

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

Marco Lau

Treasury Research Manager

marco.lau@shacombank.com.hk

+852 2841 5450

12 May 2026

An Activist Paradigm

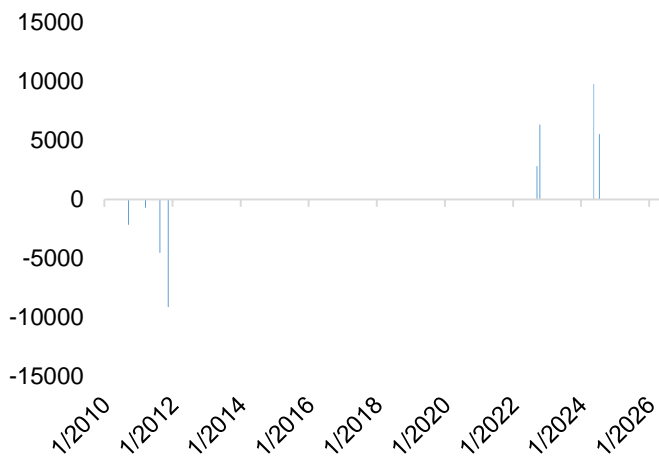
- In previous episodes in 2022 and 2024, the time interval in between firing off shots number one and two were purposely lengthened by regular MoF's jawboning. This time is different. Its trigger finger got itchy again in just a few days.
- The MoF apparently believed that successive, not scattered, interventions help dispel the prior standard. But it has done itself no favours by dismissing traders' warning and merely treating the symptoms.
- Time isn't on its side neither. Fuel subsidies will cost the Takaichi government about JPY400 billion a month. It is a matter of time before a supplementary budget will be rolled out.
- Unless the MoF is no longer perceived a populist valet, FX intervention seems an omen of broader trouble to come.

It feels like we are living in the best of all possible worlds. The Gulf War has taken a sharp turn for the better, and the Fed's tightening campaign is nipped in the bud. Meanwhile, the earnings release from A.I. behemoths literally couldn't be better. Unlike a fairy tale however, not everyone lives happily thereafter. The Japanese officers get mad.

What make their blood boil is the ongoing JPY depreciation in spite of the picturesque macro backdrop. A not-so-gentle nudge to market forces in desired direction, the fiscal activists judged, may be required. So the Ministry of Finance (MoF) stepped in, its first since July

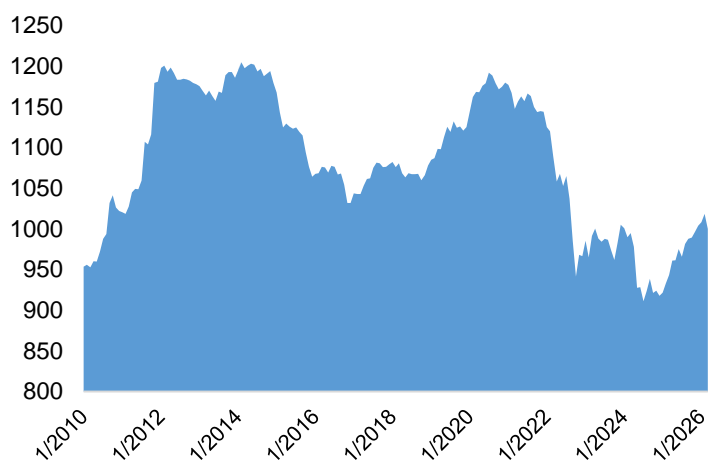
2024. Consuming more than JPY 5 trillion on 30 April, USD/JPY plunged by roughly 5 yen to the mid-155s. Incensed by yen shorter, MoF was believed to have spent JPY4.7 trillion to purchase JPY again on 6 May. This is comparable to the largest yen-buying intervention on record of JPY 5.9 trillion on April 29, 2024 and JPY 5.6 trillion on October 21, 2022.

Exhibit 1: Intervention Size by MoF (JPY bn)



Source: Bank of Japan, Shanghai Commercial Bank

Exhibit 2: FX Reserves Held by BoJ (US\$ bn)



Source: Bank of Japan, Shanghai Commercial Bank

The timing is a mystery all its own. In previous episodes in 2022 and 2024, the time interval in between firing off shots number one and two were purposely lengthened by regular jawboning. As such, the MoF can sting out the entire operation of intervention without exhausting the usable FX reserves. This time is different. MoF's trigger finger got itchy again in just a few days. What gives? Thomas Watson summed it best, "if you want to succeed, raise your error rate." The MoF apparently believed that successive, not scattered, interventions help dispel the prior standard. It's an intriguing idea, but does it hold up?

