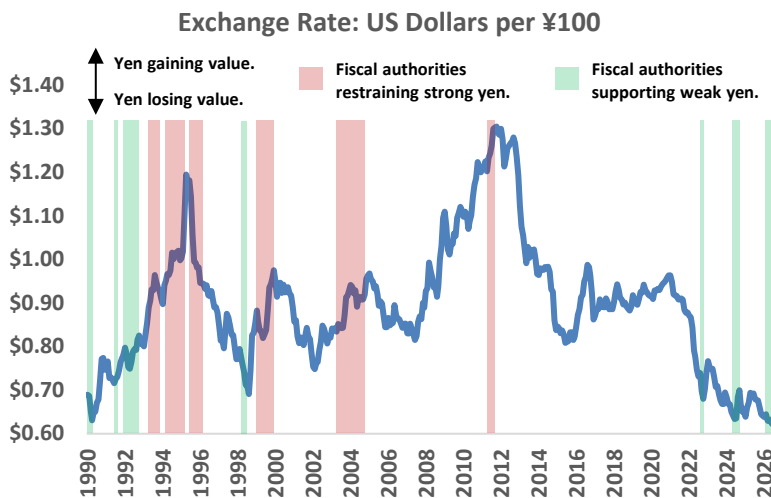


Briefing

- Relative to 10-year Treasury yields, Japan's 10-year government bond (JGB) yields have remained historically low (**Figure 1**). This is due to low inflation and weak growth, accommodative monetary policy and abundant domestic savings. This created an environment in which Japanese savings exceeded domestic demand for investment capital, encouraging investors to seek opportunities abroad.
- Japanese investors have been accumulating U.S. Treasuries, driven in part by carry-trade opportunities in which investors borrow at lower Japanese interest rates and invest in higher-yielding U.S. bonds (**Figure 2**).
- Following several years of relative stability, the yen has fallen sharply against the dollar since 2021. This happened as U.S. rates rose much more than Japanese rates, making it even more attractive to sell yen and hold dollars (**Chart of the Week**).
- Futures positions indicate that investors are heavily betting against the yen (**Figure 3**).

Chart of the Week



Commentary

From the mid-1990s through 2011, fiscal authorities largely faced a problem of an overly strong yen. The red areas are periods in which authorities were selling yen in exchange for U.S. dollars to put downward pressure on the yen's value (**Chart of the Week**). That was a world in which Japan's low inflation, trade surpluses and safe-haven status pulled the yen's value higher.

Today's problem is the opposite. The green areas are periods of intervention aimed at supporting a weak yen. Since 2021, the value of the yen has fallen to a level not seen in decades. U.S. long-term bond yields rose far above Japanese yields (**Figure 1**), making dollar assets more attractive investments. The 2025 U.S. tariffs compounded matters by raising the effective cost of Japanese goods for Americans. Together, these put downward pressure on U.S. demand for Japanese products and securities and, in turn, on U.S. demand for yen.

Since 2012, futures markets have been anticipating a weaker yen more often than a stronger one (**Figure 3**). In the end, foreign exchange intervention (like any policy-prescribed pricing) only addresses the symptom. For Japan, the yen's weakness reflects slower economic growth, dependence on imported energy and Japanese firms investing and expanding production abroad.

Snapshots

Figure 1. Nominal Yields on Long-Term Government Debt

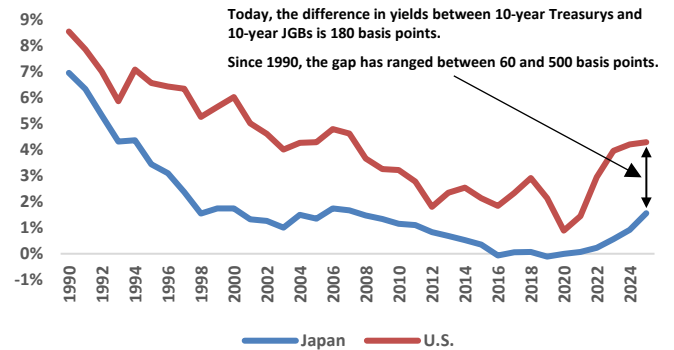


Figure 2. Japanese Holdings of Long-Term US Treasuries (\$ Billions)

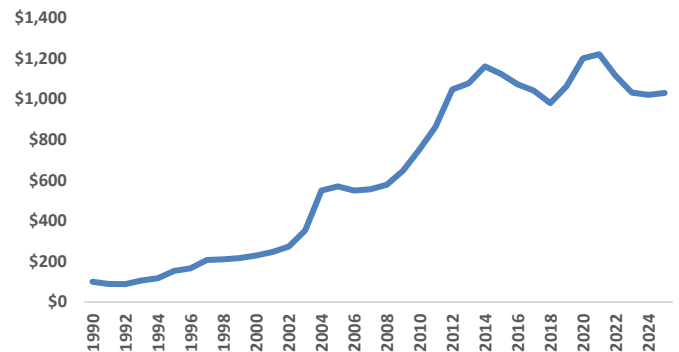
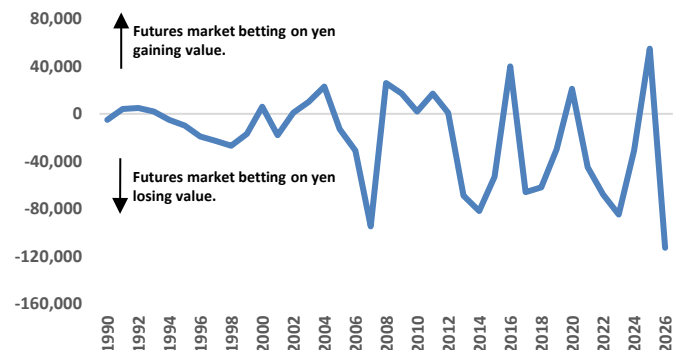


