ROCK INVESTMENT BANK

ROCKVIEW RESEARCH

AFTER THE YEN AWAKENS.

A new regime.
A global repricing.

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ROCK INVESTMENT BANK

GLOBAL MACRO / FOREIGN EXCHANGE / CHAPTER TWO OF THREE

After the Awakening

Japan's yen problem, the global capital reset, and what comes next. At first glance this looks like a story about making the yen stronger. It is much bigger than that.

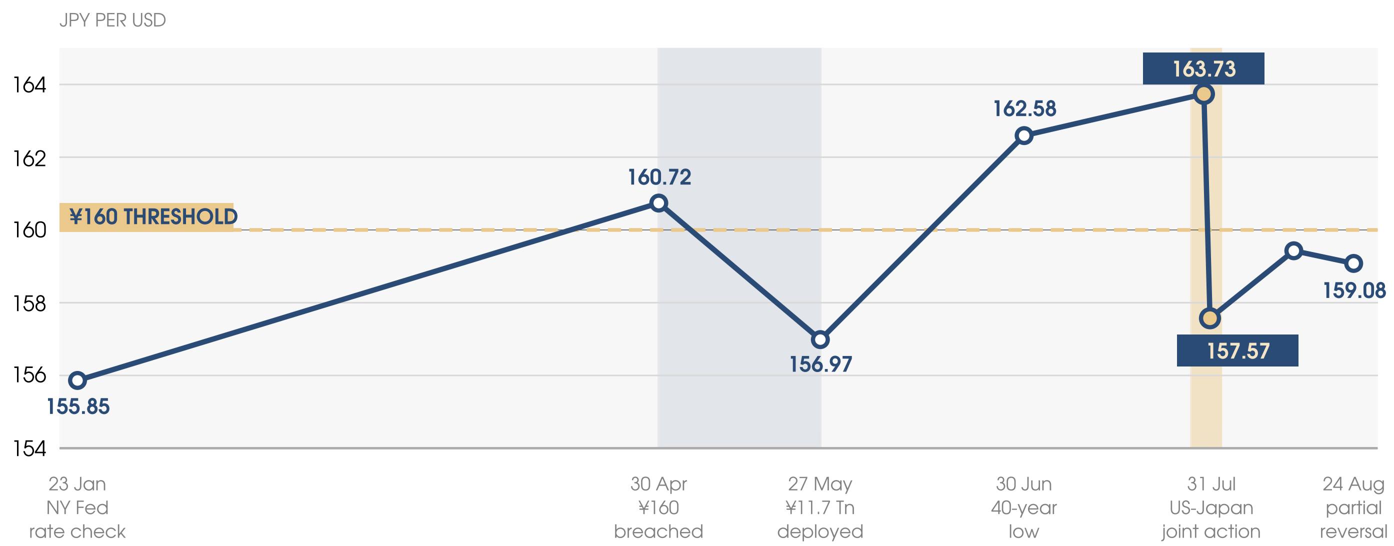
1.00%	3.00%	>200%	¥11.7 Tn	USD 1.117 Tn
Bank of Japan policy rate, highest in three decades	10-year JGB yield approached, highest since the 1990s	Japan government debt to GDP	Spent buying yen beyond the ¥160 level	Japanese holdings of US Treasuries, June 2026

Source: Bank of Japan, Japan Ministry of Finance, US Treasury, Federal Reserve, RIB Research

IN BRIEF

- Japan is managing a **weak currency, rising inflation, an expensive energy bill, debt above 200% of GDP and rising bond yields** at once. Solving one problem can worsen another.
- The market is not betting that Japan will refuse to raise rates. It is betting that Japan **cannot raise them far enough** to change the economics of the yen.
- Washington's involvement was about stabilising the yen **without forcing a disorderly liquidation** of US assets.
- For Kenya: existing yen debt, a prospective **USD 500.00 Mn Samurai issue**, and competition for a smaller pool of global capital.

EXHIBIT 01 USD/JPY and Japanese intervention, January to August 2026



Intervention can interrupt a trend. Changing the forces behind the trend is much harder.

