The Daily Dish

The Yen to Buy Yen

DOUGLAS HOLTZ-EAKIN | AUGUST 10, 2026

This past week, the U.S. Treasury intervened to prop up the Japanese yen. Mechanically, the Treasury used its holdings of euros to buy the yen, raising the value of the yen. This is really, really unusual and raises a number of questions.

Question one is why did the United States prop up the yen? There have been a number of suggested explanations. The Japanese are an ally, and they wanted to raise the value of the yen; the Trump Administration was just selflessly trying to help out an ally. Or perhaps it wasn't selfless. Perhaps the administration wanted to keep Japan out of financial turmoil so that trade agreements struck in 2025 would not be disrupted. Or, maybe, something triggered Secretary Bessent's inner currency trader and he decided to make a buck trading on the yen. It remains unclear.

Question two is why sell euros to make the purchases? This seems to revolve around the outlook for U.S. interest rates. If the Japanese sold off their U.S. Treasury holdings (they are the largest foreign holders of Treasuries), the downward pressure on price would raise interest rates on Treasuries. With the administration intervening on their behalf, it would not do much good if the United States sold Treasuries to buy yen. Interest rates would be pushed up anyway. Using the euro avoids the direct pressure on interest rates.

Which brings us to the third question: Will it work? To answer that, it is useful to remember that one buys a share of stock in a company in order to receive dividends. And a company can only pay dividends if it is sound and can generate the earnings necessary. In the end, the willingness to buy stock, and the value of the stock, is entirely dependent on the underlying fundamentals — products, prices, management, workers, and so forth. The same is true of the willingness to buy company debt. Yes, the apparent attraction is the interest rate paid, but that interest will only be paid if the same underlying fundamentals are sound.

Countries are no different. The yen is weaker because global investors are less interested in buying things Japanese — including the debt of the Japanese government — because they think the fundamentals will deliver less. The intervention does not change that. It disguises it for a while by artificially inflating the yen's value. So, it might change things temporarily — maybe enough for a currency trader to cash in — but not permanently. Really fixing things means fixing the economic fundamentals in Japan.

The same applies to U.S. Treasury interest rates. Bond sales would sharply raise interest rates only if investors are already concerned by the amount of debt outstanding. Using euro sales doesn't change that; only making fundamental changes to the U.S. fiscal outlook will have a lasting impact.

In the end, last week's machinations — and any more that will follow — are just fussing around the edges while avoiding the real job: fixing the outlook for deficits and debt.