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JPY Trade Pitch

6 April 2026

Spring 2026

AGENDA

Global Overview and Historical Context

JPY Bull Factors

Structural Mispricing & Market Positioning

USD Bear Case

Trade Overview

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First Glance

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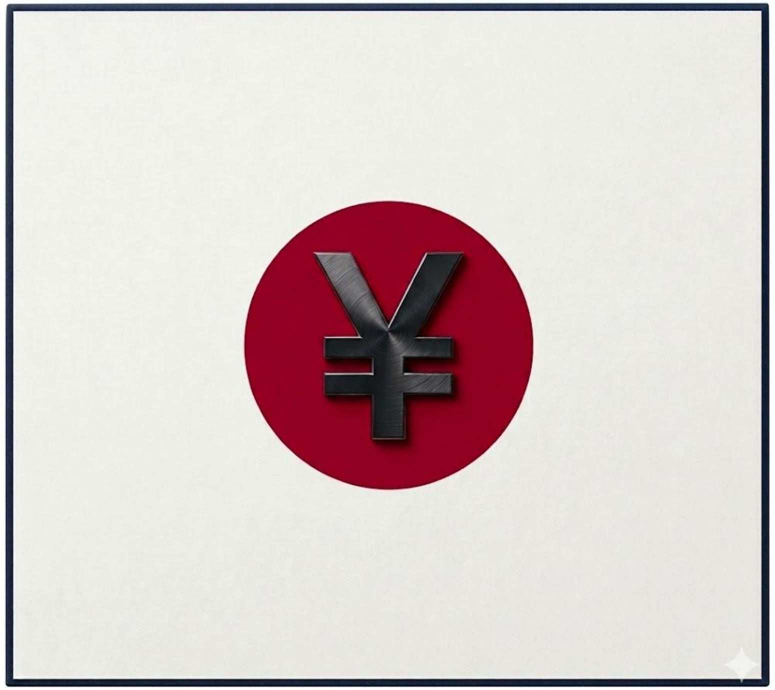
Spring 2025

First Glance

JPY FX Trade

JPY Ticker	**FX** *Asset Class*	**24/5** *Pricing Frequency*
159.6 Price	**140-160** 52 Week Range	**USD** Currency
4% Proposed Allocation	**130.2-174.2** TP/SL	**18M** Horizon



BUY

Source: [Yahoo Finance]

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Elevator Pitch

6 April 2026

Elevator Pitch

Why is the Yen attractive at the moment?

We are pitching the JPY since...

Historic Value Disconnect

JPY at 50-year low, 66% below PPP implied fair value, based on REER most undervalued G10 currency

Huge repatriation potential

US-Japan 10Y Yield Differential below 200bps -> Institutional Investors start bringing capital home

USD Bear Case

USD facing structural challenges due to political instability, debt pressure and FED regime change

Skewed Risk-Reward

Structural forces drive appreciation potential, depreciation risk capped by $1.18 trillion in FX reserves

- Sources: Bloomberg, Financial Times, MUFG FX report, ING FX report, MoF

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What drives FX markets

Currencies move where capital flows follow returns

Interest Rates Differentials

- Capital flows toward higher-yielding economies
- Higher rates increase currency demand

FX Markets

Risk Sentiment

- Uncertainty leads to risk reduction
- Unwind of leveraged positions

US vs Japan Example:

- Rate differential > 500bps at peak
- Capital flows into US assets
- Sustained Yen weakness: Sell JPY → buy USD
- Positioning becomes **structurally short JPY**

Capital Flows & Investor Position

- Investors reallocate capital globally in search of returns
- Must buy the currency first
- Long position: expect currency to appreciate
- Short position: expect currency to depreciate

US vs Japan Example:

- Risk-off → investors close carry trades
- Buy back JPY to repay funding
- Yen appreciates rapidly (short- term)

Sources: Investopedia

The Global Rate Cycle

The global monetary policies have gone through phases over the past two decades

Most economies

2008	**Global Financial Crisis** Collapse in credit markets and economic activity **Ultra-loose monetary policy implemented:** central banks cut rates to near zero
2022- 2024	**Post-pandemic** demand surge Supply chain disruptions **Energy price shocks** (Ukraine war) **Tightening cycle**: central banks increase rates
2026	**Neutral approach**: interest rates remain stable **Easing approach:** interest rates reduction

Sources: IMF – World Economic Outlook (0ct 2023) ECB –Economic Bulletin (2025)

Historical Context

The Yen as a Founding Currency

Japanese Currency

- Yen is a **founding currency** in investment strategies: investors borrow in Yen and invest abroad **(the Carry Trade).**
- This trend contributed to a prolonged depreciation, with the currency weakening from **75 JPY/USD in 2011 to 160 JPY/USD in early 2026**.
- Largely driven by the Bank of Japan's thirty-year commitment to ultra-loose monetary policy.
- Despite recent domestic improvements, Yen has remained the only currency depreciating against the USD.
- **Positioning data shows investors adjusting**: after a period of heavy short positioning, investors started to rebuild long positions.