Source: Reuters, LSEG, CNBC, Japan Ministry of Finance, RIB Research

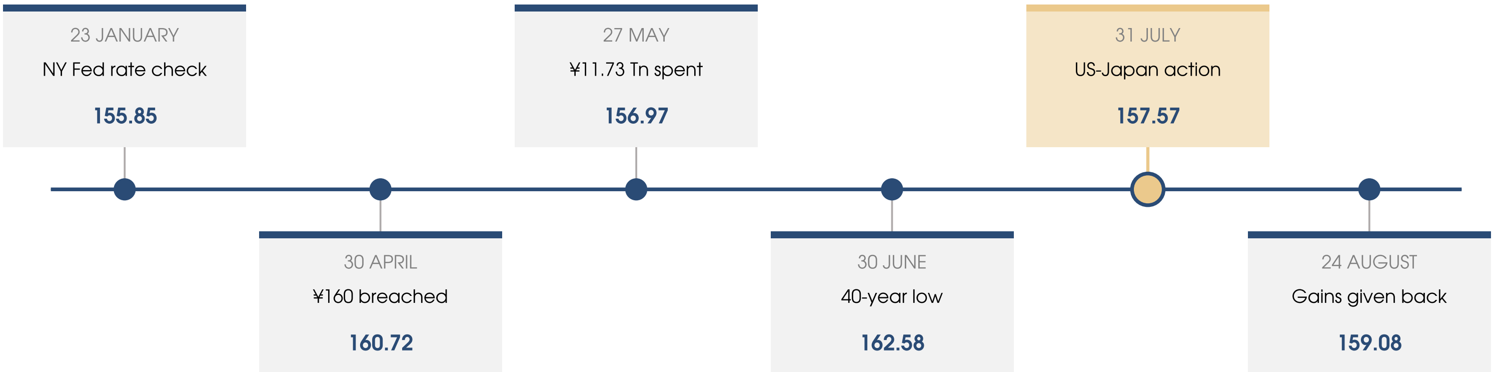
WHERE THE LAST CHAPTER LEFT OFF

In Chapter One we followed Japan to the point where a currency that had spent decades being deliberately cheap was beginning to become a problem. Since then Japan has intervened, raised the policy rate to 1.00%, watched the 10-year bond yield approach 3.00%, and secured US support as the yen came under renewed pressure.

The yen, after falling toward ¥164 per dollar, strengthened sharply following intervention before weakening again toward the mid-¥150s.

Japan is trying to manage a weak currency, rising inflation, an increasingly expensive energy bill, a debt burden above 200% of GDP, rising bond yields and a huge stock of capital invested overseas. The difficult part is that solving one problem can make another worse. That is why the yen is still struggling.

EXHIBIT 02 The year in six moves



Levels are dated closing or reported USD/JPY rates. A higher number indicates a weaker yen.

Source: Reuters, LSEG, CNBC, Japan Ministry of Finance, RIB Research

IT STARTS WITH SOMETHING VERY SIMPLE: JAPAN NEEDS DOLLARS

Japan depends on imported energy, particularly from the Middle East. Oil is priced in dollars, so a weaker yen means more yen for the same energy. At ¥140 per dollar a USD 80.00 barrel costs ¥11,200. At ¥160 it costs ¥12,800.

The oil did not become more expensive in dollars. Japan's currency made it more expensive. And when oil itself rises, the pressure compounds. The weak yen that once supported exporters is becoming increasingly painful for households and importers.

Japan does not face one exchange rate or one oil price. It faces both at once, and the two multiply. The table below holds the barrel constant and lets the currency move, then holds the currency constant and lets the barrel move. The corner that matters is the bottom right.

EXHIBIT 03 The yen cost of a barrel, at three oil prices and three exchange rates

Yen cost of one barrel	at ¥140 per dollar	at ¥150 per dollar	at ¥160 per dollar
Oil at USD 60.00	¥8,400	¥9,000	¥9,600
Oil at USD 80.00	¥11,200	¥12,000	¥12,800
Oil at USD 100.00	**¥14,000**	**¥15,000**	**¥16,000**

Source: RIB Research. The currency and the commodity multiply, so an energy shock and a weak yen arriving together cost far more than either alone.