The past few decades have seen a few false dawns orchestrated by MoF's intervention. In both 2022 and 2024, monetary assault did not shield the JPY from retreating back to its pre-intervention levels. Defeat on its own isn't enough to discredit an idea. It is naivety that tarnishes an idea. The MoF has done itself no favours by dismissing traders' warning about the underlying problems and merely treating the symptoms.



Odds are the JPY holders will need another adrenaline hit. Time isn't on their side. Fuel subsidies will cost the Takaichi government about JPY400 billion a month. It is a matter of time before a supplementary budget will be rolled out. Another hemorrhaging budget would likely result in another round of sell-off in super-long JGBs, akin to the hefty liquidation in November 2025.

MoF's cling to failing practice is not out of intellectual laziness, but its cardinal sin of overlooking the fiscal profligacy. The bottom line is, unless the MoF is no longer perceived a populist valet, FX intervention seems an omen of broader trouble to come. Yen longs remain an unsettling place to be.

UK

As expected, Labour suffered a heavy defeat in local elections. Starmer faces no immediate pressure to step down, while the gilt market suggests that the associated risk premium remains in place.

EU

ECB officials broadly agree to stay on hold, noting the divergence from 2021-2022. They stand ready to act decisively should energy prices begin to pass through to wages and inflation expectations.

Japan

The BoJ has raised its inflation forecasts for the next two years amid the US-Iran conflict. Rate hikes are inevitable, though no clear timing has been signaled. The MoF is actively intervening to support the currency, but the effectiveness is expected to be limited.



US

Driven by job gains in healthcare and transportation, US employment remains robust. While hawkish FOMC members object to the easing bias in the post-meeting statement, consensus on holding rates steady remains intact. With gasoline prices breaching \$4.5 per gallon, the potential pass-through of higher energy costs to wages and inflation expectations will be key to the future rate path.

Chinese Mainland

China's export of integrated circuit and automobiles surged in April, driving further expansion of the trade surplus and supporting a stronger RMB. Trump's state visit will determine the future direction of US-China trade.

Foreign Exchange Outlook

<p>USD</p> 	<p>Overweight Neutral Underweight</p> 	<p>The dollar spent most of April on the back foot, as the safe-haven premium fades due to ceasefire talks. Still, it's hard not to wonder if the investor is a bit ahead of itself on the prospects for a quick end to the Hormuz blockade. The flow of oil through the Strait of Hormuz is currently running at less than 5% of pre-war level. As long as the A.I. plays stay hot as a pistol, it puts a floor under the greenback.</p>
<p>EUR</p> 	<p>Overweight Neutral Underweight</p> 	<p>The euro held up relatively well, but its gain was markedly milder than that of other risk-sensitive currencies. A June hike is no longer a done deal. Trade may well be next on Trump's agenda, with the EU and USMCA on top of the list. The euro could come under broader pressure.</p>
<p>GBP</p> 	<p>Overweight Neutral Underweight</p> 	<p>The pound appeared to have shaken off the humiliating losses suffered by Labour in local elections. The reluctance of cabinet ministers to call for a change in leadership, along with resilient demand-side data, account for this. Potential replacement for Starmer argued that defense spending could be exempted from the fiscal rule. Fiscal woes could erode the rate advantage of the GBP.</p>
<p>RMB</p> 	<p>Overweight Neutral Underweight</p> 	<p>The ongoing AI capex upcycle and the resultant trade surplus sends USDCNH another leg lower. Fast money starts to turn a better buyer. Equity-related buying demands were also seen. The CNY appears poised for further gains.</p>
<p>JPY</p> 	<p>Overweight Neutral Underweight</p> 	<p>Japan's government currently regards USD/JPY 160 as a "defense line." Restoring FX reserves to their prior levels through investment returns would become different if the intervention size scales up further.</p>
<p>AUD</p> 	<p>Overweight Neutral Underweight</p> 	<p>The RBA delivered an expected 25bp hike last week, but Governor Bullock hints that policy is now restrictive. A potential pause in the hiking cycle is possible. Positioning is becoming increasingly stretched, potentially implying a slower pace of gains ahead.</p>



Overweight

Neutral

Underweigh



In spite of the charging bull in global commodities, New Zealand saw its April dairy prices drop by 3.8% over the previous month. The pair is likely to remain rangebound.

