BASE INVESTMENTS SICAV

IS THAT THE JAPANESE TURNING POINT? - DECEMBER 2025

Yen, traditionally a very strong currency, has for several years now been undergoing a very sharp and deliberate depreciation. Under what conditions could this long phase come to an end?

Source: Banca del Sempione SA

On October 4, foreign investors who had bet on an appreciation of the Japanese yen suffered yet another disappointment: from the internal elections of the Liberal Democratic Party (LDP), the hegemonic party in the country's political landscape, the leadership of Sanae Takaichi unexpectedly emerged, making her the first woman to be appointed Prime Minister in the country's history. The economic program that led her to victory envisages more expansionary fiscal policies supported by an extremely accommodative monetary stance. The foreign exchange market reacted negatively, fearing that the long-awaited interest rate hikes by the Bank of Japan may fail to materialize and that fiscal stimulus could translate into higher inflation and deeply negative real rates.

The trend of depreciation of the Japanese currency dates back to 2012, when then–Prime Minister Shinzo Abe launched a political and economic shift aimed at pulling Japan out of the doldrums of anaemic growth characterized by a total lack of inflation. The objectives of these reforms were only partially achieved, but one of the most tangible outcomes was the continuous weakening of the yen, which until then had been a structurally strong currency. Suffice it to note that since that time the Japanese currency has lost more than 50 percent against Swiss franc, despite fairly similar inflation rates between the two economies.

One possible interpretation of this depreciation can be found in Japan's relationship with a rapidly rising China from an industrial perspective: historically, the two major Asian powers operated in clearly distinct segments—high-tech manufacturing in the case of Japan and low value-added goods in that of China.

Over the past decade, Chinese manufacturing has become competitive even in high value-added segments, threatening the Japanese economic model based on exports and structurally positive current account balances. A weak yen helps sustain the competitiveness of Japanese industry, at the expense of consumers, whose purchasing power is significantly eroded.

However, the pursuit of competitiveness through depreciation appears to have gone very far, leading to a situation of pronounced undervaluation that is not easily sustainable. In this regard, the return of inflationary pressures and the rise in yields on the long end of the bond yield curve are signals of a system at risk of losing its balance. The election of Takaichi suggests that, at least in the short term, no policy reversal is forthcoming and that the realignment of the yen toward levels more consistent with its fundamentals will have to wait. It is therefore likely that the currency may strengthen only in the event of a sharp economic slowdown in the United States, acting as a safe haven in risk-off market environments.

For a more durable appreciation trend, it may be necessary to wait for an economic or political event leading to a structural appreciation of Asian currencies, including the Chinese yuan, thereby allowing Japan to revalue its currency without fearing a loss of competitiveness vis-à-vis neighbouring exporters. Alternatively, the disadvantages brought about by an excessively weak currency and deeply negative real interest rates could eventually prompt a new shift in domestic policy. Until then, the yen risks remaining a tool useful only from a tactical perspective, rather than as a strategic portfolio component.

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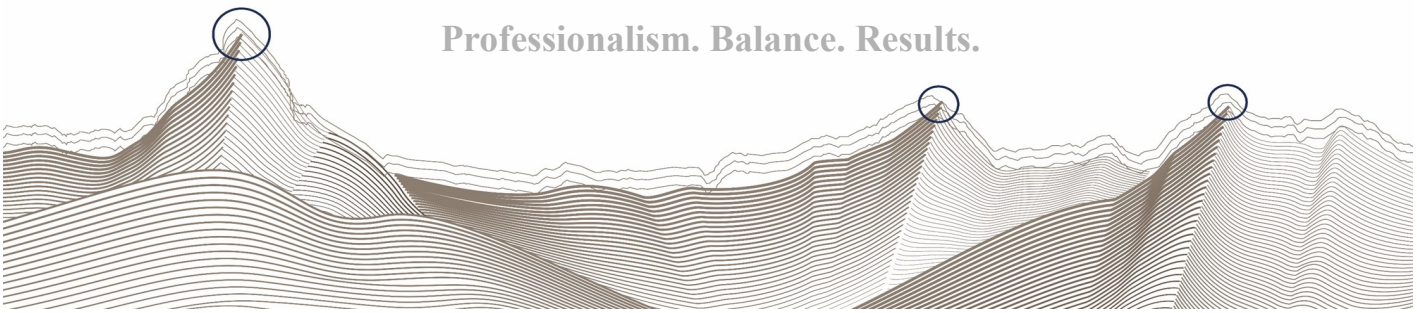
Giorgio Bertoli, Investment Manager at Banca del Sempione. Alongside, the evolution of the exchange rate between the Swiss franc and the yen highlights a clear trend over more than a decade: steady depreciation.



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