the context of these moves, there is concern because, given the large amount of debt to GDP, the BoJ can't just hike their way out of the problem aggressively and quickly. And so that I guess, within the context of this currency move, that would be the concern.

**Sam Grobart:** And what options does the BoJ have right now?

**Lindsay Matcham:** You know, this can work in the short term. However, in order to really turn the tide, there needs to be a fundamental change. So as we said, raising rates is difficult. They can raise rates but, again, they have

this large percentage of debt to GDP that they're sitting on. And it's going to be very difficult. They can't out hawk the Fed at this point. So, you know, either they need the Fed to start cutting rates. The Fed will cut rates if and when it suits them. They're not going have --

**Sam Grobart:** They're not going to do it for Japan.

**Lindsay Matcham:** Exactly. They need inflation to start moving in the right direction for them. I think they need a risk-off event and the yen to become a safe haven play again for there to be a turn in the tide. Couple that with kind of cuts in the front by the Fed either through there being a problem or through immaculate disinflation.

**Sam Grobart:** Lindsay, what are you going to be paying attention to regarding all of this in the days and weeks ahead?

**Lindsay Matcham:** So I think in the days and weeks ahead it's going to be super interesting post FOMC last night to see how the US 2-year trades, how the market is going to be pricing these potential hikes or cuts going forward. We've seen over the last couple of weeks a huge

amount of cuts get priced out of the market, but I think more importantly it's going to be on the BoJ side. We saw them interviewed last night. How is the market going to react to this? How are the carry trade players going to be walking away from the trade licking their wounds? Or is the market going to continue to lean against the BoJ? That's going to be the important thing.

And also as well to add, we've hit 160. Before that, we thought the line in the sand was 155. I think the importance of this is going to be the speed and scale of the move over, say, a 30-day period. So it's all going to be about, you know, how fast the move is as well. That's going to be key to look at.

**Sam Grobart:** Lindsay Matcham, thank you so much. This was great.

**Lindsay Matcham:** Thank you very much.

**Sam Grobart:** That does it for another episode of The Markets. Be sure to find us on Apple Podcasts, Spotify, or wherever you get your podcasts. To learn more, visit us at [GS.com](https://www.gs.com) and subscribe to Briefings, our weekly newsletter

on the global economy. I'm Sam Grobart. Thanks so much for listening.



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