Black Swan Reborn

The 8/5 Shockwave That Shook Global Markets

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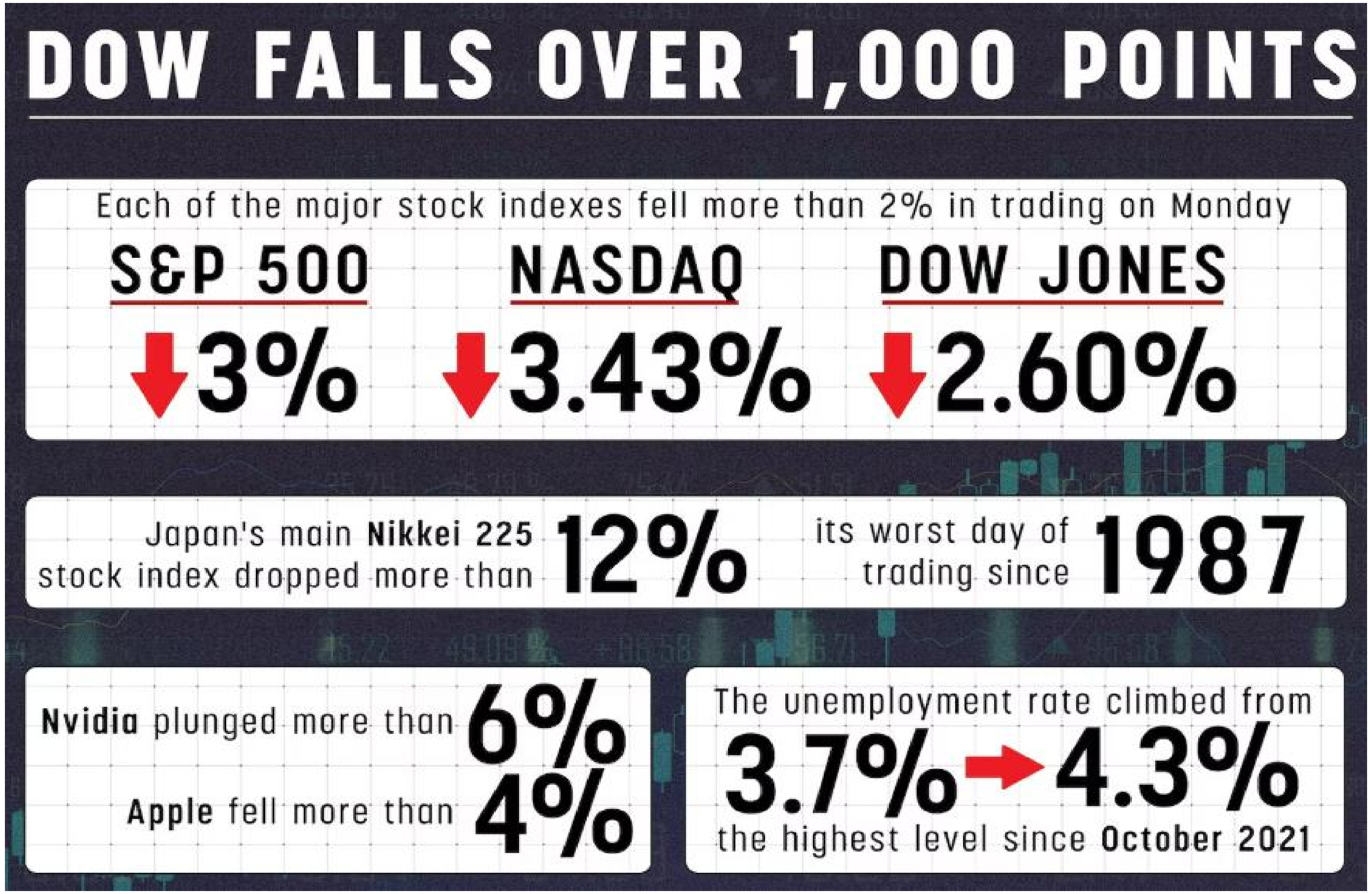
Backgrund

- On July 31, 2024, the Bank of Japan's unexpected rate hike triggered an 8% surge in the Japanese yen.

- The sharp appreciation led to a widespread unwind of yen-funded carry trades, culminating in a global market sell-off on August 5.



