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Beyond the Headlines

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The Yen Carry Trade:
Rising Japan Yields, Falling Yen & Threat of Sell-off in US Treasuries

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The Yen Carry Trade: The World's Cheapest Money Is Getting Expensive

Rising Japanese yields, a 40-year-low yen, a record stock market and a $1.24 trillion question hanging over US Treasuries

For twenty years, the yen was the world's free money. You borrowed it at almost zero and bought anything that paid more, be it US Treasuries, US tech, emerging-market debt. That one trade quietly financed a slice of the global bull market.

It is now unwinding. Slowly, for now.

Three numbers in Tokyo tell the story, and they are not supposed to move together.

- **The 10-year JGB yield has climbed to about 2.90%** (its 9 July high), the most since 1997.
- **The yen has fallen to about 162 per dollar**, its weakest in nearly 40 years.
- And **the Nikkei 225 has hit a record 72,354**, up about 88% in a year.

Higher yields, a sinking currency and a booming stock market do not normally appear together. When they do, the market is not pricing a healthy economy. It is pricing a debased one.

Macro Snapshot (as of 11 July 2026)

Nine readings that frame the trade - the yields, the currency, the stock market and the Treasury anchor.

Indicator	Reading	Read-through
Japan 10Y JGB yield	~2.90% (9 Jul high)	Most since 1997; home bonds finally pay a real yield
BoJ policy rate	1.00% (16 Jun 2026)	Highest since 1995; hiked on the Iran-driven oil shock
USD / JPY	~162	Yen near a 40-year low — fiscal fear, not just rates
Nikkei 225	~72,350 (record)	+88% in a year; a nominal, weak-yen boom
US–Japan policy gap	3.50–3.75% vs 1.00%	Narrowing — the carry trade's edge is shrinking
Japan's US Treasury holdings	$1.24 trillion	Largest foreign holder; the anchor is starting to drag
Japanese net US bond sales, Q1 2026	−$29.6 billion	Largest quarterly reduction since 2022
Est. US 10Y impact if Japan tapers	+20 to 50 bps	Higher discount rate on priced-for-perfection US equities
Aug-2024 carry unwind	Nikkei −12.4% in a day	The rehearsal — at lower yields and smaller size

1. The Carry Machine

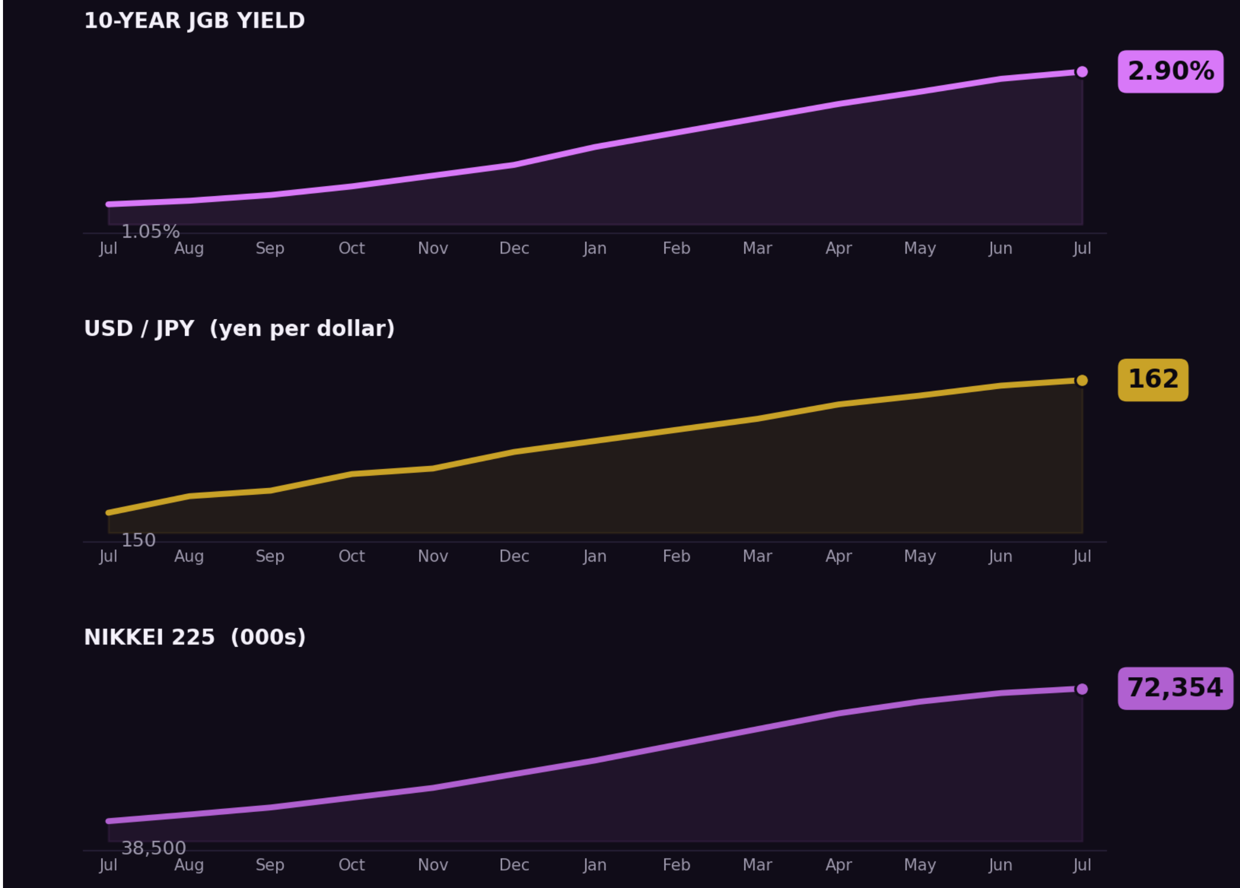
The mechanics are simple. The Bank of Japan held rates near zero for a generation. Investors borrowed yen for almost nothing and parked it in higher-yielding assets abroad. The gap did the work. It is the largest, quietest leverage trade in finance, and no one can size it fully. It hides in bank books, pension portfolios and hedge-fund positions.