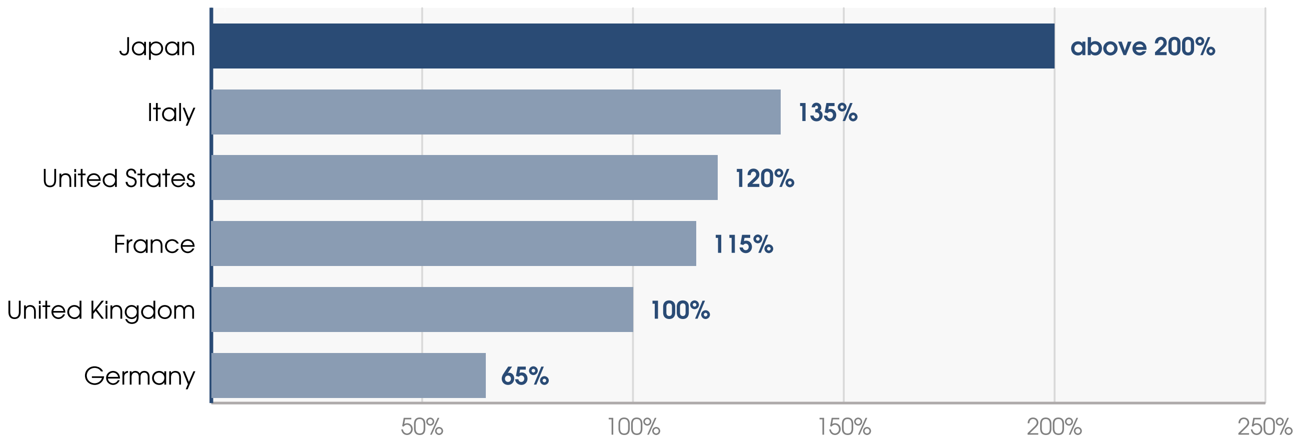
Across the bottom row the currency adds ¥2,000 a barrel; down the right-hand column the commodity adds ¥6,400. Japan can influence only one of those two variables, and it is the smaller one.

JAPAN NEEDS HIGHER RATES, BUT HOW HIGH CAN IT GO?

Japan's policy rate is now around 1.00%, the highest in three decades. If higher rates support the yen, why not keep raising them? Because Japan has an extraordinary amount of debt.

Higher rates make yen assets more attractive, and government borrowing more expensive. Tighten too little and the yen stays weak. Tighten too hard and JGB yields rise, taking debt-service costs with them.

EXHIBIT 04 **General government debt to GDP, selected economies**

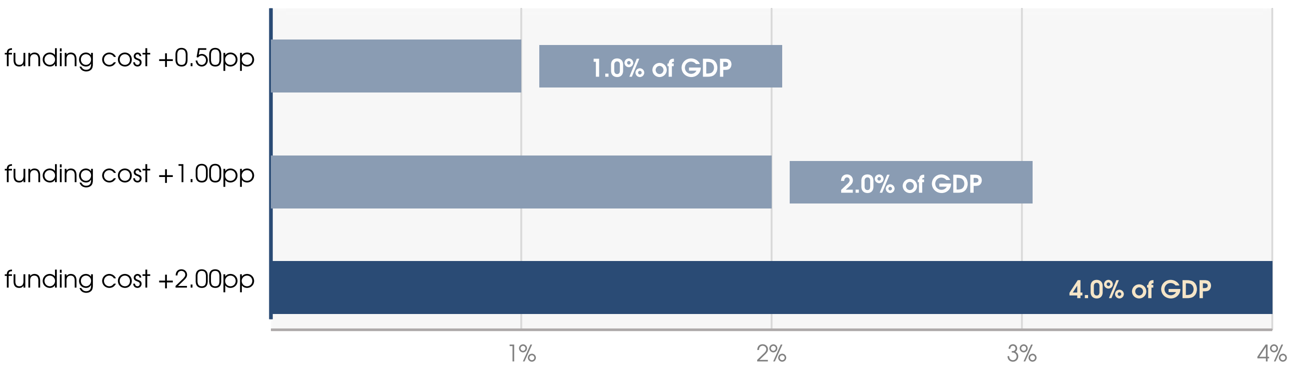


The exact ratio varies by definition and year. The message does not: Japan's debt burden is exceptionally high

Source: RIB Research, drawing on published national accounts

The constraint can be put in numbers. When the debt stock is worth more than two years of national output, every percentage point added to the average cost of funding that stock is worth roughly two percent of GDP in interest, once the whole stock has refinanced at the higher rate. That is the arithmetic standing behind the Bank of Japan's caution.

EXHIBIT 05 **What each step in funding costs is eventually worth, at debt above 200% of GDP**



RIB analysis. Illustrative: the full effect arrives only once the entire debt stock has refinanced at the higher rate, so it builds over years rather than arriving at once. The direction is not in doubt.

