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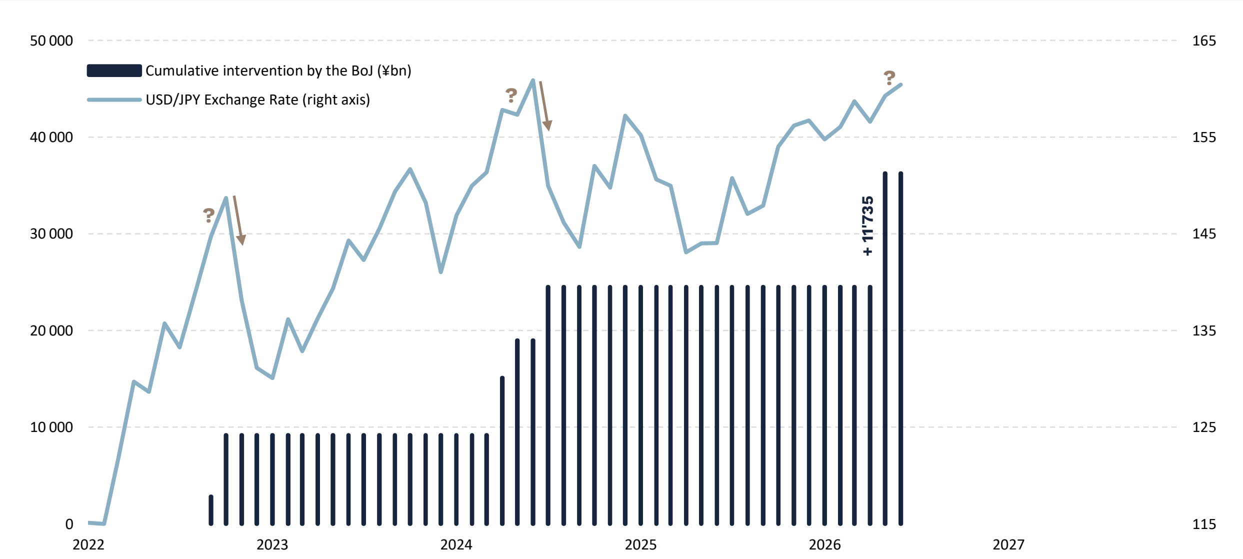
"WHO WILL BRING DOWN THE BANK OF JAPAN?"

- In 1992, the Bank of England learnt the hard way that defending a currency was unrealistic
- Similarly, the Bank of Japan is striving to prop up the yen, to no avail
- Neither billions nor words can prevent structural depreciation
- This week, the BoJ and the Fed risk inadvertently exacerbating tensions

CHART OF THE WEEK: "How to spend 11.735 trillion yen... for nothing"



