Currency intervention by the Japanese government/BOJ

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Today, starting at around 10:25 am, the Japanese government intervened in the currency market to sell the yen. As a result, the yen depreciated almost 4.00 yen to 79.50 from the level before the intervention of around 75.60. (as of 3 pm)

[Finance minister Azumi showed his strong stance]

Mr. Azumi stated in the press conference after the intervention that the recent level of the yen had not reflected the true strength of Japanese economy, and was too speculative, so decided to intervene today. At the same time, he added that the intervention was only by the Japanese government though they have been communicating closely with other countries. He expressed his strong will that he would continue to intervene until his mission is completed. Today's intervention was the first since August 4 when the Japanese government spent 4.5129 trillion yen which caused the yen to fall about 3.00 yen. The fact that the yen had depreciated more than 3.00 yen today might indicate that the Japanese government had used more yen this time.

[Latest currency markets]

It should be noted, however, that both the yen and the US dollar have depreciated against many other currencies since the first week of October due to a lower appetite for safe-haven assets after the release of the solution package by EU member countries for their sovereign debt crisis.

For instance, the yen had depreciated against the euro from about 101 to 108 levels since early October. And against the Australian dollar, the yen had also depreciated from about 72 to 81 over a similar period.

Part of the reason of the depreciation of the US dollar against the yen is due to the expectation of additional easing of US monetary policy - several high ranking officials in the Federal Reserve have recently referred to possible QE3, which may trigger a further fall of the US dollar.

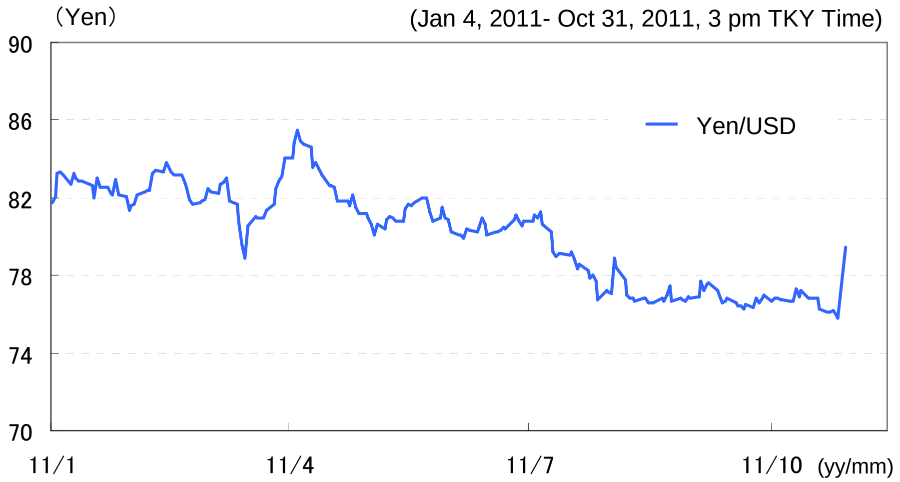
[The effect of today's intervention would last longer this time]

In spite of the large size of the intervention on August 4 it was not very effective as the yen/dollar rate returned to the level before the intervention after just 3 days. A similar result could happen this time, although the effect of the intervention would probably last longer .

Currently, market sentiment is improving in the eurozone and the US, and the risk averse stance of market participants seems to be diminishing. Therefore, it is unlikely that the potential buying pressure on the yen will be large. In addition, the daring sole intervention by the Japanese government just a few days before the G20 meeting was a real surprise for the market, and might suggest that it had already been pre-agreed with the US government. Mr. Azumi stated that he would carry out further intervention until his mission of stabilising the Yen is completed. We note that this Yen intervention can not be viewed in the same way as the recent plan for the Swiss franc. We consider that Swiss Central Bank has set the upper limit for the Swiss franc against the euro, and has successfully prevented too much appreciation of the currency by easing their monetary policies and due to their sizable intervention in their currency market.

The yen/US dollar market will continue to be affected by international factors. However, it seems that further appreciation of the yen, as it is viewed as a risk-averse asset, would not be likely because the comprehensive package for the resolution on the eurozone sovereign debt crisis, which has been the most important factor behind the strength of the yen, has, for the time being, now occurred.

[Trend of the Yen/USD exchanging market]



(Source) Bloomberg