Source: RIB Research

Set that against the yen. A percentage point of tightening would be a substantial move for the Bank of Japan and would still leave the differential against the United States wide open. Applied to the debt stock, it costs about two percent of GDP a year. That asymmetry is the trap.

> **“ The market does not need to believe Japan will never raise rates. It only needs to believe Japan cannot raise them far enough, or keep them high enough, to change the economics of the yen.**

THE BOND MARKET IS NOW TESTING THAT LIMIT

For years Japan could hold rates extremely low because inflation was weak. That world has changed. The 10-year JGB yield has approached 3.00%, a level not seen since the mid-1990s, and rising yields are already increasing the government's future debt-servicing burden.

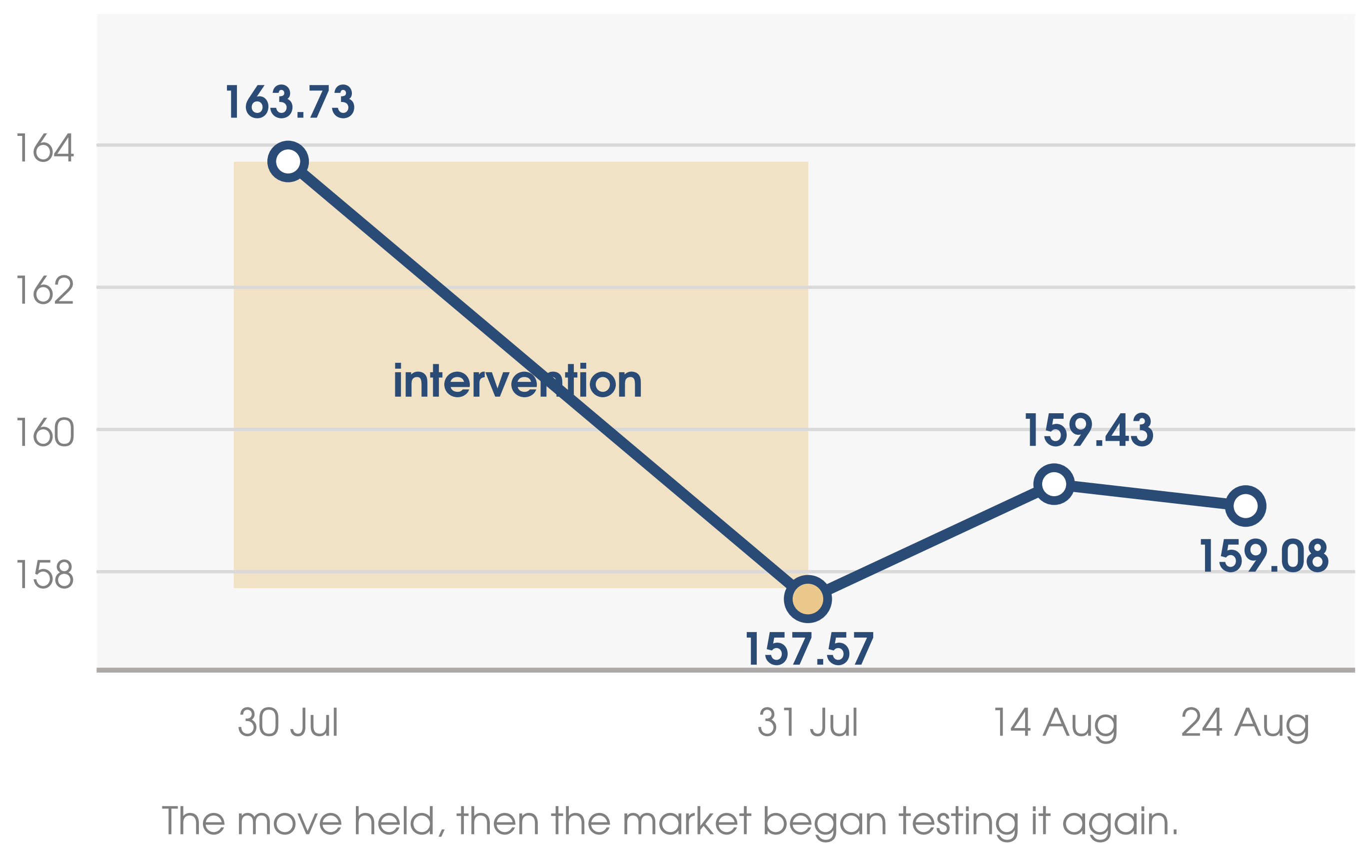
Japan is not only repricing its currency. It is repricing the cost of capital itself. That is why the Bank of Japan cannot simply promise unlimited rate increases, and why the yen is priced on the credible path of future rates rather than on today's policy setting alone.