What we can see is the anchor. Japanese investors hold **$1.24 trillion of US Treasuries** - the single largest foreign holding, ahead of the UK's $897 billion (US Treasury data, February 2026). When Japan's own bonds start to pay, that anchor starts to drag.

THE PARADOX

Three markets that should not be moving together

Rising yields, a sinking currency and a record stock market — over the past 12 months



Illustrative monthly path; endpoints are actual readings. *Source: BoJ; Refinitiv; Ametra Research*

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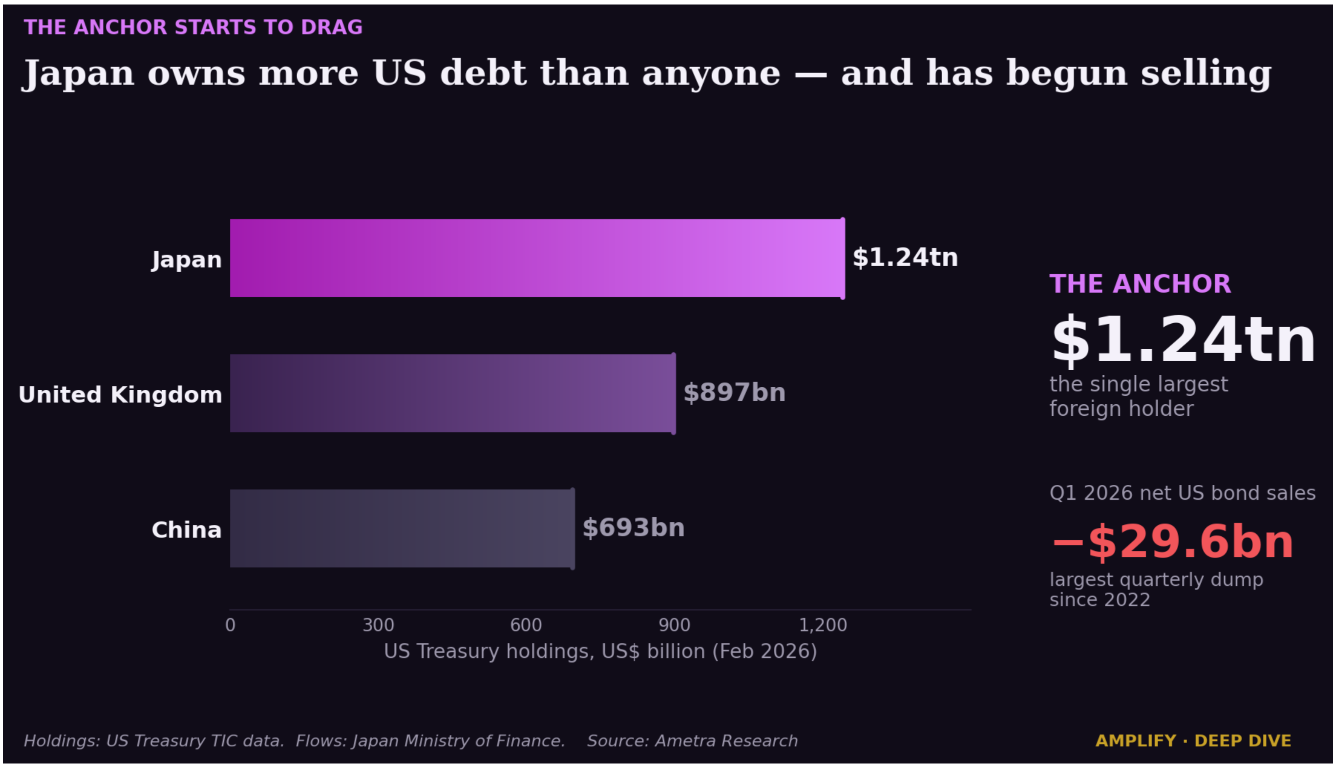
2. Three Cracks, at Once