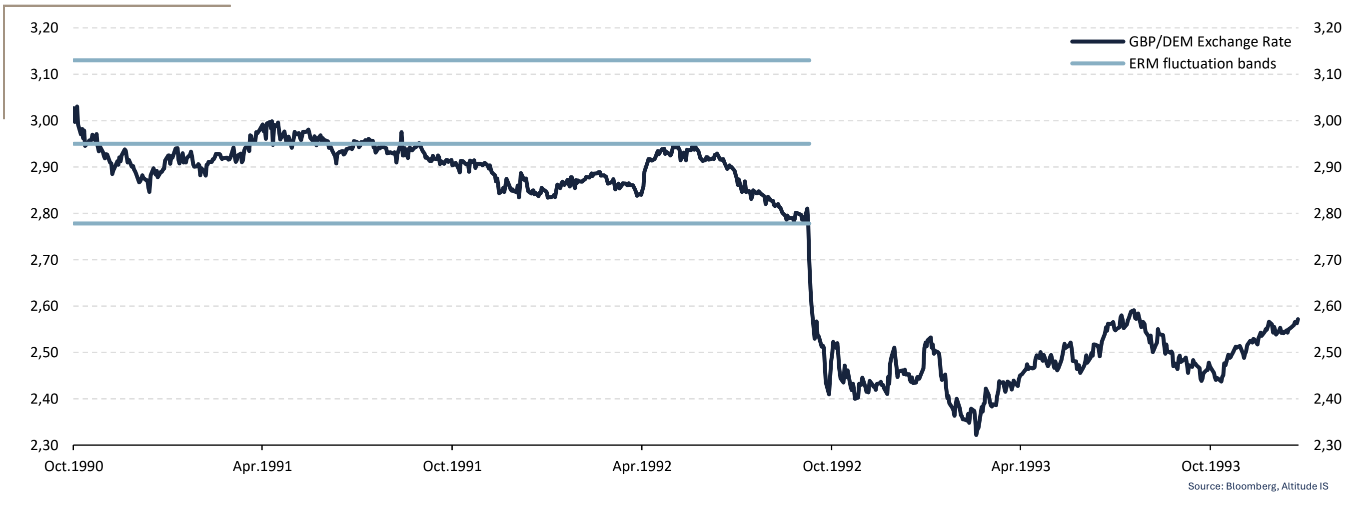
Source: Bloomberg, Altitude IS

FOREX MARKET ANALYSIS

Until 16 September 1992, the pound sterling was pegged to the German mark within the European Exchange Rate Mechanism (ERM). This system had been established by eight countries, and subsequently adopted by the United Kingdom, with the aim of stabilising their exchange rates and, ultimately, paving the way for the introduction of the euro. Unfortunately for the Bank of England (BoE), on that infamous ‘Black Wednesday’, faced with a large-scale speculative attack, it failed to keep the pound sterling within the predefined narrow fluctuation band. **George Soros and his right-hand man Stanley Druckenmiller, having judged the pound’s level to be untenable, began selling it off in huge quantities.** As the story goes, when Druckenmiller proposed this bet, Soros, judging it too modest, famously told him to “go for the jugular”. The strategy worked perfectly, as the old lady of Threadneedle Street was forced to leave the ERM and devalue the pound sterling. **With hindsight, everyone will agree that this panic on the foreign exchange market was inevitable.** It was made possible by the weakness of the UK’s fundamentals, the contraction in economic activity, and by political uncertainties, notably the Danish ‘no’ to the Maastricht Treaty in June and the growing unease ahead of the French referendum scheduled for 20 September.

The Bank of England fought as hard as it could. Its defence was evident throughout the day on 16 September, in a series of successive but utterly ineffective interventions. That morning, at 8.00 am, as soon as the markets opened, it bought £325 million. It repeated the move a few dozen minutes later, buying a further £300 million. By 9.00 am, over a billion pounds had already been put on the table. It would ultimately spend 27 times that amount over the rest of the day. At 11.00 am, to support its interventions, the BoE raised its key interest rates from 10% to 12%. At 2.15 pm, it announced a further rise to 15%, an unprecedented move. With each intervention, the pound rebounded briefly before falling back to its low (see Fig. 2). Investors had realised that this defence did nothing to alter the fundamentals. The capitulation came in the evening, around 7 pm. The UK exited the ERM, devalued the pound by more than 5% against the mark and reversed the rate hike to 15%. George Soros and his team had achieved the feat of pocketing over a billion dollars in a single day. The financier would go down in history as “the man who brought down the Bank of England”. The lesson from this spectacular day is timeless: **no monetary authority, however rich, powerful and determined it may be, can sustainably defend a currency whose exchange rate is too far removed from its fundamentals.**

Fig. 2 – Exchange rate of the pound against the mark, between 1990 and 1993



This dynamic of reflexivity, which Soros himself theorised, posits that investors’ beliefs and market prices influence one another. Unlike classical economic models, which assume rational markets seeking equilibrium, this theory helps explain bubbles and crashes. Markets do not merely reflect reality; they shape it. Investors’ expectations drive prices, and these prices in turn alter fundamentals, in a self-reinforcing cycle. In 1992, mistrust of the pound fuelled selling, forced up interest rates and stoked investor anxiety. Ultimately, the BoE’s capitulation proved the early sellers right.