Recent Publications

The Swan Song 	Apr 30, 2026
Racing the Turkey 	Apr 29, 2026
Before the Open 	Apr 23, 2026
Armageddon Now? 	Apr 15, 2026
A Time to Gate 	Mar 31, 2026
Nowhere to Hide 	Mar 25, 2026
On Hold for Longer 	Mar 19, 2026
A Class of Its Own 	Mar 16, 2026
Trump's Doom Loop 	Mar 4, 2026
Novelty as Guilty 	Feb 26, 2026
Software as Lunch Table 	Feb 12, 2026
Too Much of a Good Thing 	Feb 3, 2026
Slipping from Grasp 	Jan 29, 2026
Greener Grass on the Other Side 	Jan 22, 2026
2026 Global Economic & FX Outlook 	Jan 13, 2026
Have Yourself a Cosy Christmas 	Dec 11, 2025
Cutting in the Vacuum 	Oct 30, 2025
No More Tears? 	Oct 6, 2025
Threading the Needle 	Sep 22, 2025
Easing to Last 	Sep 18, 2025
Beyond Succession 	Sep 9, 2025
Cooking the Book 	Sep 2, 2025
Going Mad in Its Own Way 	Aug 19, 2025
TACO Bites 	Aug 1, 2025
Too Hot to Handle 	Jul 31, 2025
Mind over Matter 	Jul 21, 2025
Through the Roof 	Jul 8, 2025
The World as It Is 	Jun 19, 2025
Bill Me Faster 	Jun 12, 2025
Ball in the Court 	Jun 2, 2025
Nature Abhors a Vacuum 	May 26, 2025
Beyond the Maximalist Point 	May 15, 2025
Better Late Than Wrong 	May 8, 2025



Disclaimer - Investment Involves Risk

Investment Risk Disclosure

- The following risk disclosure statement cannot disclose all the risks involved and does not take into account any circumstances that are unknown to Shanghai Commercial Bank Limited (the “Bank”). Investment involves risks. Securities, Investment fund and Bonds are investment products. The price of investment products may go up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying or selling investment products. Any past performance figures shown are not indicative of futures performance. Part of the investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant offering documents for detailed information, including but not limited to Risk Disclosures, prior to any investment subscription. The products described herein may not be suitable for all people. The decisions to invest are made by customers and customers should not invest in investment products unless the intermediary selling them has explained to them that the product is suitable for them having regard to customers’ financial situation, investment experience and investment objectives. Customers should not make any investment decisions based on this document alone. Customers must make their own assessment of the information provided in this document. Customers should carefully consider whether any investment products or services mentioned herein are appropriate for them in view of their financial situations, investment experiences and investment objectives. If customers have any doubt about this material or any relevant offering document, they should consult their own independent advisers on the legal, regulatory, tax, investment and financial implications of the investments (including but not limited to estate duty and withholding tax and other tax obligations which may arise from local or foreign investment) as they deem appropriate to ensure that they understand the nature of the investments in order to consider whether the investments are suitable investments for them.
- Investment Risk in Securities: The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Investment involves risks. Any past performance figures shown are not indicative of futures performance. Part of the investment may not be able to liquidate immediately under certain market situation. Customers must ensure to read and understand the information of Shanghai and Shenzhen Connect A-shares trading of the Bank including relevant details, trading rules, risk, fees, restriction and notices before investing in Shanghai and Shenzhen Connect A-shares trading.
- Investment Risk in investment funds: The prices of investment funds fluctuate, sometimes dramatically. The price of an investment fund may go up or down and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling investment funds. Investment involves risks. Any past performance figures shown are not indicative of futures performance. Part of the



investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant investment fund offering documents for detailed information, including but not limited to Risk Disclosures, prior to any investment fund subscription. Customers should carefully consider whether any investment products or services mentioned herein are appropriate for them in view of their financial situations, investment experiences and investment objectives. Please refer to explanatory memorandum or relevant materials of the fund for further information. The subscription of investment fund is subjected to prevailing regulatory requirements and restrictions and relevant terms and conditions of the Bank. The Bank acts as a distributor of the funds managed by fund housed and the funds are the product of the third party fund houses. For distribution of funds – in respect of an eligible dispute (as defined in the Terms of Reference for the Financial Dispute Resolution Centre in relation to the Financial Dispute Resolution Scheme) arising between the Bank and the customers out of the selling process or processing of the related transaction, the Bank is required to enter into a Financial Dispute Resolution Scheme process with the customers; however any dispute over the contractual terms of the product should be resolved directly between the third party fund house and the customers.