Japanese yields are finally rising: On 16 June 2026 the BoJ raised its policy rate to **1.00%**, the highest since 1995, in a seven-to-one vote *(Japan Times; Bloomberg)*. The trigger was the Iran energy shock feeding into inflation, the same oil story we flagged in our previous **Amplify | Deep Dive - Crude Mirage**.

The 10-year JGB near **2.90%** is a level unseen in nearly three decades. For the first time in a generation, a Japanese institution can earn a real yield at home.

The yen keeps falling anyway: Yields are up, yet the yen sits near a 40-year low around 162. The driver is fiscal, not monetary: the Takaichi government's large spending and debt-issuance plans have markets selling JGBs on supply fears, not buying yen on rate hopes. A bond market and a currency falling together is the classic signature of fiscal dominance - when investors doubt the balance sheet, not just the interest rate.

Japan has started selling US Treasuries: Japanese investors sold a net **$29.6 billion** of US bonds in the first quarter of 2026. It is the largest quarterly reduction in nearly four years. Higher hedging costs and more attractive JGBs make the maths obvious: bring the money home.



3. Then Why Is the Nikkei at a Record High?

A rising cost of money and a sinking currency should hurt stocks. Instead Japanese equities have more than doubled off their 1989 bubble peak and are up about 88% in a year.

Three forces explain it and none is comforting.

The weak yen flatters earnings: Japan's exporters - the autos, machinery, chips - earn in dollars and report in yen. A 40-year-low yen turns flat dollar sales into record yen profits. It is a translation gain, not a volume gain.

The boom is nominal: Measured in dollars, the Nikkei's rise is far smaller than the yen headline suggests. A market that soars in a debasing currency is doing what gold and property do in an inflation, i.e., acting as a store of value, not casting a vote of confidence.

Deflation has ended: After thirty years, Japan finally has inflation, nominal growth and corporate pricing power, helped by governance reforms and a domestic AI-capex theme. That part is real. But it is also *why* yields are rising, and rising yields are the very thing that eventually caps the party.