More than thirty years on, this lesson is resonating in Tokyo. The same self-reinforcing cycle is now at work with the yen. Between 28 April and 27 May 2026, Japan spent a record 11,735 billion yen, equivalent to over 73 billion dollars, to prop up its currency (see Chart of the Week). The result is more than disappointing, as the yen is still trading at around 160 yen to the dollar, its lowest level in 40 years. Like the pound in 1992, the yen rebounds with every intervention, only to fall again. Thus, despite this extraordinary expenditure, the Japanese currency recorded the worst performance of the G10 currencies in May. It is only a short step from there to saying that Japan has thrown money down the drain**. In the markets, currency traders are all wondering who will ultimately reap the rewards of this fall. Who will be the next Soros?**

Unlike the UK in 1992, Japan in 2026 is not seeking at all costs to prevent the yen from falling. The main challenge for Tokyo is to slow this depreciation, to avoid causing panic in the markets. As we have been analysing since 2024, the yen is trapped by its excessive debt and a cycle of debt monetisation. **The authorities are therefore exhausting themselves trying to prop up a currency that their own money creation is condemning.** In monetary theory, this contradiction was formalised by the economist Robert Mundell under the name of the 'impossible trinity' (see Fig. 3). A country cannot simultaneously achieve three objectives: free movement of capital, an autonomous monetary policy and a fixed exchange rate. It must necessarily sacrifice one of the three. As Japan is keen to uphold the first two – open markets and a central bank that prints money to finance the state – it cannot control the value of the yen. Its interventions in the foreign exchange market are merely an attempt to defy this immutable law, and institutional investors are well aware of this.

Fig. 3 – Triangle of incompatibility

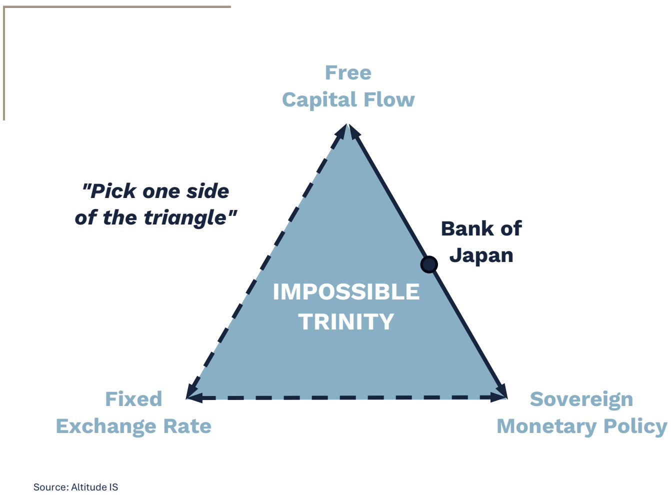
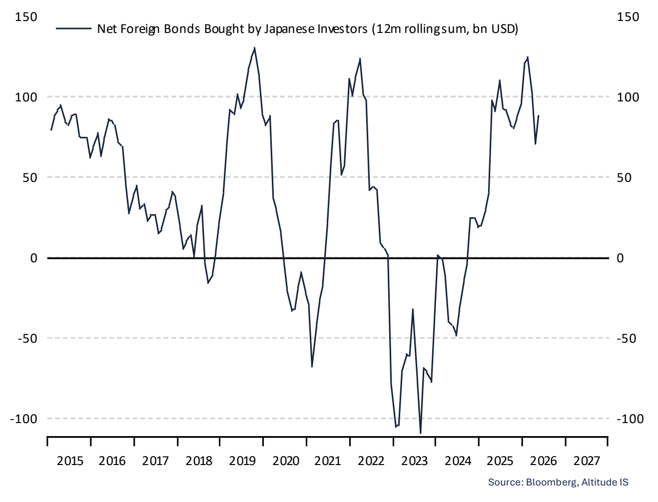