THAT IS WHY INTERVENTION ALONE HAS NOT SOLVED THE YEN

Japan spent roughly ¥11.7 Tn buying yen when the currency moved beyond ¥160. The yen strengthened, then weakened again. That does not mean intervention failed. It means intervention changes the price of a currency without changing why investors sell it.

If Japanese rates stay structurally below US rates, dollars remain attractive. If Japan still needs dollars for energy, demand for them persists. And if investors believe the debt burden caps how far the Bank of Japan can go, they keep betting against the yen. Intervention buys time, not economics.

EXHIBIT 06 **USD/JPY, 30th July to 24th August**



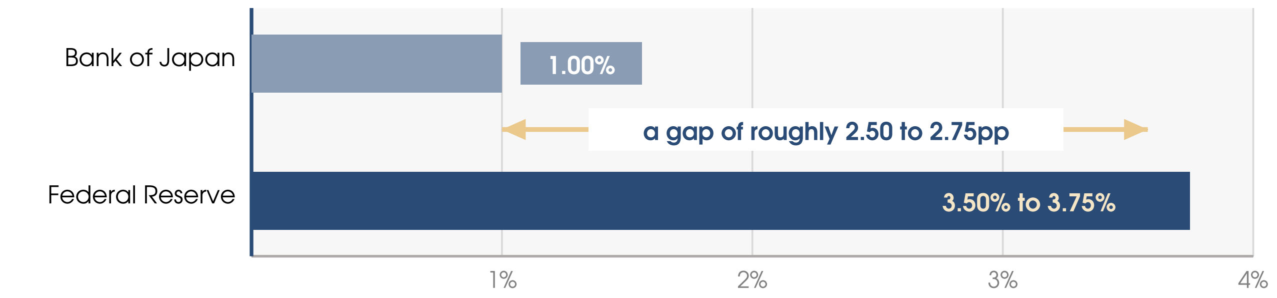
Source: CNBC, Reuters, Trading Economics, RIB Research

THE MARKET IS BETTING JAPAN CANNOT TIGHTEN ENOUGH

This is the subtle part. The market is not saying Japan will not raise rates. It is saying Japan will not raise them enough. A move from 0.50% to 1.00% is a major change for Japan. But if US assets still offer considerably higher returns, the incentive to hold dollars remains.

Add the debt burden and the question sharpens. Dramatically higher Japanese rates would feed into government financing costs, so the yen is priced on how far the Bank of Japan can credibly go.

EXHIBIT 07 **Policy rates: Japan has tightened, and the gap remains**

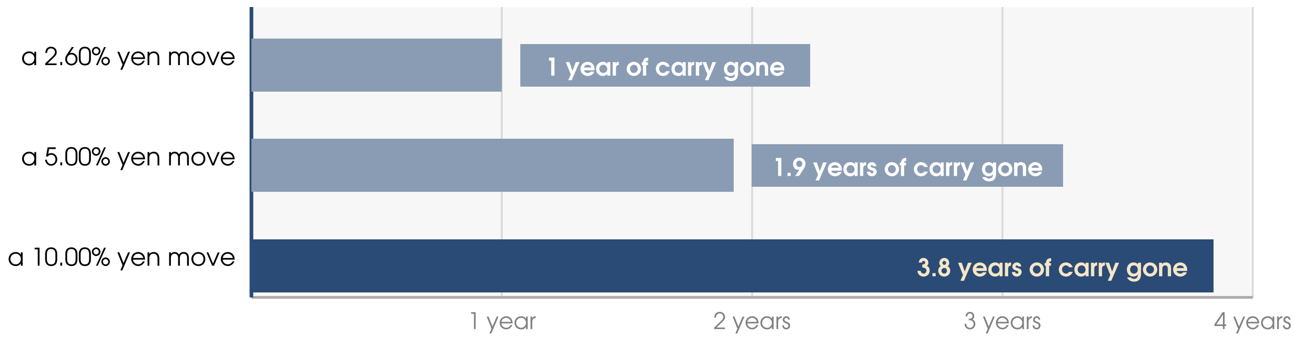


Japan has tightened and the gap has not closed. Federal Reserve target range held at the July 2026 meeting.