Figure 3. Net Non-Commercial Yen Futures Position (Contracts)



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Key Indicators

INTEREST RATES ¹	2026			2027		
	Current	Q3	Q4	Q1	Q2	Q3
Fed Funds Target ² (%)	3.75	3.75	4.00	4.00	4.00	4.00
SOFR (%)	3.62	3.64	3.64	3.59	3.50	3.42
2Y UST (%)	4.16	3.98	3.89	3.80	3.74	3.68
5Y UST (%)	4.36	4.08	4.02	3.97	3.93	3.90
10Y UST (%)	4.70	4.44	4.39	4.35	4.33	4.32
30Y UST (%)	5.27	4.94	4.86	4.87	4.86	4.85

ECONOMY	2026			2027		
	Current	Q3	Q4	Q1	Q2	Q3
PCE Inflation (YoY %)	3.7	2.8	2.5	2.5	2.3	2.1
CPI Inflation (YoY %)	3.4	2.9	2.5	2.4	2.3	2.2
Real GDP (QoQ %)	1.5	1.9	1.9	2.0	2.1	2.1
Unemployment (%)	4.1	4.3	4.3	4.3	4.3	4.3
Consumer Spending (QoQ %)	3.2	1.7	1.9	1.9	2.0	2.0
Industrial Production (YoY %)	1.1	1.4	1.2	1.6	1.7	1.7

Equities & Currency

	Current	Year ago	YoY Δ
DJIA	53,553	44,912	19.2%
Nasdaq	26,728	21,630	23.6%
S&P 500	7,773	6,449	20.5%
US Dollar Index	\$1,198.96	\$1,205.21	(0.3%)

Commodities

	Current	Year ago	YoY Δ
Crude Oil (Per Barrel)	\$82.5	\$62.70	31.5%
Natural Gas (Per MMBtu)	\$2.66	\$2.89	(8.0%)
Coal (Per Short Ton)	\$12.93	\$11.10	16.6%
Gold (Per Ounce)	\$4,422.60	\$3,332.40	32.8%
Corn (Per Bushel)	\$4.60	\$3.83	20.3%
Soybean (Per Bushel)	\$11.81	\$10.21	15.7%

Industry

	Current	Year ago	YoY Δ
Natural Gas Storage (Billion Cubic Feet)	3,153	3,178	(0.8%)
U.S. Daily Power Consumption (MWh)	13,933,795	13,802,012	1.0%
World Container Index (Per 40ft)	\$4,339	\$2,350	84.6%

¹ Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.

² Target rate forecast is based on futures market contracts.

Sources: © Oxford Economics, Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Oxford Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

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Forecasts

Real GDP Growth Trend

Quarter	Growth (%)
Q1 2024	1.4%
Q2 2024	3.0%
Q3 2024	3.1%
Q4 2024	2.4%
Q1 2025	-0.5%
Q2 2025	3.8%
Q3 2025	4.3%
Q4 2025	0.5%
Q1 2026	2.1%
Q2 2026	1.5%
Q3 2026	1.9%
Q4 2026	1.9%

Headline vs. Core Inflation

Date	CPI (%)	Core CPI (%)
Jun-24	3.2	3.2
Aug-24	3.1	3.1
Oct-24	2.8	3.1
Dec-24	2.9	3.1
Feb-25	2.8	2.9
Apr-25	2.4	2.8
Jun-25	2.6	2.9
Aug-25	2.8	3.0
Oct-25	2.7	2.8
Dec-25	2.7	2.6
Feb-26	2.5	2.5
Apr-26	4.3	2.8
Jun-26	3.5	2.9

10-Year US Treasury vs. Fed Funds Trend

Date	10Y UST (%)	Fed Funds (%)
Sep-23	4.7	5.5
Dec-23	3.9	5.5
Mar-24	4.2	5.5
Jun-24	4.4	5.5
Sep-24	4.0	5.0
Dec-24	4.5	4.5
Mar-25	4.2	4.5
Jun-25	4.2	4.2
Sep-25	4.2	4.0
Dec-25	4.4	4.0
Mar-26	4.4	4.0
Jun-26	4.4	4.0
Sep-26	4.4	4.0
Dec-26	4.4	4.0
Mar-27	4.4	4.0
Jun-27	4.4	4.0
Sep-27	4.3	4.0