Fig. 4 – Japanese purchases of foreign bonds

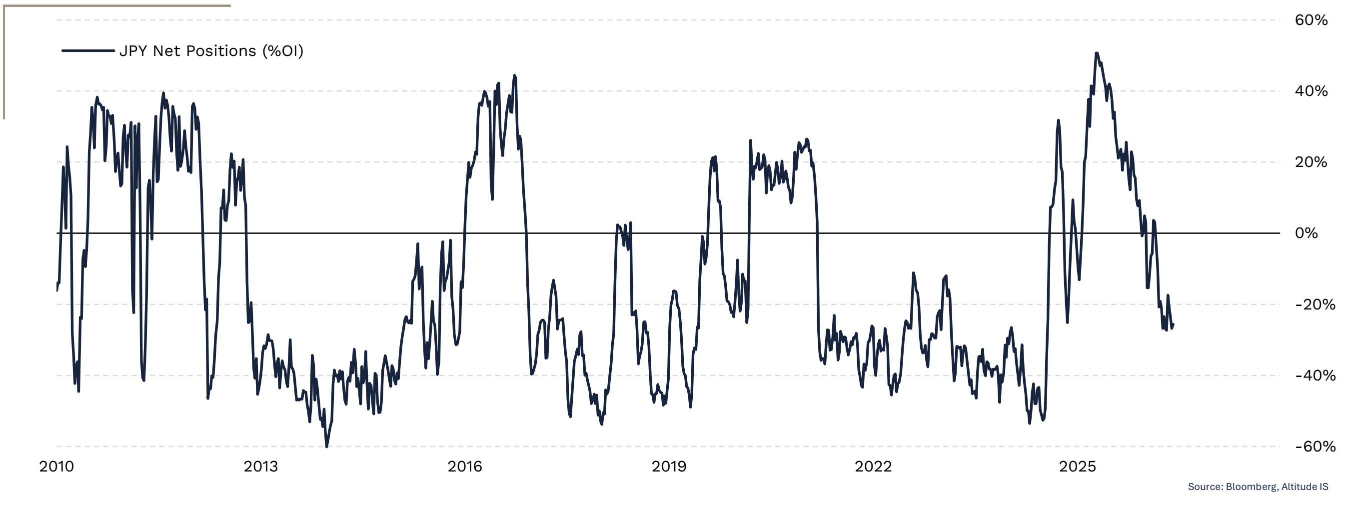


To stem the fall of the yen, the Japanese government is selling its foreign exchange reserves, notably its US Treasury bonds, in order to obtain dollars which it then converts back into yen. Unfortunately for Japan, **these amounts are no match for the capital outflows from major Japanese institutions**, a far more powerful structural trend (see Fig. 4). Japanese pension funds alone invested a record 3,160 billion yen in foreign bonds in May, a level not seen since 2005.

Over the past six months, government interventions to support the yen have intensified, in stages. In January, Tokyo and Washington issued a joint statement condemning the "unilateral depreciation" of the yen. On 23 January, the Federal Reserve Bank of New York conducted a "rate check". This call to currency traders to gauge prices often precedes central bank intervention. Such an approach had not been taken since the tsunami of March 2011. The dollar then fell from 158 to 152 yen, but the respite was short-lived. In April and May, with no results to show for it, the authorities had to opt for direct and massive intervention. On 11 and 12 May, US Treasury Secretary Scott Bessent and Japanese Finance

Minister Satsuki Katayama sealed a bilateral agreement. On 3 June, the latter finally raised her voice, declaring herself ready to react at any moment, whilst Prime Minister Takaichi insisted on pointing the finger at speculators. **It has to be said that neither the billions nor the words had the desired effect. The yen remained weak, very weak** (see Chart of the Week). Hedge fund managers were not mistaken. Following a very brief pullback at the time of the May interventions, they rebuilt yen short positions among the heaviest since July 2024 (see Fig. 5). For once, the speculative consensus aligns with the structural outlook of institutional investors, which is rare enough to be worth noting.

Fig. 5 – Speculative positions on the yen



Finally, everyone will bear in mind that the fate of the yen does not concern Japan alone. The archipelago remains the largest foreign holder of US debt, and its savings feed into the global financial system via the discreet channel of currency swaps – agreements through which institutions temporarily exchange currencies to finance themselves. When the yen appreciates sharply, as in the summer of 2024, investors who had borrowed yens to invest elsewhere sell off their foreign assets in a panic, and the shock immediately spreads to global stock markets. And when it falls, Tokyo draws on its reserves of Treasury bonds to defend it, which pushes up US long-term rates at a time when Washington needs to finance a constantly growing debt. Either way, the yen's fluctuations are felt far beyond the archipelago.

Things could really pick up pace this week. On 16 and 17 June, the Bank of Japan (BoJ) and the US Federal Reserve (Fed) will hold their respective monetary policy meetings. In Japan, a 25-basis-point rise could take the key interest rate to 1%. Some market participants are even talking of a "jumbo hike" of 50 to 75 basis points. For the yen, the risk would be that of a status quo, which would keep real rates deeply negative. This risk is not negligible given that public debt exceeds 230% of GDP and that every rate hike increases the interest burden. As for the Fed, now chaired by Kevin Warsh, the new chairman's accommodative stance could be countered by more hawkish governors. A rise in the dollar would automatically cause the yen to fall. **These two central bank meetings are likely to generate significant volatility in the foreign exchange market.** What remains certain is that, even if monetary policies were to have a very strong impact in the short term, the yen's depreciation in the long term is inevitable.