Source: Bank of Japan, Federal Reserve, RIB Research

There is a second way to read that gap, and it explains why the trade is more fragile than its size suggests. The differential is what a yen-funded investor earns for waiting. The currency is what they risk while waiting. At roughly 2.60pp, a full year of carry is erased by a yen move of about the same size.

EXHIBIT 08 **How much yen strength it takes to erase the carry**



RIB analysis, using the midpoint of the current differential, before hedging costs and compounding.

Source: RIB Research

This is the asymmetry at the centre of the carry trade. The reward accrues over years. The risk arrives in a single session, which is why an intervention that moves the pair five yen can remove two years of expected return from every yen-funded position.

JAPAN CAN FINALLY EARN MONEY AT HOME

For decades Japanese investors had little reason to keep money at home. Domestic yields were almost nonexistent, so insurers, pension funds and banks accumulated enormous foreign portfolios. That is how Japan became the world's largest creditor nation.

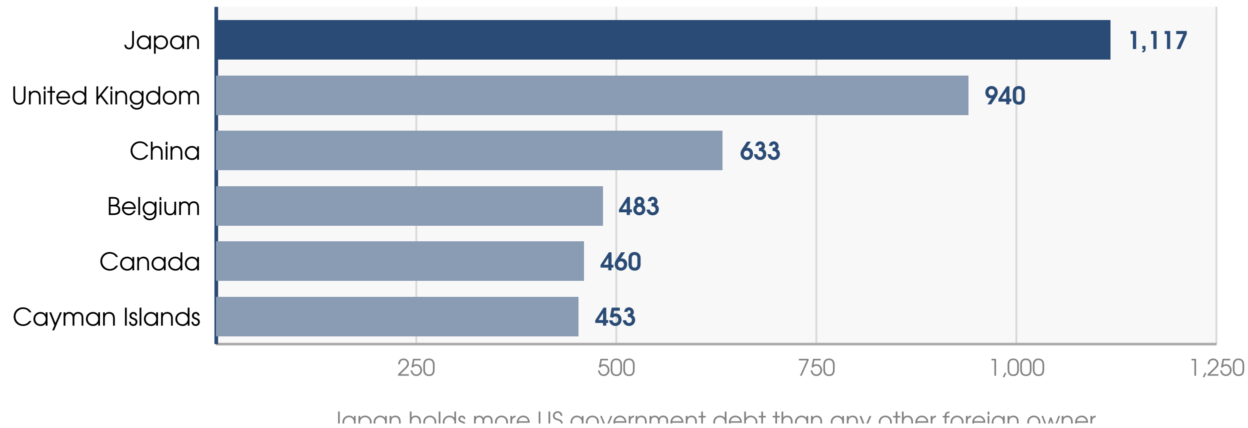
Now Japanese bonds finally offer a meaningful return, and the question changes. It is no longer where a return can be earned. It is how much extra return is worth taking foreign-exchange risk to invest abroad.

THIS IS WHERE US TREASURIES ENTER

Japan is one of the world's largest holders of US government debt, at approximately USD 1.117 Tn as at June 2026. Those holdings sit inside an enormous foreign portfolio.

And Japan now has reasons to want dollars: to buy energy, and to intervene. That makes its foreign assets strategically important rather than merely large.

EXHIBIT 09 Largest foreign holders of US Treasuries (USD Bn)



Source: US Treasury International Capital data, RIB Research

SO WHY WOULD JAPAN SELL A TREASURY?

The answer is broader than defending the yen. Japan can convert some of its highly liquid foreign assets into dollars, and those dollars help meet the energy bill and provide liquidity for intervention.

But not every fall in Japanese Treasury holdings was caused by intervention. Holdings also change through maturities, valuation effects and reserve management.

Selling was never the only option. Japan could use cash, let securities mature, or draw dollar liquidity through official facilities. The question was how it obtains them without creating another problem.

A large liquidation could push Treasury prices down and yields higher, so Japan could end up selling dollar assets to support the yen while making dollar assets more appealing.

THEN WASHINGTON ENTERED THE STORY

A disorderly yen adjustment could trigger large changes in global capital flows, so the United States had an interest in helping Japan stabilise it without forcing a fire sale of US assets.