Japan 2026

- **End of negative interest rate policy (2025)**: first tightening cycle in decades
- **Yield Curve Control (YCC) exit**: more market-driven bond yields
- **Inflation stabilizing below the 2% target**: 1.3% in February, the lowest since March 2022

Sources: fxstreet, equiti, Trading Economics

Geopolitics impact

FX markets are highly sensetive to geopolitical tensions such as the Iran conflict

Factors

1. Risk Sentiment

Short-term ↑ Yen

Geopolitical uncertainty → risk aversion

Carry trade unwinding

Safe-haven demand supports Yen

2. Energy Prices

Medium-/ Long term ↓ Yen

Oil prices increase

Japan = major energy importer

Higher import costs → weaker Yen

Sources: Reuters, IMF

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JPY Fundamental Bull Factors

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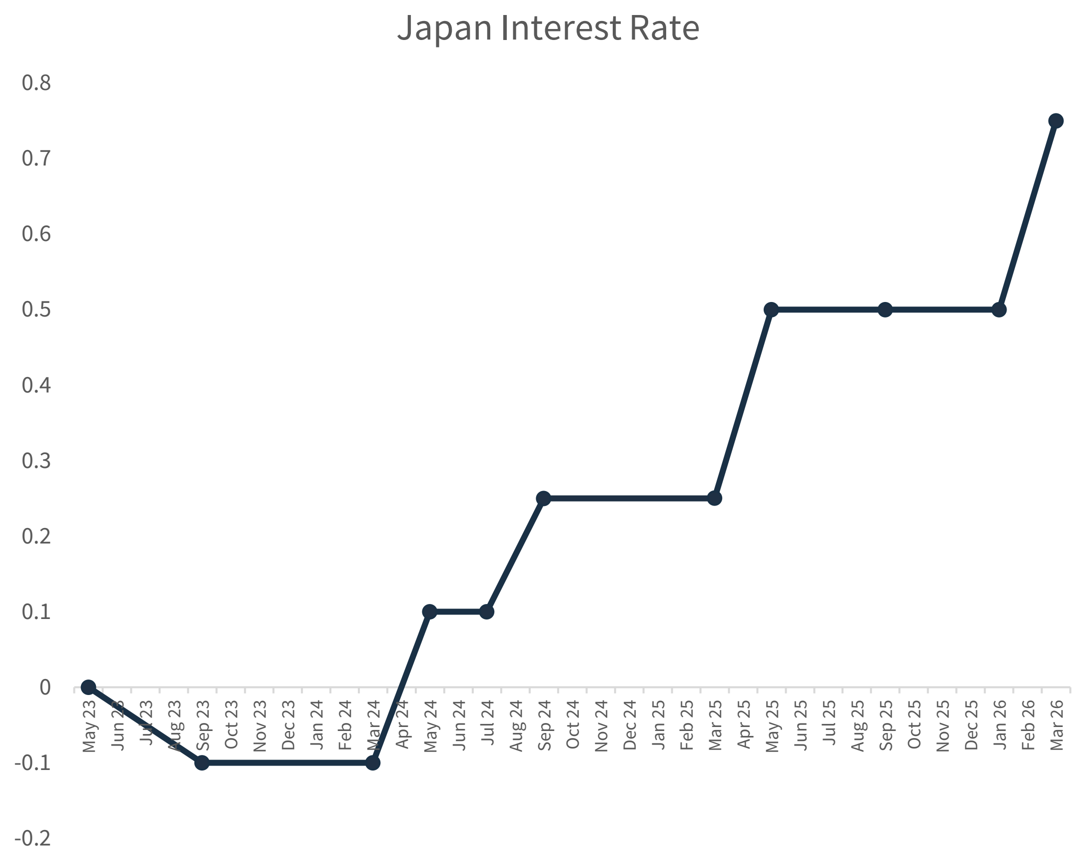
BoJ Normalization