Conclusion:

The BoE learnt in 1992 that you cannot defend a currency that is not backed by sound fundamentals. The Bank of Japan is now learning the same lesson. If the BoJ and the Fed manage to offer the yen a temporary respite this week, the next George Soros will have to wait a while before revealing his name.

RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 112.3	53.91	0.6%	1.0%	10.6%	22.9%	18.0%
USA (S&P 500)	7 431	52.73	0.7%	0.5%	9.1%	17.9%	25.0%
USA (Dow Jones)	51 202	58.40	0.7%	3.2%	7.4%	14.9%	15.0%
USA (Nasdaq)	25 889	49.56	0.7%	-0.7%	11.7%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	662.2	64.15	2.2%	6.6%	10.7%	21.2%	10.2%
UK (FTSE 100)	10 472	56.65	1.0%	2.4%	7.2%	25.7%	9.6%
Switzerland (SMI)	13 708	65.51	2.4%	4.6%	6.4%	18.0%	7.5%
Japan (Nikkei)	69 163	58.24	-0.9%	5.2%	32.2%	28.7%	21.3%
Emerging (MSCI)	1 716	53.14	0.0%	1.3%	23.3%	34.3%	8.0%
Brasil (IBOVESPA)	171 133	38.88	1.3%	-5.1%	6.2%	34.0%	-10.4%
Mexico (IPC)	67 955	50.79	2.7%	-2.2%	7.4%	35.1%	-11.0%
India (SENSEX)	76 621	52.84	1.9%	1.7%	-10.8%	10.5%	9.6%
China (CSI)	4 848	46.45	-0.6%	-3.1%	3.9%	21.0%	18.2%
Com. Services (MSCI World)	164.4	36.71	-1.5%	-4.7%	0.7%	33.0%	31.9%
Cons. Discretionary (MSCI World)	435.8	43.36	0.3%	-2.4%	-4.2%	9.8%	20.7%
Cons. Staples (MSCI World)	307.0	57.66	2.8%	0.4%	7.3%	9.3%	4.7%
Energy (MSCI World)	328.9	44.85	-0.4%	-1.3%	26.2%	14.8%	2.9%
Financials (MSCI World)	229.6	62.95	2.3%	3.3%	3.1%	29.5%	25.1%
Health Care (MSCI World)	385.5	59.19	0.5%	3.5%	-1.4%	15.3%	1.5%
Industrials (MSCI World)	517.6	50.39	0.0%	-1.3%	11.8%	26.2%	12.8%
Info. Tech. (MSCI World)	1 219.1	53.95	0.3%	4.0%	26.5%	26.6%	31.9%
Materials (MSCI World)	435.3	49.53	1.4%	-3.8%	11.5%	32.5%	-7.6%
Real Estate (MSCI World)	1 054	56.27	1.5%	-1.2%	7.0%	3.6%	-0.4%
Utilities (MSCI World)	205.1	48.62	0.7%	-1.7%	7.6%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	3.83%	52.25	0.4%	0.0%	0.0%	8.2%	-1.7%
USA (Sovereign)	4.35%	54.60	0.4%	0.3%	0.0%	6.3%	0.6%
Euro Area (Sovereign)	3.22%	54.83	0.3%	0.8%	0.3%	0.6%	1.9%
Germany (Sovereign)	2.88%	54.96	0.3%	0.8%	0.1%	-1.6%	0.6%
UK (Sovereign)	4.80%	59.65	0.5%	2.2%	-0.2%	6.1%	-3.0%
Switzerland (Sovereign)	0.62%	55.21	0.2%	0.3%	-0.2%	0.3%	5.4%
Japan (Sovereign)	2.31%	52.89	0.2%	-0.1%	-2.1%	-4.6%	-2.1%
Emerging (Sovereign)	6.11%	63.61	0.9%	1.8%	1.9%	13.1%	7.0%
USA (IG Corp.)	5.18%	56.94	0.7%	1.2%	0.6%	7.8%	2.1%
