

Macro Roundup Article

Headline: [There's No Place Like Home](#)

Article Link: <https://am.jpmorgan.com/content/dam/jpm-am-aem/global/en/insights/eye-on-the-market/there-is-no-place-like-home-amv.pdf>

Author(s)	Michael Cembalest
Publication	J.P. Morgan
Publication Date	August 06, 2024

Tweet: “JP Morgan FX traders believe that there could be more carry trade unwinds ahead.” Mike Cembalest notes the unwinding of the carry trade was catalyzed by a 25bps hike “indicative of how large the unmeasurable Yen carry trade might actually be.”

Summary: Years of negative policy rates enticed Japanese households, pension plans, state-owned banks and the Bank of Japan itself to create what Deutsche Bank estimates as a \$20 trillion carry trade in which “Japan Inc” funds itself via low-cost bank deposits and invests in overseas assets and domestic assets of longer duration. A lot of macro hedge funds piled on to do the same, funding in Yen. When the Fed began to hike in 2022, the Japanese carry trade accelerated, pushing the Yen to its weakest level since 1986. Rising core inflation and wage negotiation outcomes finally prodded the Bank of Japan to raise rates just as the Fed is projected to begin easing, driving up the Yen sharply. The recent Yen rally of 14% is among the largest seen over the last 40 years. Note how it only took a BoJ hike of 25 basis points (!) to trigger this, which is indicative of how large the unmeasurable Yen carry trade might actually be. While the Yen is now closer to fair value based on interest rate differentials, JP Morgan FX traders believe that there could be more carry trade unwinds ahead.

Related Articles: The Bank of Japan’s Seductive Widow-Maker Trade and Japanese Workers Secure Biggest Pay Rise In Three Decades and What About Japan?

Primary Topic: Financial Markets

Topics: Financial Markets, GDP, Op-Ed/Blog Post, Weekly

Permalink: <https://www.edwardconard.com/macro-roundup/jp-morgan-fx-traders-believe-that-there-could-be-more-carry-trade-unwinds-ahead-mike-cembalest-notes-the-unwinding-of-the-carry-trade-was-catalyzed-by-a-25bps-hike-indicative-of-how-large?view=detail>

Featured Image Link: <https://www.edwardconard.com/wp-content/uploads/2024/08/22674-the-res-no-place-like-home-featured-thumbnail-image.png>