The intervention was therefore about more than Tokyo. The obvious way to strengthen the yen would have been to sell dollars, and that creates another problem.

WHY SELL EUROS INSTEAD OF DOLLARS?

The direct route would have been to sell dollars and buy yen. Mechanically that works. But selling dollars weakens the dollar, raising the cost of everything the United States imports at exactly the moment the Federal Reserve is trying to contain inflation.

Worse, it would have been read as policy. An administration that has consistently emphasised the importance of a strong dollar cannot sell dollars in size without the market concluding that the position has changed.

Selling euros achieves the same thing for the yen without making the dollar the currency being sold. The Treasury reallocates existing foreign exchange reserves, the yen strengthens, and no signal is sent about the dollar itself.

The euro was not the only option. Washington could have used dollars, other reserve assets, or liquidity arrangements with the Bank of Japan. But the euro offered a middle ground: help Japan without announcing a change in dollar policy while doing it. Mechanically the distinction is small, since either trade buys yen. As policy it is the whole point.

SO WHY HAS THE YEN STILL NOT STAYED STRONG?

Intervention, liquidity and reserve management do not answer the fundamental question. Japan has raised rates, it has intervened, the United States has helped, and the yen has weakened again. The market is still asking whether Japan can tighten enough to make the yen sustainably attractive. If not, intervention is only a temporary defence.

THE BIGGER CHANGE: JAPANESE CAPITAL MAY COME HOME

This may matter more than the intervention itself. If domestic yields keep rising, Japanese insurers and pension funds have less reason to accept the currency and hedging risk attached to foreign bonds.

They do not need to sell everything abroad. They need only become less aggressive buyers of foreign assets, and that alone can change global capital flows. For years the world was accustomed to Japanese money being cheap and abundant.

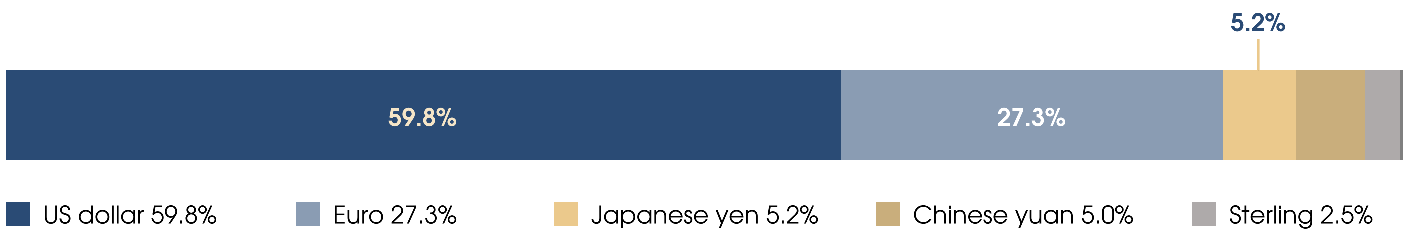
WHAT DOES IT MEAN FOR KENYA?

Kenya's exposure is simpler. It already has yen-denominated external debt, and the government is looking at roughly USD 500.00 Mn from the Japanese market through Samurai financing. The attraction is diversification and competitive long-term funding.

But a Samurai bond is a yen liability. If the yen strengthens against the shilling, the amount of shillings required to service and repay that debt increases. The relevant question is not what the coupon is. It is what the cost is after the yen.

That question has a number rather than a worry behind it. If Samurai funding saves a given margin each year against the dollar alternative, the saving is erased once the yen appreciates by roughly that margin multiplied by the life of the bond. A five-year issue saving 200 basis points a year is protected only while the yen gains less than about 10%.