Euro Area (IG Corp.)	3.55%	59.25	0.3%	1.0%	0.7%	3.0%	4.7%
Emerging (IG Corp.)	6.31%	61.04	0.2%	0.7%	1.6%	8.1%	7.0%
USA (HY Corp.)	7.10%	60.85	0.4%	0.8%	1.7%	8.6%	8.2%
Euro Area (HY Corp.)	5.92%	72.00	0.2%	0.6%	1.4%	5.2%	8.2%
Emerging (HY Corp.)	7.35%	69.41	0.8%	2.0%	3.9%	13.9%	14.9%
World (Convertibles)	634.3	54.41	0.9%	1.2%	17.7%	22.4%	9.4%
USA (Convertibles)	844.3	55.04	1.3%	2.1%	20.6%	16.9%	10.1%
Euro Area (Convertibles)	309.5	58.04	0.1%	1.3%	6.5%	24.8%	14.7%
Switzerland (Convertibles)	291.5	45.01	-0.1%	-0.1%	3.0%	17.5%	-10.5%
Japan (Convertibles)	320.1	54.63	-0.9%	4.0%	24.1%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 906	80.01	n.a.	1.4%	n.a.	5.4%	11.1%
Macro	1 553	75.48	n.a.	0.1%	n.a.	5.8%	7.4%
Equity Long Only	2 542	66.89	n.a.	1.7%	n.a.	2.8%	12.0%
Equity Long/Short	2 119	78.76	n.a.	2.6%	n.a.	7.5%	14.0%
Event Driven	2 056	84.81	n.a.	2.1%	n.a.	7.1%	8.7%
Fundamental Equity Mkt Neutral	1 971	87.33	n.a.	0.5%	n.a.	5.2%	12.4%
Quantitative Equity Mkt Neutral	1 880	79.25	n.a.	1.7%	n.a.	4.0%	9.8%
Credit	1 772	92.19	n.a.	1.0%	n.a.	3.1%	8.5%
Credit Long/Short	1 786	93.71	n.a.	1.5%	n.a.	3.0%	10.0%
Commodity	2 124	90.30	n.a.	-1.0%	n.a.	6.1%	14.7%
Commodity Trading Advisors	1 568	70.35	n.a.	-0.7%	n.a.	10.4%	7.9%
Volatility							
VIX	17.68	48.65	-17.8%	-1.7%	18.3%	-13.8%	39.4%
VSTOXX	18.71	40.52	0.8%	-19.6%	27.1%	-13.5%	25.3%
Commodities							
Commodities (CRB)	565.3	n.a.	1.0%	2.4%	4.7%	0.6%	5.1%
Gold (Troy Ounce)	4 328	n.a.	-0.1%	-4.7%	0.2%	64.6%	27.2%
Silver (Troy Ounce)	70.45	n.a.	3.3%	-7.3%	-1.7%	148.0%	21.5%
Oil (WTI, Barrel)	84.88	n.a.	-6.3%	-16.9%	47.8%	-19.9%	0.1%
Oil (Brent, Barrel)	88.43	n.a.	-9.4%	-20.4%	41.6%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	99.46	52.68	-0.6%	0.2%	1.2%	-9.4%	7.1%
EUR	1.1615	49.86	0.7%	-0.1%	-1.1%	13.4%	-6.2%
JPY	160.05	43.10	0.1%	-0.8%	-2.1%	0.3%	-10.3%
GBP	1.3453	52.27	0.8%	1.0%	-0.2%	7.7%	-1.7%
AUD	0.7083	46.23	0.5%	-0.9%	6.1%	7.8%	-9.2%
CAD	1.3959	31.63	0.0%	-1.5%	-1.7%	4.8%	-7.9%
CHF	0.7933	45.55	0.6%	-0.8%	-0.1%	14.5%	-7.3%
CNY	6.7575	65.71	0.4%	0.8%	3.4%	4.5%	-2.7%
MXN	17.167	60.60	1.7%	1.0%	4.9%	15.7%	-18.5%
EM (Emerging Index)	1 867.4	51.64	0.4%	-0.2%	0.8%	7.2%	-0.7%
XBT	65 610	n.a.	6.3%	-17.0%	-25.1%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)

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