The Death of the “Short Yen” Era

Japan Interest Rate



BoJ Policy Shift: End of the Zero-Rate Era

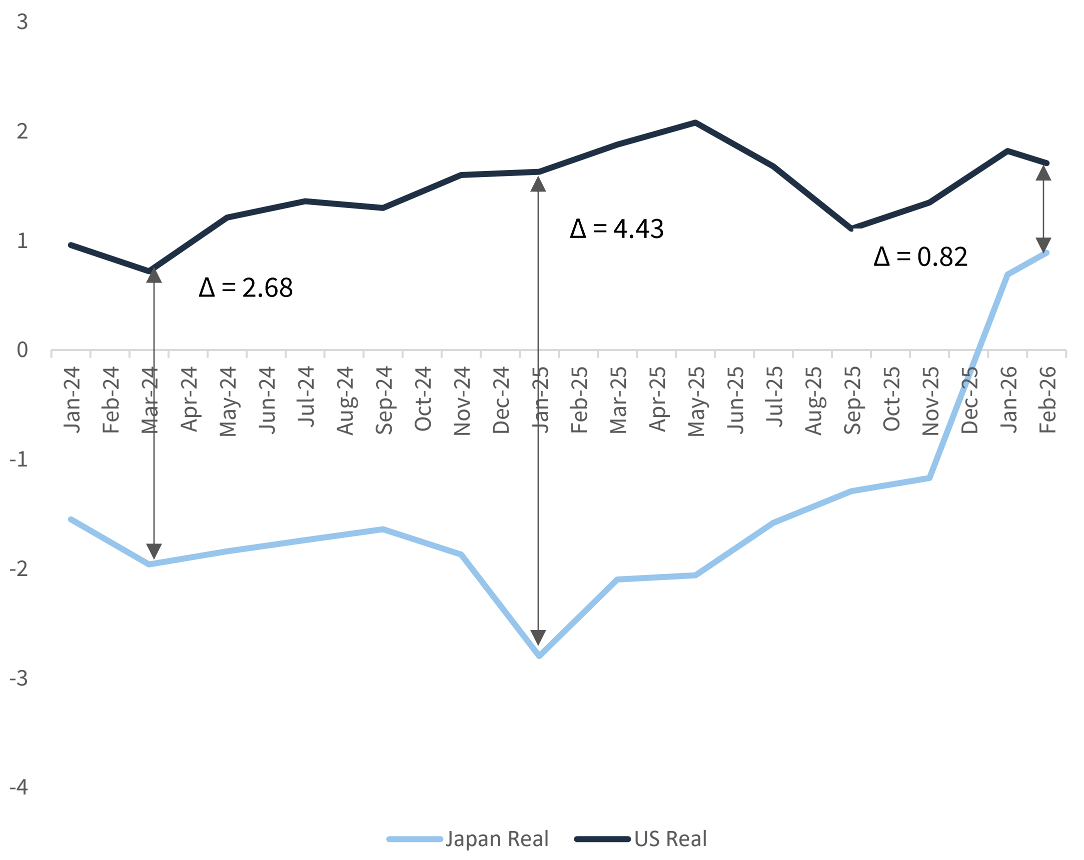
- **December 2025:** the Bank of Japan at the Monetary Policy Meeting decided to raise the policy rate by **25 basis points.**
- BoJ is expected to accelerate its pace of rate hikes from **once a year to semi-annually**, with the policy rate reaching **1%** with another 25 basis points hike in **July 2026**.
- Witnessing the **structural death of the "Zero Interest Rate Policy"** that defined a generation.
- As rates rise, the cost to borrow Yen to buy other assets (the Carry Trade) spikes, forcing global investors to **buy back JPY** to close their positions.

Sources: Goldman Sachs 2026 Japan Economic Outlook

Real Rate Convergence

Closing the gap: The End of US Yield Dominance

Japan and US Real Rates



- **Yield Advantage evaporates:** The 450bps US real-rate "magnet" has collapsed to **<100bps**.
- In **2024**, the gap between US and Japanese rates was a **around 450 basis points**, which acted like a giant magnet **pulling capital out of Japan**. Today, that gap is collapsing from both sides.
- While the Federal Reserve is deep into a cutting cycle to support a cooling US economy, the BoJ is the only major central bank currently on an **upward trajectory.**
- **Fundamental Realignment:** As real-yield spreads decrease, the structural incentive for capital flight vanishes, positioning the Yen for a powerful mean-reversion move.

Sources: MacroMicro

Japan’s Pivot: From Fragility to Resilience

Positive wage-price dynamics provide the Bank of Japan with the "cushion" needed for rate normalization

CA Surplus

- **World’s Largest Net Creditor:** Japan's massive offshore capital base is now incentivized to repatriate as domestic yields rise.
- The Repatriation Math:

10-Year JGB: 2.39%

US Treasury (Hedged): 4.3% - ~2.7% hedging cost = 1.6% return

0.79% yield advantage in favor of keeping capital in Japan

Inflation

Bad Inflation → **Good Inflation**

- **Transition to "Good" Inflation:** Shifting from cost-push inflation (imported oil) to demand-pull inflation (domestic consumption).
- **Historic Wage Growth:** 2026 negotiations have secured **3% plus base pay growth**, the strongest trend since the early 1990s.
- **Policy Room:** Real wage gains provide the necessary economic buffer for the BoJ to sustain interest rates of 1% or higher.

Sources: Financial System Report, CNBC

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Structural Mispricing & Market Positioning