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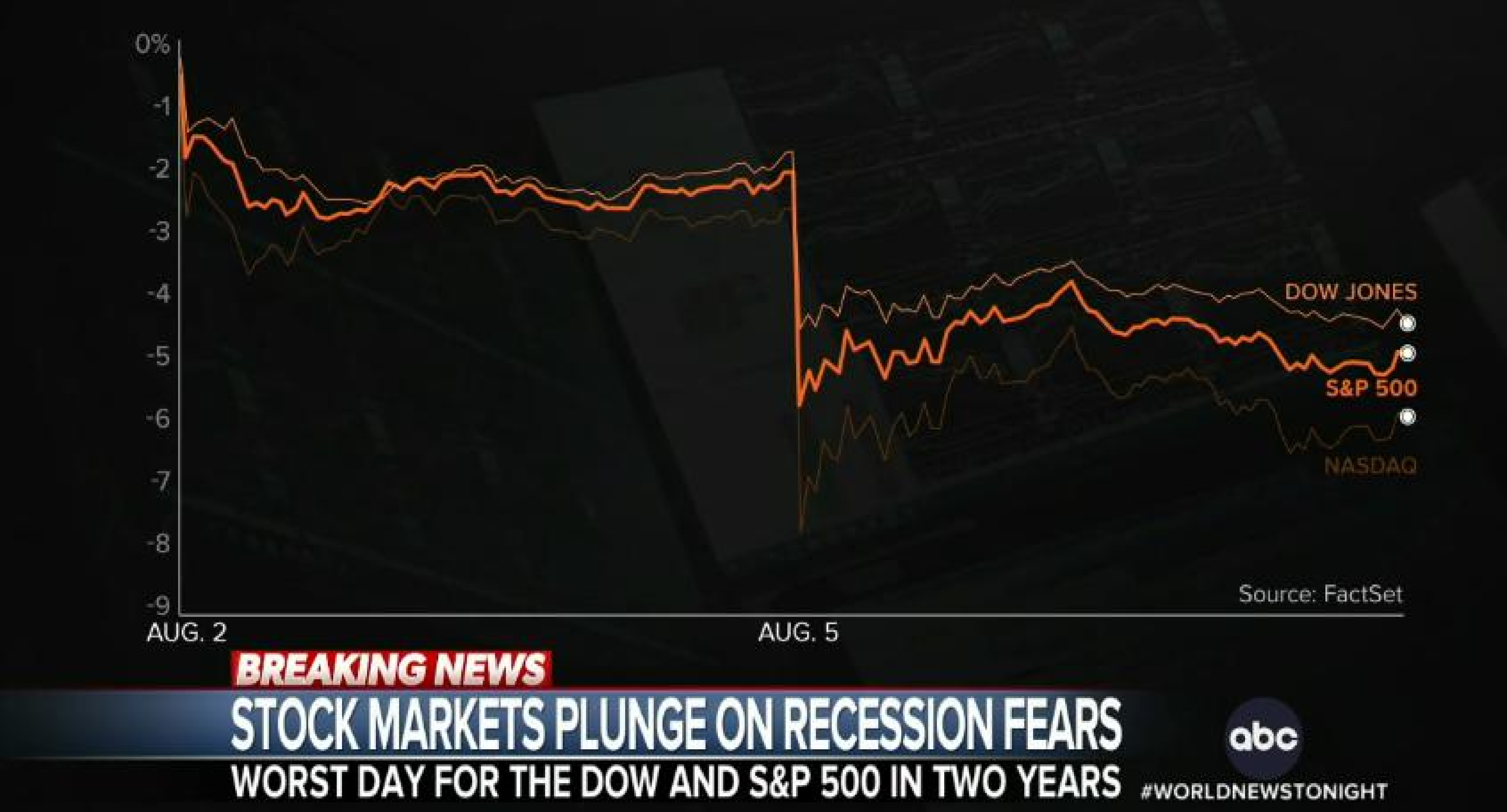

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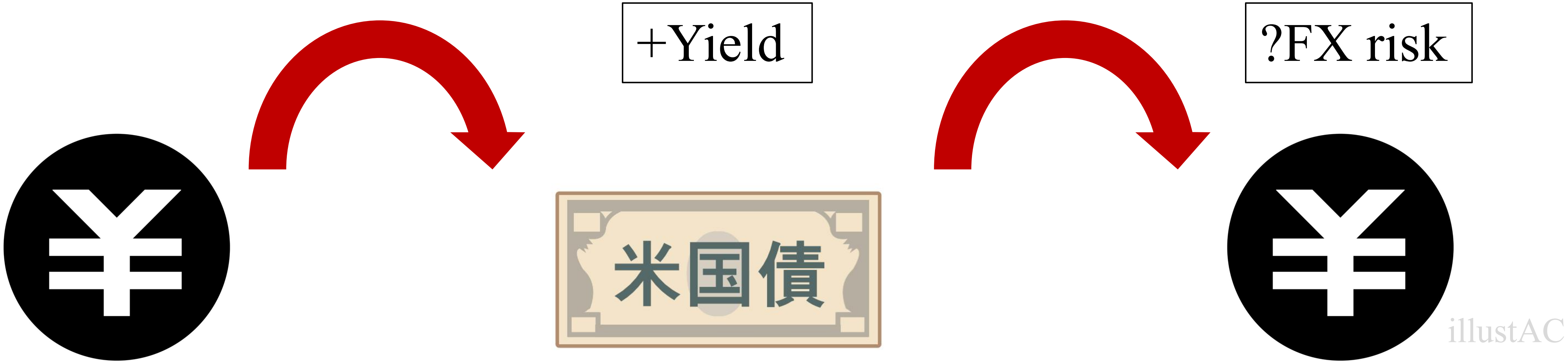
How carry trade works?



- Borrow low-interest rate currency
- e.g.Yen
- Policy rate: -0.10% (Jan 2016–Jan 2024)

- Change Yen to USD
- Buy high return assets

- Sell USD-dominated assets
- Change USD to Yen
- Repay yen-dominated loan

- Back in 2024, the yen was considered stable.
- FX risk from the yen is usually ignored in real-world trading.
- Yen carry trades were treated as near risk-free arbitrage strategies.

Why so devastating?

Wide Rate Gap Drives Record Yen Borrowing

- In H1 2024, strong inflation and jobs data kept the FOMC rate steady at 5.25%–5.50%.
- The widening U.S.–Japan yield spread has made yen carrytrades more attractive, as reflected in COT index data showing elevated funding activity in H1 2024.

U.S.–Japan 10Y yield spread widened in 1H24

Yen funding volume hit a four-year high

Expectation Mismatch: BOJ vs. Market

- Markets expected BOJ to stay cautious, fearing economic disruption. But BOJ saw rising inflation and wage growth as signs of resilience—and hiked rates to stabilize the yen and contain price pressures.

- Sudden yen surge led to risk asset liquidation and yen repayment pressure, sparking black swan concerns.

Yen rose ~8%, from 153 to 144 by Aug 5

Reference

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Thanks for watching