- Investment Risk in Bonds: Bond investments are not bank deposits and involve risks, including the possible loss of the principal amount invested. Customers should be aware of the risk of exchange rate fluctuations for bonds denominated in non-local currency, which may cause a loss of principal. Unless specified, these investments are not guaranteed by the Bank. The prices of bonds fluctuate, sometimes dramatically. The price of a bond may go up or down and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of subscribing and redeeming bonds. Investment involves risks. Any past performance figures shown are not indicative of future performance, which the Bank does not guarantee the existence of a secondary market for bonds. Part of the investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant bonds offering documents for detailed information, including but not limited to Risk Disclosures, prior to any bonds subscription.
- RMB is subject to exchange rate risk (only applicable to Individual Customers): RMB is currently not freely convertible. Customers should be aware that they can conduct conversion of RMB at CNH rate through bank accounts, for which it is subject to the requirements specified by the Relevant Authorities from time to time, the requirements specified by the Bank and/ or the RMB position and commercial decisions of the Bank at that moment. RMB Conversion Limitation Risk (only applicable to Corporate Customers): RMB is currently not freely convertible. Corporate Customers should be aware that they can conduct conversion of RMB through bank accounts, for which it is subject to the requirements specified by the Relevant Authorities from time to time, the requirements specified by the Bank and/ or the RMB position and commercial decisions of the Bank at that moment. RMB investments are subject to exchange rate fluctuations which may provide both opportunities and risks. The fluctuation in the exchange rate of RMB may result in losses in the event that the customer converts RMB into HKD or other foreign currencies. If

From Shanghai to Hong Kong,
Connecting the World
傳承滬港 連繫國際

Incorporated in Hong Kong since 1950 - with reach in
New York, San Francisco, Los Angeles, London, Shanghai and Shenzhen.
1950年香港註冊成立，業務網絡遍及
紐約、三藩市、洛杉磯、倫敦、上海及深圳。



the home currency of the customer is different from the Investment product currency or the Investment product's reference currency, changes in currency exchange rates may erode the investment gains or widen the investment losses of the customer.

- The information of this document has not been reviewed by the Securities and Futures Commission of Hong Kong or any regulatory authorities in Hong Kong.

Important Notice / Disclaimer:

- This document is issued and solely owned by the Bank. This document is for general information and reference only and does not constitute any offer, solicitation, invitation, advice or recommendation to subscribe, trade, redeem or sell for any deposits or investments. No representation, guarantee or other assurance as to the outcome of any investment has been made or will be given to you by or on behalf of the Bank.
- This document contains information from third party, which may be incomplete or simplified. Although the information herein contained is obtained or compiled from sources the Bank believes to be reliable, it has not been independently verified. The Bank cannot and does not represent or warrant the accuracy, validity, reliability, timeliness or completeness of any such information (whether in whole or in part), and accepts no liability for any loss or damage howsoever arising from or in reliance upon the whole or any part of such information or opinions (unless due to the negligence or wilful default of the Bank, the Bank's authorised officers, employees or agents). The Bank reserves the right to amend all or any part in this document, which all views, forecasts and estimates constitute judgments made before the publication date, and are subject to change without further notice. This document contains certain statements that may be deemed as forward-looking statements involving risks and uncertainties. Customers should be aware that actual results may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements due to different factors, risks and economic situation.
- The information herein contained may not be reproduced, quoted, distributed, disclosed or published (whether in whole or in part) in any media for any purpose without prior express written consent from the Bank. The Bank accepts no liability for any loss arising from or in reliance upon such information or contents. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be contrary to the laws or regulations.
- The Bank and its affiliates or subsidiaries, and/or their officers, directors, agents and employees may have positions in and may trade for their own account in all or any of the securities or investments mentioned in this document. Companies within the Bank may have provided investment services or underwritten in relation to these securities. Commission or other fees may be earned by the Bank respect of the services provided by them relating to these securities or investments.

From Shanghai to Hong Kong,
Connecting the World
傳承滬港 連繫國際

Incorporated in Hong Kong since 1950 - with reach in
New York, San Francisco, Los Angeles, London, Shanghai and Shenzhen.
1950年香港註冊成立，業務網絡遍及
紐約、三藩市、洛杉磯、倫敦、上海及深圳。



Conflicts of Interest Disclosure:

- The Bank and its affiliates or subsidiaries, and/or their officers, directors, agents and employees may have positions in and may trade for their own account in all or any of the foreign exchange, securities or investments mentioned in this document, or engage in any trading activities or have any financial interests in relation to the subject ETFs. Also, they may have business or other relevant relationships with the subject ETFs and/or the management company of the ETFs. The Bank may have provided investment services or underwritten in relation to these securities. Commission or other fees may be earned by the Bank respect of the services provided by them relating to these securities or investments.