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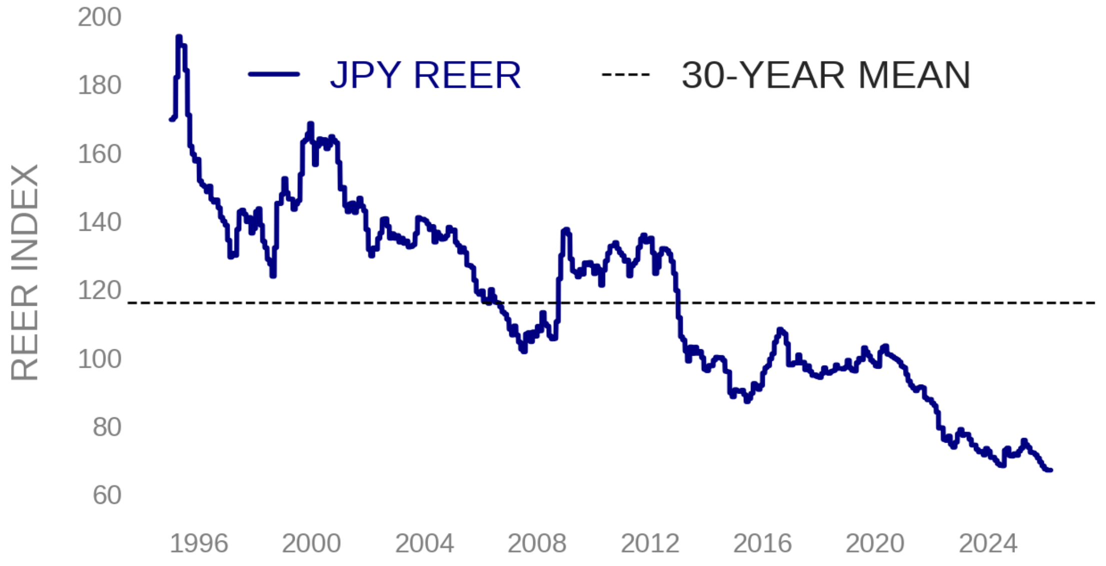
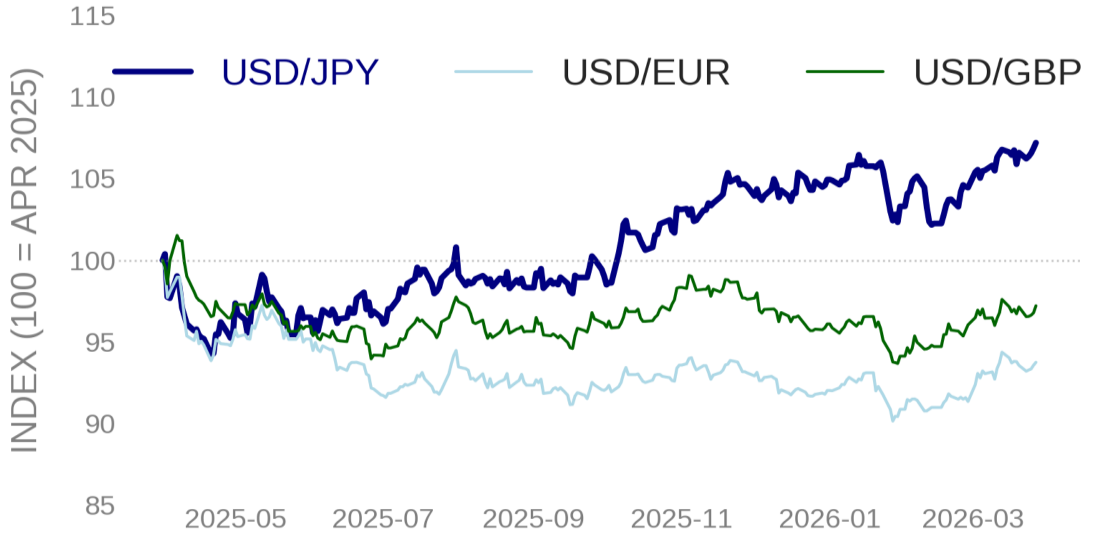
JPY: A Currency at 50-Year Lows

USD/JPY has decoupled from all fundamental indicators

JPY REER: An All-Time Low



Spot Rate Context



- **Japan's REER** hit 52.9 (2005=100) in January 2026 - **all-time record low; ~65 pp** below 30Y mean
- **ING**: JPY only G10 currency more than 1.5σ below own "fair value" -> **most undervalued G10 currency**

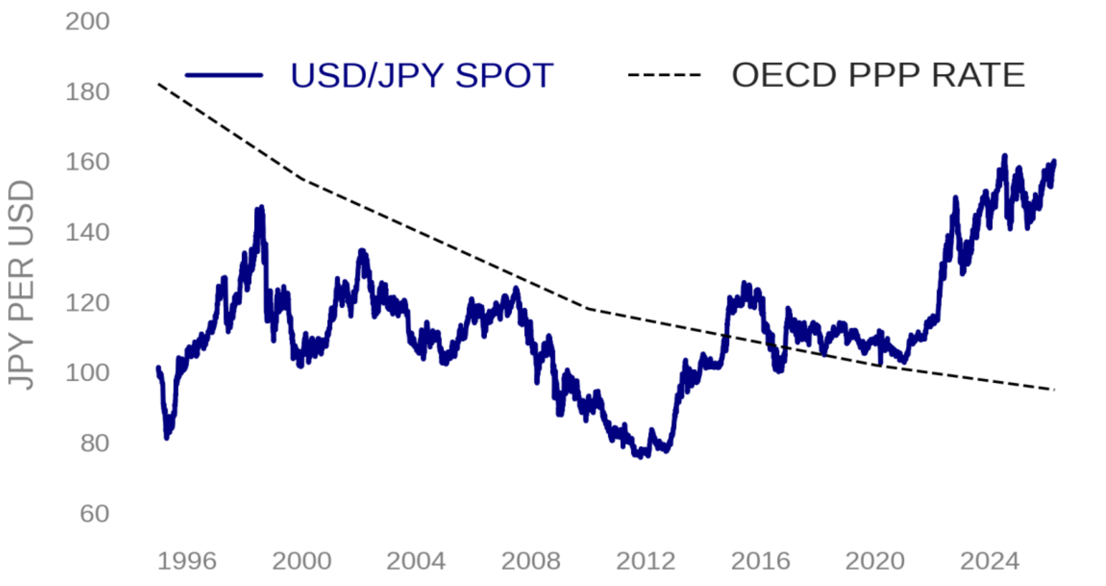
- Since 2011, **JPY depreciated** by **110%** against USD
- JPY only major currency to depreciate against USD YoY
- Domestic fundamentals improving -> **lagging ER**

