

# JPY: Trading through the line in the sand

USD/JPY trades through levels that triggered intervention previously

Further weakening would hurt fragile Japanese consumers

Expect further intervention imminently should JPY continue to slide

### USD/JPY broken through 160-handle again

- The Japanese currency has recently come under renewed pressure, with the USD/JPY hitting a 38-year high of 160.87 in trading yesterday (June 26), and trading through levels where the Japanese authorities last intervened in the market, which occurred earlier this year on April 29 after the USD/JPY traded up to 160.17 (Figure 1), which was the highest level in 34 years at that juncture.
- The intervention on Apr 29 had a significant impact, resulting in the USD/JPY diving to as low as 154.54 the day itself, and as low as 151.86 within the next 4 trading sessions. But the renewed broad USD strength we have seen recently has seen the USD/JPY being pushed higher as well.
- The 160-handle on the USD/JPY had been perceived as the line in the sand by market participants given the previous intervention there. And with the USD/JPY now through that level, the fear of further intervention looms again. We explore whether or not this is likely to be the case.

### A weakening of the JPY has hurt the Japanese consumers

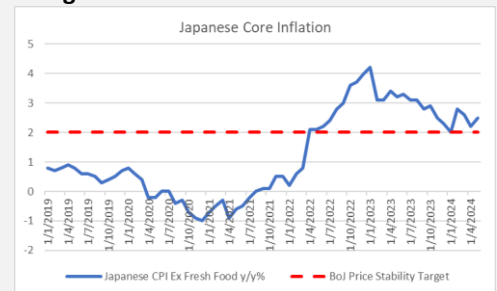
- One would suspect that the weakening of the JPY over the last few years has been somewhat welcome by the Bank of Japan as they looked to fight deflation, given the impact that it has had on domestic inflation through the channel of higher import prices.
- Core inflation has indeed risen over the last few years, initially from the same supply chain constraints faced by the rest of the world, and has been running at or above the Bank of Japan's price stability target of 2.0% for the last 26 months now (Figure 2). Therefore, any further transmission of higher prices through continued currency depreciation wouldn't be as desirable as before to the BoJ, especially any rise of prices above the rate of wage growth, which would upset their gradual normalization of monetary policy.
- Japan GDP growth has been volatile of late, with negative outcomes in two out of the last three quarters. Whilst the currency depreciations have been welcome by the export sector, the picture has been gloomier for the Japanese consumers, with spending contracting consecutively for the last four quarters (Figure 3). Hence, it would be understandable why the government will frown upon any further JPY depreciation, which would adversely impact the purchasing power of consumers.

Figure 1: USD/JPY traded at 38-year high of 160.87 on June 26



Source: Bloomberg

Figure 2: Japanese core consumer prices have been running at or above 2.0% for 26 straight months



Source: Bloomberg; HLBB Global Markets Research

Figure 3: Consumer spending in Japan has been negative for 4 consecutive quarters

Japan GDP and Consumer Spending					
	1Q23	2Q23	3Q23	4Q23	1Q24
Overall GDP Growth (q/q%)	1.1	1.0	-0.9	0.1	-0.5
Consumer Spending (q/q%)	0.7	-0.7	-0.3	-0.4	-0.7

Source: Bloomberg; HLBB Global Markets Research

### The recent moves have been about USD strength but also about JPY weakness

- The recent catalyst for USD/JPY moving higher has much to do with USD strength, with the DXY moving up from around to 104.00 level at the start of the month, to closing slightly above 106.00 as at New York close yesterday (26 June).
- The Japanese authorities have previously tended to intervene during periods of sudden sharp JPY depreciation. And more often than not it was when the JPY was falling in isolation, or at a faster pace against the USD compared to the other major currency pairs.
- Hence, it is worthwhile to pay attention to the major JPY crosses when assessing whether or not intervention is looming. Looking at the EURJPY, we can see that it has risen about 1.5% above the level it was at on Apr 29, when the BoJ last intervened in the market., so the JPY has indeed underperformed in this USD strength backdrop.
- Looking at other major crosses, the story is even more pronounced. The Japanese Yen has underperformed both the GBP and the AUD by larger margins over the same period of time - GBP/JPY and AUD/JPY have risen by roughly 2.6% and 3.3% respectively since the end of April.
- With this picture of underperformance for the JPY against other majors, it is thus increasingly likely that a further bout of USD/JPY strength could indeed imminently set the Japanese authorities into action.

### Conclusion

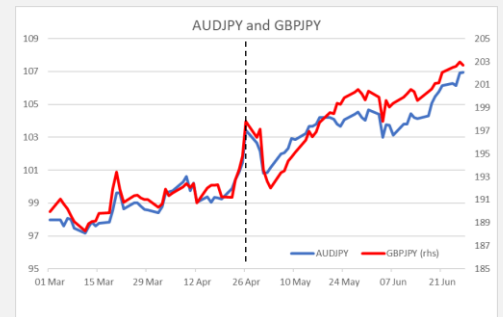
- The Bank of Japan should continue to normalise interest rates gradually to a level closer to the neutral level of rates, and accelerate their quantitative tightening and reduce the size of their balance sheet in the months ahead.
- Fundamentally, we see a stronger JPY ahead as this monetary policy normalization continues to take its course domestically, while other major central bank's move in the opposite direction and reduce policy rates in their jurisdictions leading to a reduction in the policy rate differential between Japan and these countries.
- In the near term, given the weakness of the Japan consumers recently, it is highly likely that the Japanese government's resolve to arrest any further sharp declines in the JPY remains unchanged, and that they would not hesitate to intervene again in the currency markets should this be the case.

**Figure 4: JPY has not only fallen versus the USD, but against major JPY crosses like the EUR**



Source: Bloomberg

**Figure 5: The picture is even more pronounced when looking at other JPY crosses**



Source: Bloomberg; HLBB Global Markets Research

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