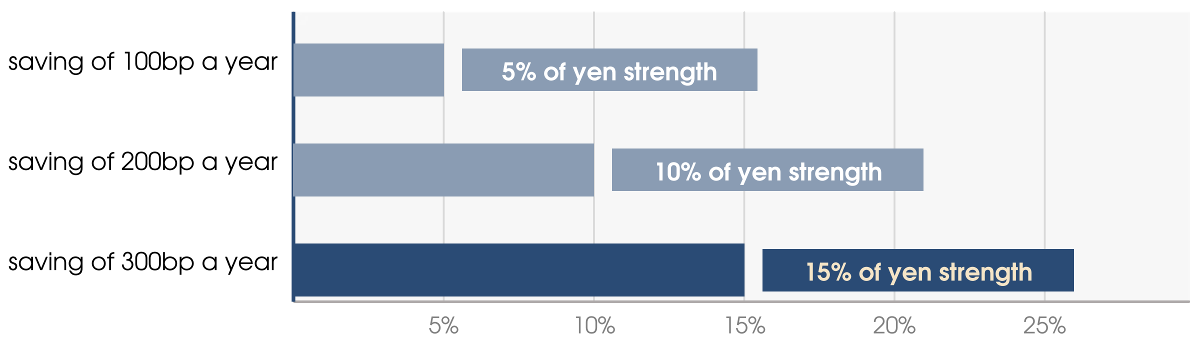
EXHIBIT 10 Kenya's external public debt by currency



The yen share has risen from approximately 3.4%. Other currencies account for the remaining 0.2%. Diversification has moved exposure, not removed it.

Source: The National Treasury, RIB Research

EXHIBIT 11 Kenya's Samurai break-even: how far the yen can move before the saving disappears



RIB analysis, five-year bond, simple rather than compounded, before hedging. The bar shows the appreciation that cor

Source: RIB Research

Two conclusions follow. The saving is real, and on a short bond a modest currency move will not consume it. But tenor does the damage: the longer the paper, the more currency risk is bought with the same coupon advantage. The decision is less about whether to issue in yen than about how long to issue for, and whether the hedge is bought at the outset.

KENYA'S EXPOSURE DOES NOT STOP AT GOVERNMENT DEBT

There is another, more ordinary connection: Japanese cars. Japan is one of Kenya's major trading partners, and Japanese vehicles dominate the used-car import market. A stronger yen can travel through the port of Mombasa and into the wider economy.

An importer buying a ¥2.00 Mn vehicle does not care why the yen strengthened. They care that the same vehicle now requires more shillings, and because those vehicles serve logistics, agriculture, construction and small business, the effect travels further in.

LOOKING AHEAD: WHAT WOULD CONFIRM THE THESIS

The next phase should be judged by a handful of relationships rather than any single headline. The second channel for Kenya is capital: if Japanese investors prefer domestic assets, Kenya competes for a smaller or dearer pool of international money. The adjustment therefore reaches Nairobi through both the exchange rate and the global price of capital.

EXHIBIT 12 Seven relationships to watch

01 USD/JPY. Continued weakness despite intervention and higher rates signals that Japan's tightening is still not credible enough.

02 The US-Japan rate gap. Not whether Japan hikes, but whether the gap narrows enough to make yen assets competitive.

03 The 10-year JGB yield. A gradual rise suggests normalisation. A sharp rise makes the fiscal constraint binding.

04 Foreign assets and Treasury holdings. A sustained reduction suggests real reallocation, but must be separated from maturities.

05 Institutional investors. If higher domestic yields cause insurers and pension funds to repatriate, the effect could exceed the intervention.

06 Oil prices. If the energy shock eases, one of the forces driving Japan's dollar demand eases with it.

07 JPY/KES. The number that ultimately matters for Kenya. A stronger yen means a higher shilling cost on every existing and future yen liability, which is what the Samurai decision has to be priced against.

Source: RIB Research

THE REAL QUESTION IS WHETHER JAPAN CAN EXIT THE TRAP

Japan has spent decades living with exceptionally cheap money, which encouraged capital to move abroad and kept government financing costs manageable. Now inflation requires higher rates. Higher rates make the yen more attractive, but they also expose the debt burden. A weak yen creates an energy problem, that creates dollar demand, and dollar demand puts further pressure on the yen.

Intervention can break that cycle temporarily. Only monetary credibility and a sustainable change in capital flows can break it permanently. If Japan can normalise gradually, absorb higher JGB yields and bring some capital home without a fiscal shock, this could be a genuine regime change. If every attempt to strengthen the yen is followed by renewed depreciation and renewed intervention, the market will have confirmed the opposite.

> " Japan wants a stronger yen, but the economics of its own balance sheet may not allow it to make the yen strong enough. That is what makes this story bigger than the yen.

The yen awakened in Chapter One. Chapter Two is about what happens when the country that supplied the world with cheap capital begins charging more for it.

The question is whether the rest of the world is ready.

THE YEN AWAKENS · CHAPTER THREE · FORTHCOMING

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