Sources: Bloomberg, Japan Ministry of Finance, BoJ, FED

The Valuation Gap

By every purchasing power metric, the Yen trades at an unprecedented discount

PPP Valuation



- OECD **PPP-implied USD/JPY: ~¥95-100**, spot ~¥158-160 -> JPY **66% cheaper** than implied by PPP fair value
- PPP convergence slow but accelerated by every BoJ hike and ongoing wage growth + inflation in Japan

Implied Undervaluation

PPP Fair Value: ¥95-100

Current Spot: ~¥158-160

Implied Undervaluation: ~66%

Highest PPP-implied undervaluation for a G10 currency since the Plaza Accord in 1985

Sources: Bloomberg, OECD, BoJ, FED

The Repatriation Wave: ¥576tn coming home?

With rising domestic yields, Japan's record overseas earnings are about to be converted into Yen

Structural Setup

- Japan's 2025 **CA surplus** hit a **record-high ¥31.87 trillion** (~$203bn; +11.1% YoY)
- Japan's **total net overseas assets** reached **¥576 trillion** (~$3.67tn) in Q4
- Record **foreign capital inflows (+¥49.9tn** in Q4 alone)
- Japan largest foreign holder of US treasuries ($1.2tn)
- Fundamental disconnect to exchange rate -> **capital flow reversal -> exchange rate will catch up quickly**

How the Yen appreciates

JGB Yield at 30-year high (2.39% in April)

US-Japan 10Y Yield spread below 200bps + hedging costs

Institutional investors start selling foreign assets

5% net foreign asset decrease -> ¥29.2 trillion in JPY demand

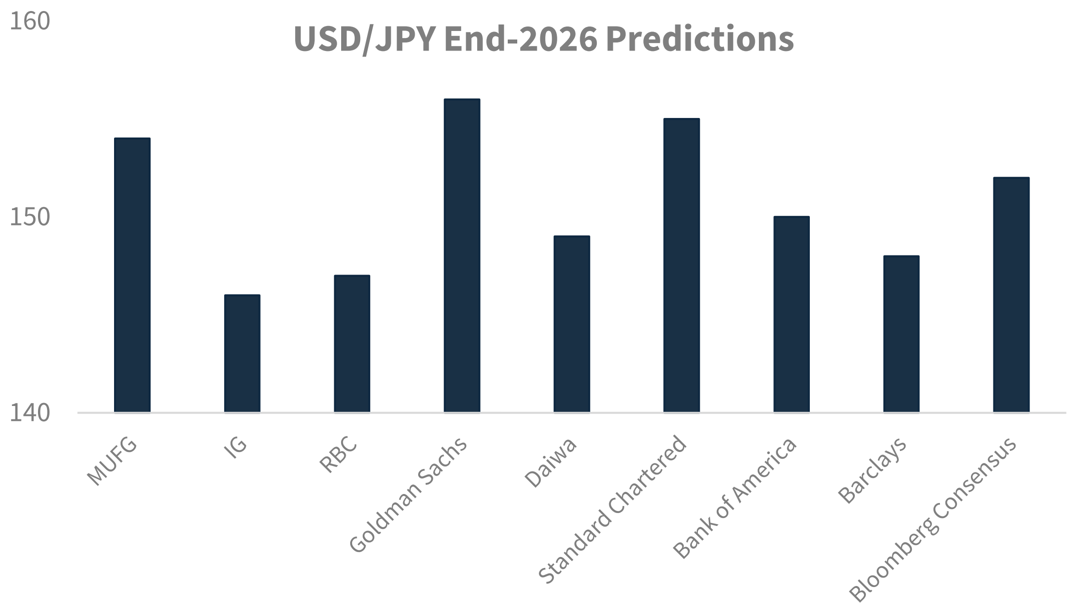
Self-Reinforcing Spiral -> Rapid JPY appreciation

Sources: Japan Ministry of Finance, BoJ, FED

The Short Squeeze is Building

62.8K speculative shorts still open — yet every major bank forecasts JPY appreciation

Institutional Forecasts



- **Bloomberg Market Consensus** predicts USD/JPY to arrive at **¥152 end-2026**
- Short-term uncertainty vs fundamental mispricing

Asymmetric risk-return

- **¥160 ceiling:** MoF holds **$1.18tn in FX reserves ->** every attempt of breaching 160-mark in past weeks was met with institutional supply -> creates **ceiling at ¥160**
- CFTC data shows -62.8K net JPY short contracts **– shorts covered for 3 consecutive weeks** -> forced JPY buying -> structural downward pressure on USD/JPY
- **The ¥154-157 Liquidity Gap: $15bn+** in cumulative **sell-stops** clustered below ¥157.25
- **Skewed risk-return:** positive convexity, long volatility – MoF caps USD/JPY upside - fundamentals drive the downside

