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# Market Insight – Foreign Exchange

## Greater stimulus to pressure Yen

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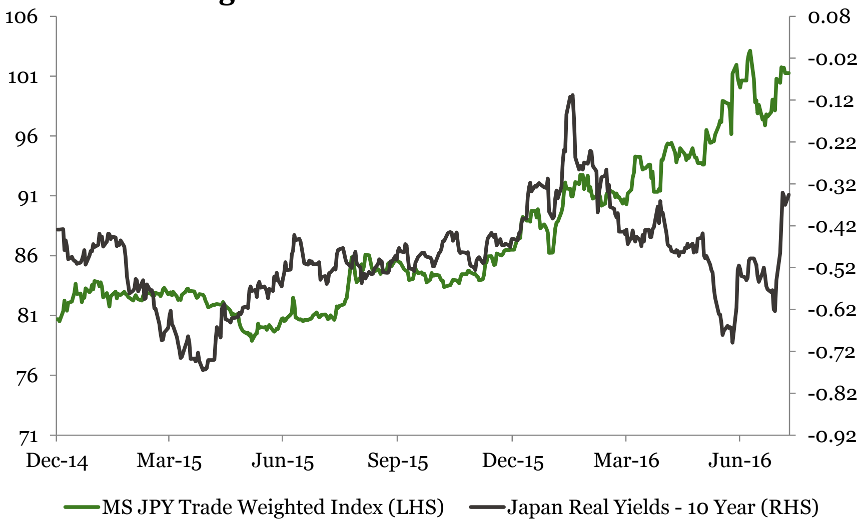
**Yen rally to end**

- In recent weeks, attempts by Japanese authorities (both fiscal and monetary) to boost economic performance have fallen short of market expectations. A surprise ¥28trn fiscal package and an expansion of the Bank of Japan's (BoJ) ETF purchase program both failed to convince investors of near term revival in economic growth and inflation. The disappointment saw the Yen rally 4.5%, undoing its losses from the prior week and bringing the currency's total gain for the year to 17.1% on a trade weighted basis. At its next monetary policy meeting in September, it is likely that the BoJ will commit to implementing greater monetary stimulus and outline a strong resolve to do more going forward. This will be in an attempt to regain credibility and ensure the success of its three pronged easing program in restoring healthy inflation. Further monetary easing would likely see the JPY come under pressure against the US Dollar, a currency which should benefit in coming months from growing expectations of policy tightening.

**"Comprehensive assessment" fears overdone**

- At the BoJ's last monetary policy meeting, it announced that it would be conducting a "comprehensive assessment" of the bank's Quantitative and Qualitative Easing (QQE) programme. This created uncertainty and some concerns that the bank would be either; i) lowering its inflation target or ii) removing elements of its easing programme. However, in a recent speech the BoJ's Deputy Governor, Kikuo Iwata, made it clear that negative rates had been beneficial for the economy and that the review was being conducted in order to achieve "the price stability target of 2% at the earliest possible time". It is therefore unlikely the review will be used as a means of tapering current measures, but rather as an assessment of what policies would be most effective going forward.

**Figure 1: Yen remains overvalued**




Source: Bloomberg, ETF Securities

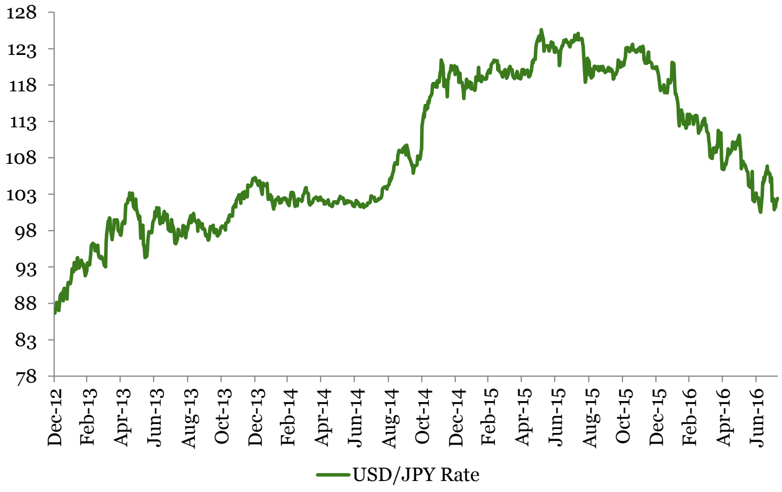
**Retracement likely**

- Rising yields in recent weeks have supported the JPY but the currency appears overextended against what they would imply on an absolute basis (see Figure 1). Net speculative positioning remains at record highs for the Yen, but there are some early signs of a turn in sentiment, with shorts bottoming and longs declining. A strong BoJ policy response in September could spur

*All figures quoted are sourced from Bloomberg unless stated otherwise.

a reversal in market positioning and cause a sharp JPY retracement. The USD/JPY currency pair has recently been struggling to break through a key support level at 101.96 (a key sticking point for the pair between Decemebr-13 to August-14, see Figure 2), further failure to do so will likely see the pair rebound from its current range (JPY weakening).

**Figure 2: USD/JPY hits support**




Source: Bloomberg, ETF Securities

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