

Markets

Hedge Funds Post Biggest Retreat on Bearish Yen Bets Since 2011

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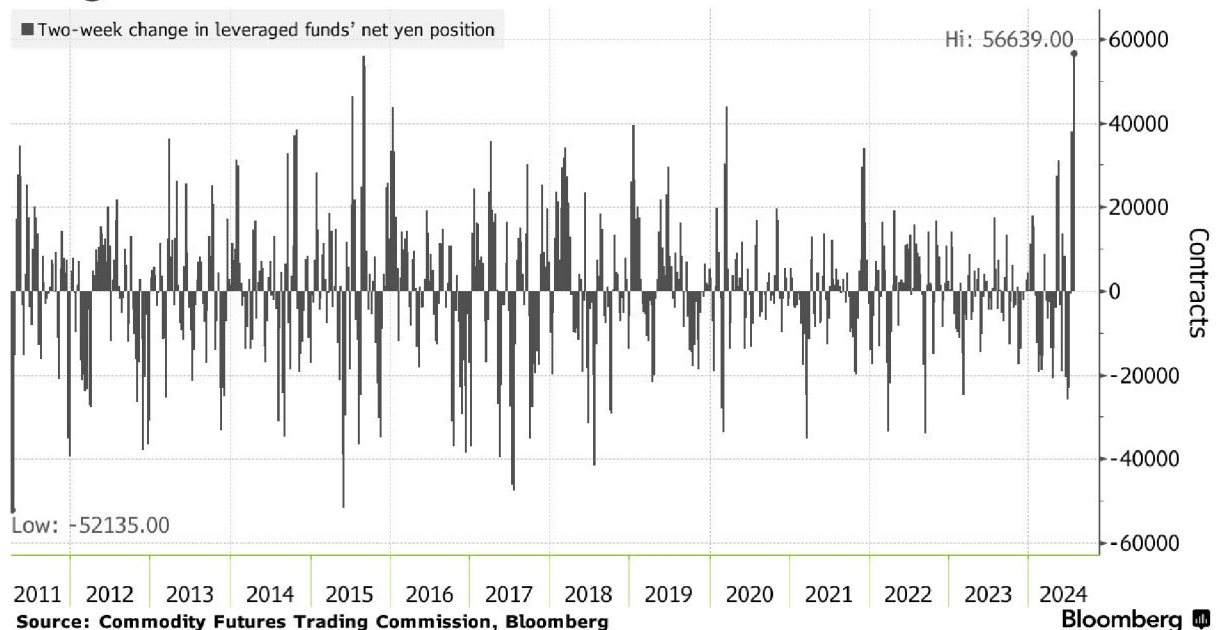
July 29, 2024 at 3:24 AM GMT+2

Hedge funds beat a hasty retreat on bets against the yen as the once-beloved carry trade crumbled.

Leveraged investors slashed 56,639 net short positions on Japan’s currency over two weeks to July 23, marking the biggest capitulation since early 2011, Commodity Futures Trading Commission data showed.

While they’re still short, the funds are now the least bearish since February, marking a stunning pivot in sentiment on expectations interest rates are finally set to tip in Japan’s favor. The yen’s advance also coincided with the mass abandonment of the carry trade – a strategy that uses low yielding currencies like the yen to fund purchases in higher yielders such as the Mexican peso.

Hedge Funds Cut Yen Shorts in Earnest



“Recent yen strength has been driven by expectations of a hawkish Bank of Japan decision this week,” Win Thin, global head of currency strategy at Brown Brothers Harriman & Co., wrote in a note. “If the BOJ disappoints, then much of that rally will quickly reverse.”

Investors' increasingly bullish conviction on the yen will be put to the test this week with the BOJ and Federal Reserve policy decisions due. Swaps traders are pricing in about a 50% chance of a BOJ hike on Wednesday, with any dovish commentary from officials having the potential to wreck the currency's recent advance.

The yen has advanced about 5% after a suspected double-whammy market intervention from Japanese authorities to boost the currency earlier this month. It was little changed against the dollar on Monday to trade around 153.59.

"It's commodity trading advisors that are unwinding their positions," said Shoki Omori, chief desk strategist at Mizuho Securities Co., referring to hedge funds that trade in futures and options. After the BOJ and the Fed policy decisions this week, "the unwinds will stop and go the other way."

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[Yen's Gain Sparks 'Widespread Liquidation' Across Markets](#)

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