Sources: Bloomberg, MUFG FX report, BoJ, UBS FX report, RBC FX report

Historical Precedents

Four historical episodes prove the Yen moves fast once it turns

Historical Precedents

1985 Plaza	→	**50% JPY appreciation** within 2 years ($/¥ 240 to 120)
1995 BoJ tightening	→	**$/¥ 100 to 80** in less than 3 months (first BoJ hiking cycle)
2011 post-Fukushima	→	**$/¥ 83 to 76** within weeks

August 2024: False Start vs Today

- **August 2024:** BoJ surprised markets with hike to 0.25% -> triggered **sharp JPY rally** from ¥161 to ¥142
- Rate Differential still ~500bps -> carry trade remained profitable -> USD/JPY fully recovered
- **Why 2026 is different**: Rate differential 275—300bps, 10Y Yield spread 195bps, ¥576tn moving toward repatriation -> **all three active simultaneously**

- **Common Theme:** Once momentum turns, **JPY moves sharp and non-linear**
- **3x Velocity Rule:** Asymmetric volatility of Yen -> JPY appreciation significantly faster than depreciation (August 2024 snapback)

Sources: Bloomberg, BoJ, The Economist, FED

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USD Bear Case

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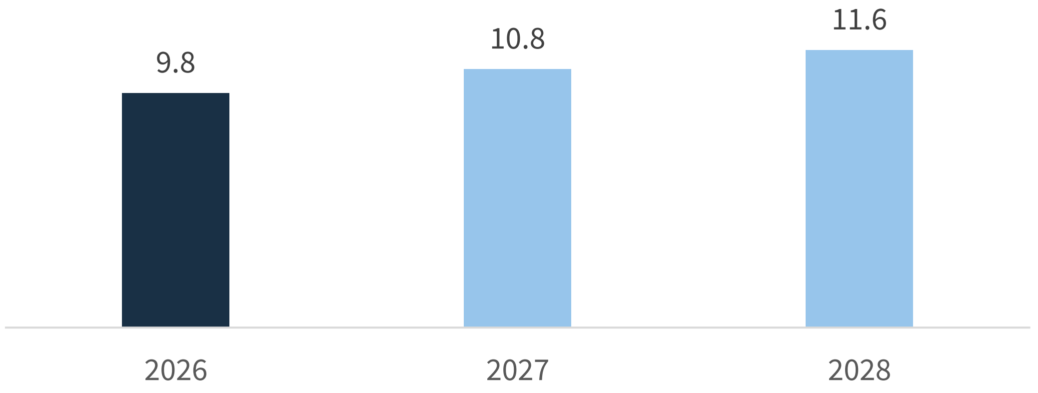
The Debt Maturity Wall

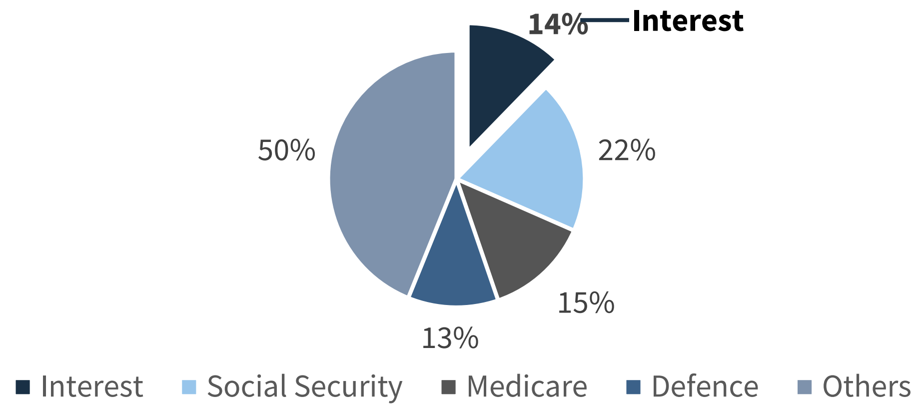
The United States now faces a structural refinancing crisis that challenges the FED's capabilities

Debt Amortization Forecast ($bn)



- The Treasury is now forced to refinance low-coupon pandemic era debt into **current high-yield environments**
- The increased use of short-term debt since 2024 to avoid locking in high interest rates created immense pressure for **continuous refinancing dependence**

U.S. Government Spending FYTD



- Interest expense is projected to be **nearly 1 trillion dollars**, nearly one-sixth of the entire budget for this fiscal year
- Elevated rates will prove to be a **threat for government solvency**, which would in theory force the FED to adjust

