TraditionData.

USD/JPY volatilities return to pre-intervention levels, mostly…

By John Crisp, Head of FX Product and Strategy, TraditionData

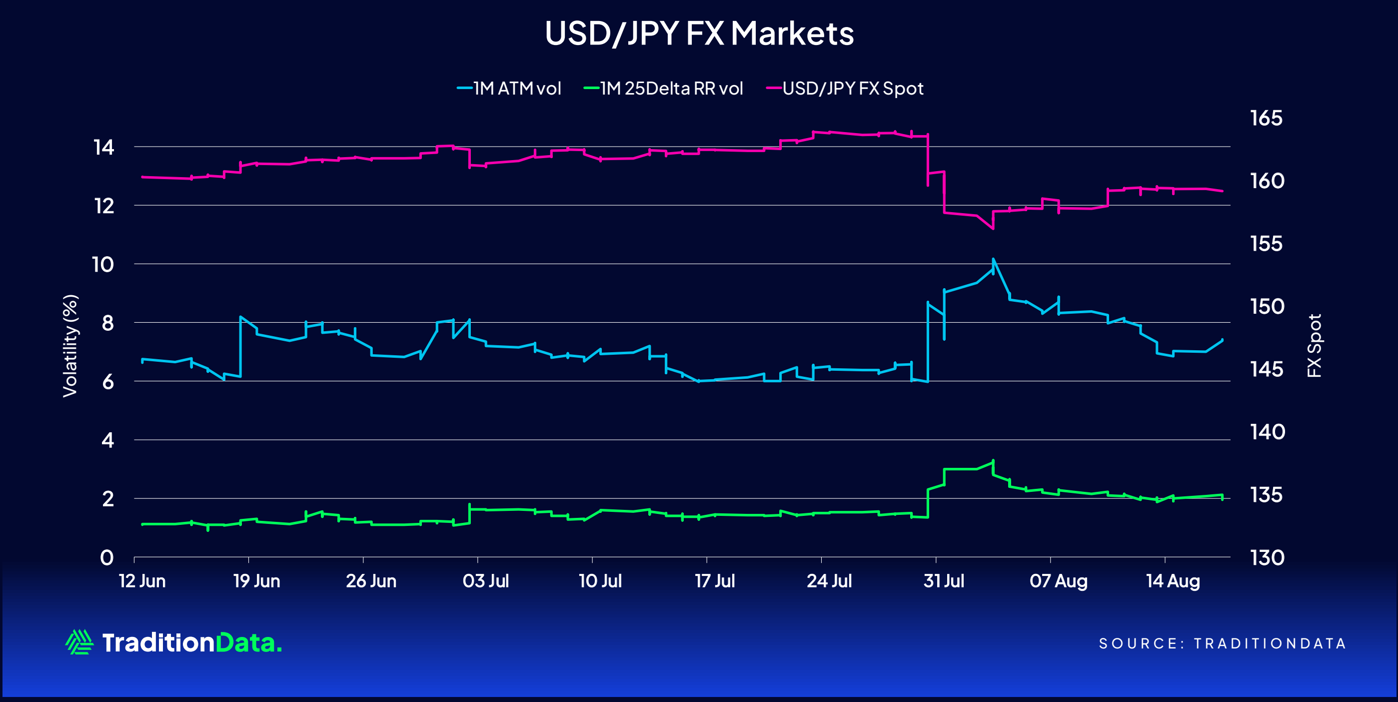
The joint intervention by the Bank of Japan and U.S. Treasury on July 30-31 had the intended impact on USD/JPY FX spot. Over that time JPY strengthened from over 163.50 to lower than 156.00 against USD – levels last seen in early May.

Predictably, USD/JPY volatility reacted, most noticeably at the short end of the curve.

1 month ATM (at-the-money) vols jumped from 6.2% to 8.7% in the space of 7 hours on July 30, topping 10% by the start of trading on Monday August 3. Simultaneously, 25 delta risk reversals moved from 1.55% JPY puts over JPY calls to 2.30% on July 30, increasing to 3.4% by August 3. Butterfly prices were largely unaffected.

The increase in ATM pricing shows options traders anticipating increasing fluctuations in spot levels post-intervention. The increase in risk reversals reflected options traders pricing a greater likelihood of returning back to JPY weakening. Both outcomes materialised with USD/JPY spot back around 160.00 and vol levels having by and large reverted to levels seen prior to the intervention, with 1 month ATM vols below 7.5%.

However, the options market continues to signal caution. 1 month risk reversals are still at 2.0% JPY puts over calls predicting greater probability of JPY weakening in the future.



Contact us to learn more:
www.traditiondata.com/contact-us

Following this direct FX market intervention, expectations are growing that this will be reinforced by monetary policy decisions:

- An anticipated Bank of Japan rate hike (with the 2-year JGB (Japanese Government Bond) currently yielding 1.69% versus the pre-intervention level of 1.44%)
- The Fed is expected to leave rates unchanged (with the 2-year US Treasury currently yielding 4.17% versus the pre-intervention level of 4.22%)

These developments would narrow the interest rate differential which could make yen-funded carry trades less attractive, potentially encouraging repatriation of funds to Japan, providing further support to the yen.

These developments highlight how quickly events can propagate through FX spot, volatility and rates markets.

For market participants, having access to live OTC market data can be critical to understanding these moves as they happen — rather than after the fact.

All FX spot, FX volatility and fixed income data referenced in this analysis is sourced from TraditionData, covering data from the Tradition and TFS Volbroker businesses.

To see how live wholesale OTC data can help you stay ahead of fast-moving FX markets, get in touch with our team to find out more.

Article author:

John Crisp

Head of FX Product and Strategy, TraditionData

This article is produced by

TraditionData.

This article is produced by TraditionData. At TraditionData we provide leading insights from our extensive suite of OTC market data, including global coverage across FX, interest rate derivatives, fixed income, and commodities.

TraditionData delivers precise, validated price data across all active inter-dealer markets in the region and globally, direct from Tradition's market-leading business operating in more than 30 countries.

Tradition provides real-time pricing across 200+ products and more than 200,000 instruments. TraditionData equips financial institutions with trusted insights for risk management, valuation, validation, surveillance, trading and analytics across complex and opaque markets.

Related market data products

FX options →

Credit & fixed income →

Forwards & spots →

Japanese retail FX →

Contact us to learn more:

www.traditiondata.com/contact-us