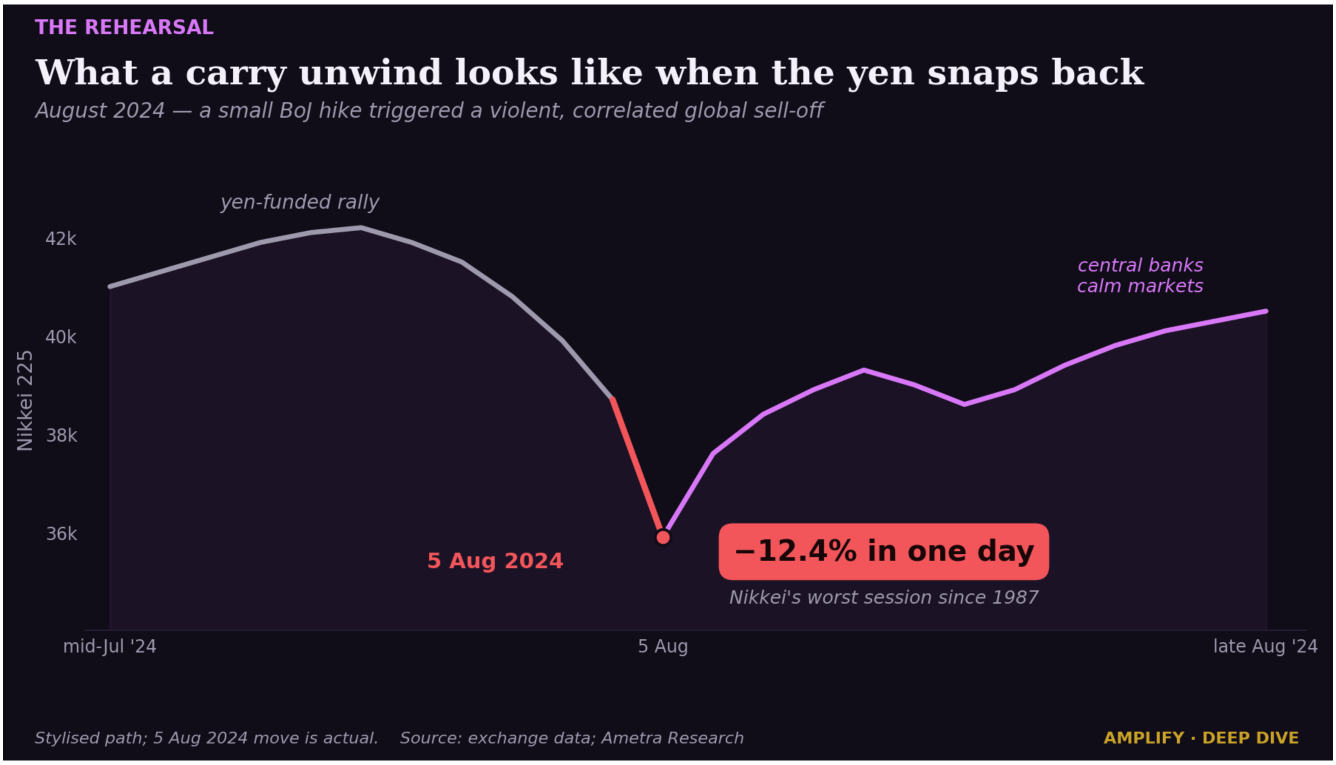
The three ‘contradictions' are one story. A debased currency and a fiscal expansion are inflating nominal asset prices while punishing the bond market and the exchange rate. That is not stability. It is the late stage of it.

4. Why the World Should Care?

Two channels carry the shock beyond Japan.

First, US Treasuries lose their largest price-insensitive buyer: TD Economics estimates that Japan tapering its US holdings could lift the US 10-year yield by an estimated 20 to 50 basis points over the medium term. A higher US risk-free rate lowers the present value of future profits, and it bites hardest on the long-duration, expensive end of the US market: the AI-led mega-caps near a 41x CAPE that we flagged last week as priced for perfection. This is a US valuation problem, not a Japanese one.

The unwind is fast and correlated: When yen funding is repaid, everything bought with it is sold at once. We have seen the rehearsal. On 5 August 2024, a small BoJ hike and a snap-back in the yen triggered a violent unwind: the Nikkei fell **12.4% in a single day**, its worst since 1987, and volatility spiked worldwide before central banks calmed it. That was a tremor - at lower yields and smaller positions. The fault line today is much longer.



5. The India Read-Through

India is not at the center of this. However, it is not insulated either.

Flows: A carry unwind is a global risk-off event, and foreigners sell their most liquid emerging-market positions first, India's large caps included. Steady domestic SIP flows remain the cushion, as in every recent shock.

The rupee: Already soft near ₹94 to the dollar, it would face renewed pressure in a dollar-up, risk-off move.

Rates: If US yields rise on Japanese selling, the RBI's room to cut rates narrows, and Indian equity multiples which are still a tad premium to their own history, lose support.

The one relief is relative. India's foreign ownership is lower than in 2021, and it carries less direct yen-funded leverage than higher-beta Asian markets. In an orderly move, India can outperform. In a disorderly one, correlation goes to one, and nothing is spared.

6. Ametra's Read

We read the yen carry trade as the market's largest hidden margin loan, and it is being called in, slowly, for now. The direction is set: Japanese yields up, the yen historically weak, and the largest foreign owner of US Treasuries turning seller.

The danger is not the slow grind. It is the gap. Carry unwinds do not fade; they snap. And the yen is the fuse, spiking violently when the trade reverses, as it did in August 2024.

Our posture stays defensive, and consistent with our recent notes:

— **Quality over duration:** we still favour high-quality accrual at the short-to-medium end of the curve, not the long bonds a Treasury sell-off would punish.

— **Gold as insurance:** we keep a core gold allocation as a hedge against a risk-off gap as insurance, not a chase.

— **Light on the crowded US mega-cap trade:** a higher US discount rate is exactly what reprices the AI-led names we have flagged as priced for perfection.

— **India: add on the flow, not the fear:** we would use India weakness driven by global flows, rather than domestic fundamentals, to add quality domestic and real-asset names, the value tilt we have favoured all year.

The cheapest money on earth is getting expensive. Everything priced off it deserves a second look.

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