

Rising on Borrowed Tides: How Global Flows Shape Japan's Reflation

EBC Financial Group highlights how foreign inflows and yen-funded carry trades are sustaining Japan's rally, while policy risks could reverse momentum.

JAPAN, September 10, 2025

/EINPresswire.com/ -- Japan's equity rally is frequently described as evidence of reflation, but the drivers tell a different story. According to [EBC Financial Group \(EBC\)](#), foreign investors have been the main force behind the surge in Japanese equities, while domestic institutions and households have been net sellers. At the same time, the yen carry trade remains a core source of global liquidity, channelling cheap Japanese funding into higher-yielding assets worldwide.



Reflation in focus: Yen-funded carry flows are inflating global markets, with tech emerging as the biggest bubble risk.

David Barrett, CEO of EBC Financial Group (UK) Ltd, noted that the carry trade remains central to Japan's market dynamic. As he noted in The Japan Times, "Everybody's written about the carry trade, but they've not really written about the carry trade. It's broader, more complex and more convoluted than it's been sold."

Foreign vs Domestic Flows

Foreign investors have injected more than ¥3.5 trillion (US\$23 billion) into Japanese equities this year, driving the Nikkei and Topix to record highs. Domestic investors, however, have pulled money out—selling equities and reallocating into overseas assets. Household investors in particular remain cautious, with surveys showing limited conviction in the sustainability of the rally.

David Barrett noted that this divergence illustrates Japan's reliance on external demand: "The current rally looks less like homegrown reflation and more like foreign-funded optimism. Without

renewed participation from domestic institutions, the risk is that Japan's markets remain vulnerable to sudden changes in global sentiment."

Carry Trade Dynamics

The yen remains central to global liquidity. With the Bank of Japan (BoJ) holding its policy rate at 0.50% and the U.S. Federal Reserve above 5%, the yield gap continues to incentivise yen-funded trades. The dollar-yen pair has been defending the ¥146–148 range after rebounding from its August lows, underlining the persistence of funding pressure on the yen.

EBC analysts noted that the yen's weakness isn't just a currency story - it's the transmission channel for liquidity into global equities, tech, and emerging markets - traders need to watch not only BOJ policy but also U.S. tariff risks, which could shift yield expectations and spark volatility.

Fragile Foundations

The sustainability of both Japan's reflation rally and the global carry trade rests on uncertain ground. Much depends on global rather than domestic conviction. Japanese institutions have increased capital outflows into U.S. Treasuries and European bonds, rather than doubling down on local equities. At the same time, global investors are positioning for a turn in yen strategy, anticipating policy divergence that could eventually strengthen the currency.

Analysts at EBC say that this leaves both the equity rally and the carry trade exposed. A surprise tightening from the Bank of Japan, or a U.S. policy shift that narrows rate differentials, could reverse flows sharply, forcing an unwind of carry positions and weighing on risk assets globally.

David Barrett added:

"Japan's reflation rally is being driven primarily by foreign inflows and supported by yen-funded liquidity. Until domestic investors re-engage, the foundation remains fragile. Any shift in policy or sentiment could reverse flows quickly, with consequences extending beyond Japan's borders."

Trader Implications

EBC analysts underscore that the key variables to monitor are central bank policy and currency dynamics. Any shift in the Bank of Japan's stance—particularly around yield curve control or policy rates—would have immediate consequences for the carry trade. U.S. developments matter just as much: Federal Reserve guidance and tariff-related policy shifts could alter yield differentials and global risk appetite.

In FX markets, EBC analysts suggest that the USD/JPY pair remains a critical barometer; moves around the ¥146–148 range may test the Bank of Japan's tolerance for weakness and increase the risk of intervention. Together, these factors will determine whether Japan's foreign-funded

reflation can be sustained or whether it proves to be another liquidity-driven upswing vulnerable to reversal.

Disclaimer: This article reflects the observations of EBC Financial Group and all its global entities. It is not financial or investment advice. Trading in commodities and foreign exchange (FX) involves significant risk of loss, potentially exceeding your initial investment. Consult a qualified financial advisor before making any trading or investment decisions, as EBC Financial Group and its entities are not liable for any damages arising from reliance on this information.

For more insights on commodity markets visit www.ebc.com.

###

About EBC Financial Group

Founded in London, EBC Financial Group (EBC) is a global brand known for its expertise in financial brokerage and asset management. Through its regulated entities operating across major financial jurisdictions—including the UK, Australia, the Cayman Islands, Mauritius, and others—EBC enables retail, professional, and institutional investors to access global markets and trading opportunities, including currencies, commodities, CFDs and more.

Trusted by investors in over 100 countries and honoured with global awards including multiple year recognition from World Finance, EBC is widely regarded as one of the world's best brokers with titles including Best Trading Platform and Most Trusted Broker. With its strong regulatory standing and commitment to transparency, EBC has also been consistently ranked among the top brokers—trusted for its ability to deliver secure, innovative, and client-first trading solutions across competitive international markets.

EBC's subsidiaries are licensed and regulated within their respective jurisdictions. EBC Financial Group (UK) Limited is regulated by the UK's Financial Conduct Authority (FCA); EBC Financial Group (Cayman) Limited is regulated by the Cayman Islands Monetary Authority (CIMA); EBC Financial Group (Australia) Pty Ltd, and EBC Asset Management Pty Ltd are regulated by Australia's Securities and Investments Commission (ASIC); EBC Financial (MU) Ltd is authorised and regulated by the Financial Services Commission Mauritius (FSC).

At the core of EBC are a team of industry veterans with over 40 years of experience in major financial institutions. Having navigated key economic cycles from the Plaza Accord and 2015 Swiss franc crisis to the market upheavals of the COVID-19 pandemic. We foster a culture where integrity, respect, and client asset security are paramount, ensuring that every investor relationship is handled with the utmost seriousness it deserves.

EBC is a proud official foreign exchange partner of FC Barcelona and continues to drive impactful partnerships to empower communities – namely through the UN Foundation's United to Beat

Malaria initiative, Oxford University's Department of Economics, and a diverse range of partners to champion initiatives in global health, economics, education, and sustainability. ☐☐☐

<https://www.ebc.com/>

Michelle Siow

EBC Financial Group

michelle.siow@ebc.com

Visit us on social media:

[LinkedIn](#)

[Instagram](#)

[Facebook](#)

[YouTube](#)

[X](#)

[Other](#)

This press release can be viewed online at: <https://www.einpresswire.com/article/847679219>

EIN Presswire's priority is source transparency. We do not allow opaque clients, and our editors try to be careful about weeding out false and misleading content. As a user, if you see something we have missed, please do bring it to our attention. Your help is welcome. EIN Presswire, Everyone's Internet News Presswire™, tries to define some of the boundaries that are reasonable in today's world. Please see our Editorial Guidelines for more information.

© 1995-2025 Newsmatics Inc. All Right Reserved.