

ECONOMIC RESEARCH – JUNE 2026

INVESTMENT INSIGHT

JAPAN



- ✓ The yield curve is under pressure from forced monetary tightening
- ✓ A 0.25% rate hike won't be enough to boost the yen
- ✓ The BoJ's monetary pivot will weigh on the Nikkei

IS THE BOJ'S SHIFT ENOUGH TO BOOST THE YEN?

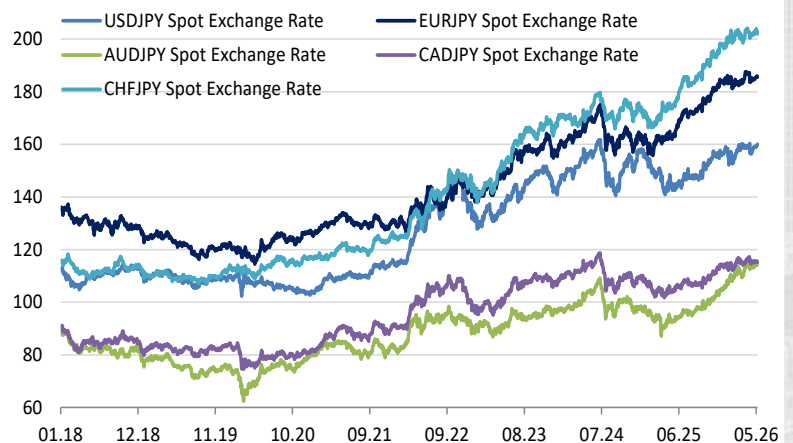
JGB Yields: Forced Curve Steepening

The brief stabilization in Japanese bond markets has been shattered by the yen plunging past 160 JPY/USD, forcing the 10-year Japanese Government Bond (JGB) yield to break technical resistance and aggressively climb above 2.5%. This shift is entirely driven by a cost-push crisis and an embedded risk premium as the market prices in an expected +3.5% wholesale inflation (PPI) spike for Q3. Investors are also front-running an imminent Bank of Japan policy rate hike to 1% and a severe reduction in its monthly debt-purchase programs. Low coupons cannot offset these capital losses.

Arbitrage Traps and Missing Foreign Capital

Despite the rapid rise in absolute Japanese yields, the structural spread against U.S. Treasuries and European Bunds remains far too wide to attract large-scale international capital inflows. Global asset managers are remaining firmly on the sidelines, viewing the JGB market as a high-volatility zone paralyzed by imported energy shocks that are actively freezing the domestic services sector. A genuine turning point for fixed-income arbitrage will only occur once rising short-term rates finally choke off currency speculation and transform JGBs into a viable carry trade asset. Until long-term yields find a much higher, lucrative plateau, international capital flows will continue to bypass Tokyo.

Yen Exchange Rate Trends Against Major Currencies



Sources : Bloomberg, BBGI Group

Capital Flight Outpaces BoJ Rate Tweaks

The yen's historic collapse is increasingly driven by structural capital flight that a standard 0.25% interest rate hike will completely fail to reverse. Domestically, massive institutional players like life insurers and the Government Pension Investment Fund (GPIF) are executing a deep reallocation, selling yen en masse to capture superior yielding tech assets and bonds in the U.S. and Europe. This structural institutional drain is severely compounded by retail investors using reformed tax-free savings accounts (NISA) to funnel scheduled, monthly cash flows directly out of the currency and into dollar-dominated global index funds.

The Impending End of the Weak-Yen Nikkei Tailwinds

The exceptional earnings-per-share growth that propelled the Nikkei upward—fueled by export conglomerates converting overseas revenues back into a depressed currency—is entering a vulnerable consolidation phase. While corporate Japan previously operated as a global safe haven away from Chinese market volatility, the index's upward momentum is expected to stall as the central bank orchestrates its June currency intervention. Any meaningful recovery or stabilization of the yen will quickly trigger heavy profit-taking across multi-national equity listings that are highly sensitive to export pricing. This monetary shift leaves the index dangerously exposed to the underlying fragility of the local consumer economy.

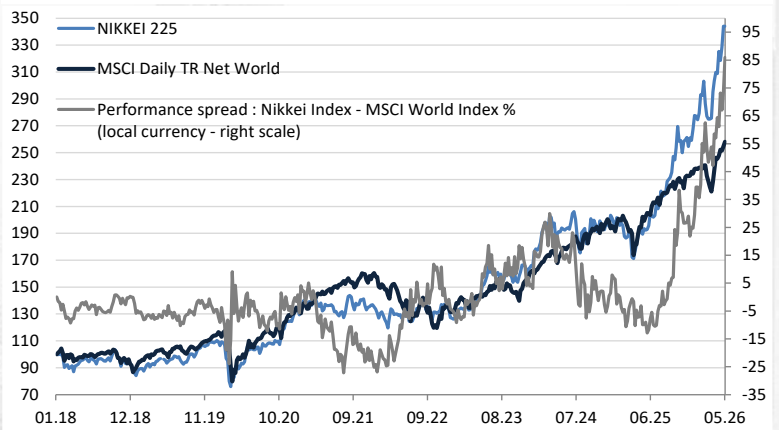
Domestic Sectors Exposed to Consumer Freeze

As multinational conglomerates navigate the upcoming currency pivot, purely domestic equity sectors are facing severe selling pressure from the acute slowdown in local retail velocity. The widening gap between exceptionally profitable global tech giants and domestic-facing services is leaving the broader index highly unbalanced and sensitive to international trade shocks. Local firms are finding that rising input costs can no longer be offset by financial engineering like share buybacks or dividend increases when aggregate demand is collapsing. This internal economic disconnect is forcing active portfolio managers to cut exposure to cyclical domestic consumer segments.

Severe Margin Drag and SME Bankruptcies

The dual burden of rising domestic borrowing costs and an exorbitant energy import bill is rapidly accelerating credit risks across lower-tier industrial supply chains. Squeezed tightly between defensive household spending and soaring wholesale prices, local small-and-medium enterprises (SMEs) lack the financial cushion to survive the BoJ's necessary tightening cycle. This severe operational margin compression is expected to translate into an elevated wave of corporate restructurings and technical insolvencies by the close of 2026. Ultimately, the destruction of these foundational domestic suppliers will limit the wider economy's long-term productivity and industrial recovery.

Indices Nikkei et MSCI World



Sources : Bloomberg, BBGI Group

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