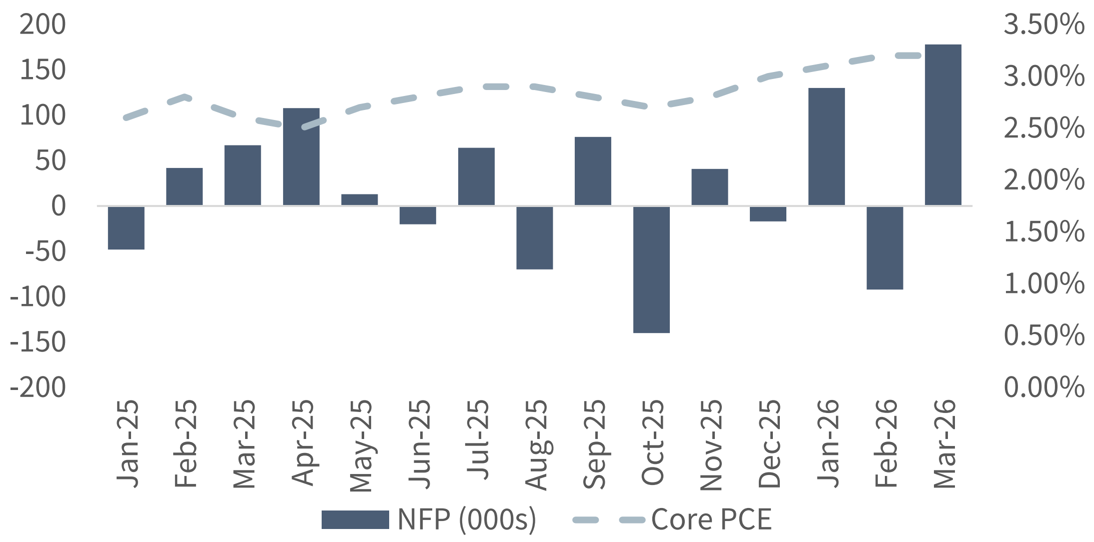
The Stagflationary Lookout

The FED now faces a dual mandate contradiction where hiking rates won't solve upcoming inflation

Stagflation indicators

- During the March 18 FOMC the FED **held rates steady** for a second consecutive meeting as Jerome Powell acknowledged "near-zero net job creation"
- In that same meeting, the FED chairman also conceded that **core PCE is now projected at more than 3% for this year**, partly fueled by the Iran-driven energy chock
- The Iran conflict has introduced cost-push inflation, meaning that hiking rates would **accelerate job losses without resolving the price pressure**

Inflation vs. Job growth



- The headline is simple: growing inflation and inconsistent job creation means that the **FED must wait before taking any decision** regarding rates

The Warsh Regime

The Warsh regime does not resolve the dollar's structural problems — it accelerates them

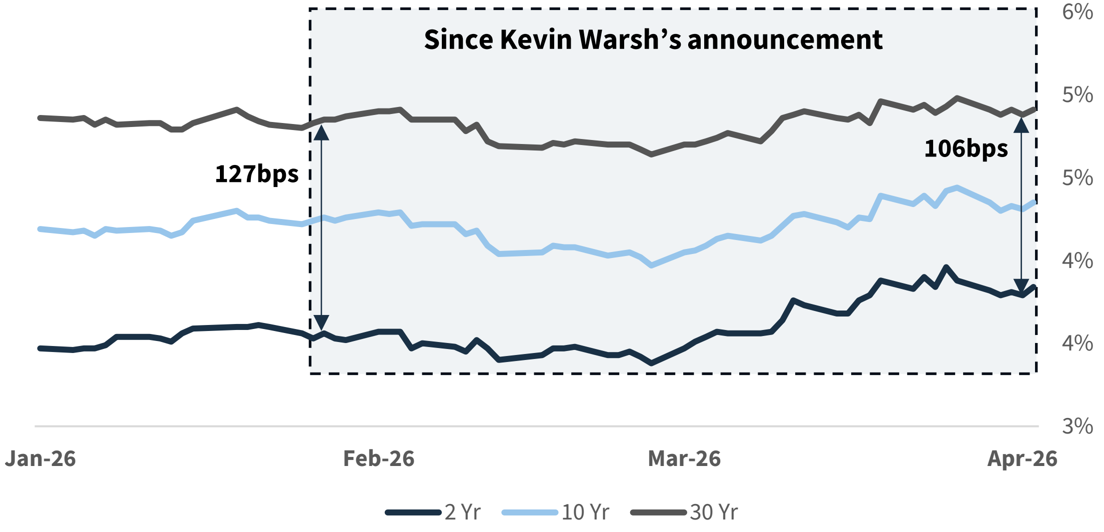
What will happen

Warsh’s proposed QT for rate cuts regime proposes **aggressive selling of long-term treasuries** while simultaneously **lowering rates to support growth**

While it may seem foolish currently, the **mounting institutional pressure for rate cuts** signals that the new chairman will likely go through with them.

At the same time, QT will presumably **trigger short term premium spikes**, forcing the FED to cap long-term yields just for government solvency.

Yield Evolution for 2Y, 10Y and 30Y Treasuries



Since Warsh’s announcement, **the 2-Year yield has risen much faster than its long-term counterparts –** the market is signaling that the U.S. can’t sustain these rates and is pricing the short-term premium spike

The Real Yield Trap

The dollar's strength was built on real yield superiority, but that foundation is gone

Then – October 2023	*Now – April 2026*
▪ **TIPS yield: 2.55%** ▪ 10y nominal yield: 4.93% ▪ Core PCE: 3.47% **and falling** ▪ FED rate: 5.25 – 5.5%	▪ **TIPS yield: 1.98%** ▪ 10y nominal yield: 4.35% ▪ Core PCE: 3.2% **and rising** ▪ FED rate: 3.5 – 3.75%

- From real yield superiority with positive forward-looking expectations to compression from both sides – nominal yield capped by debt-related payments and inflation floor rising. The maturity wall, stagflation and Warsh cuts point to one direction: **the USD premium is structurally eroding, and it doesn't look like it's coming back anytime soon.**

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Thesis & Recommendation

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Catalysts & Risks

Evaluating the Drivers and Vulnerabilities of the Thesis

Catalysts (+)	*Risks (-)*

Catalysts (+)

- **BoJ policy acceleration:** Faster hikes / stronger forward guidance would lead to Immediate repricing of rate differentials
- **Repatriation flows:** Rising domestic yields incentivize capital return (Japan as largest holder of US assets → negative flow impact on USD)
- **US macro deterioration:** Weak labor data → faster Fed repricing & Compression in real yield advantage
- **US bond market instability:** Rising term premia / weak auctions & Fiscal concerns → USD confidence erosion

Risks (-)

- **Energy shock (Japan-specific):** Higher oil prices → weaker trade balance
- **Global risk-off dynamics:** USD liquidity demand dominates in stress
- **Delayed policy convergence:** Fed stays restrictive / BoJ tightens slowly
- **US growth re-acceleration:** Sustained real yields → USD remains supported

Represent temporary risks primarily

(timing risk)

Portfolio Fit

Strengthening the portfolio with diversified assets

Strategic Role

- **No current FX exposure →** new return driver
- **Low correlation** with: Equities & Credit/ Fixed income

Hedging

- **Performs well in:** Growth slowdown & Financial tightening
- Provides **downside protection** in risk-off scenarios

Convex payoff profile

- **Asymmetric risk-reward** (limited downside vs stronger upside)
- Adds **positive skew** to overall portfolio returns

Recommendation: Buy

Strengthening the portfolio with hard assets

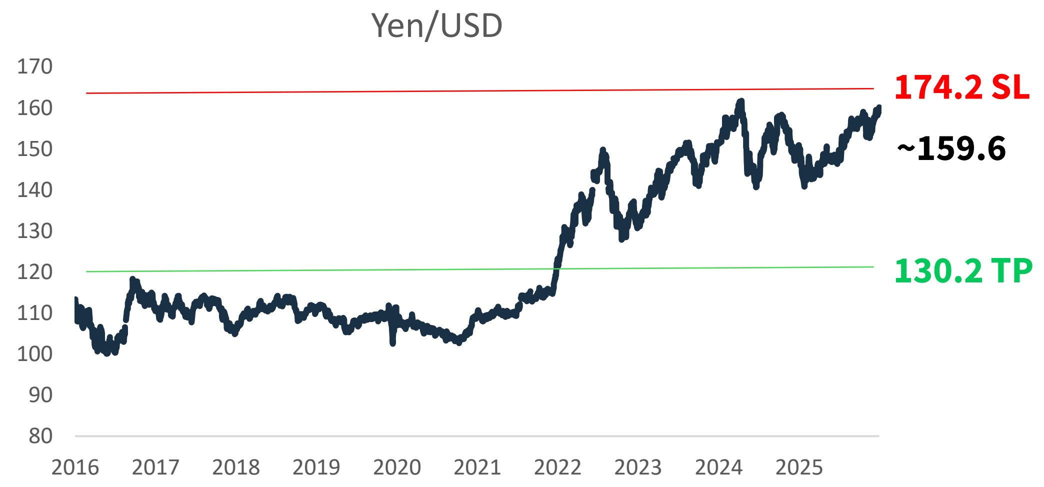
We structure the trade using a **1-year horizon** consistent with a value-oriented approach. Rather than targeting short-term volatility, we anchor our levels to the **magnitude of historical FX repricing during macro regime shifts**.

Using a **18-month horizon**, we estimate **annualized volatility for USD/JPY at around 7 to 8 percent**, which corresponds to approximately **14.6 yen per standard deviation.**

At current levels around 160, we set our stop-loss at **174.2**, representing an adverse move of about **14.6 yen**, or **roughly 1 standard deviation**. On the upside, our first target is **130.2**, a **29 yen** move, equivalent to approximately **2 standard deviations.**

Investment Horizon:	**18 months**
Fair Value Range:	**125-135**
Entry Price:	**159.6**
Take Profit / Stop Loss:	**130.2 / 174.2**
Proposed Allocation:	**4%**

U.S. Dollar/Japanese Yen (USD/JPY) Price History (2023 – Present)



Macro Team

Matteo Valente
Head
(+351) 935194511
Linkedin

Sofia Sousa
Analyst
(+351) 912 139 535
Linkedin

Rafael Rodrigues
Analyst
(+351) 911088656
Linkedin

Miguel Pinho
Analyst
(+351) 939 157 357
LinkedIn

Elena Morello
Analyst
(+39) 3248898795
Linkedin

Diana Marcus
Analyst
(+351) 934736091
Linkedin

Gabriel Mairhofer
Analyst
(+43) 664 929 1965
Linkedin

Valentina Xavier
Analyst
(+351) 964 230 797
Linkedin

Francisco Valentim
Analyst
(+351) 916 224 289
Linkedin

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R. da Holanda 1, 2775-405 Carcavelos

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