

# FX Viewpoint

Currencies  
Global

## JPY: Domestic developments in focus

- ◆ In the general election on 27 October, Japan's ruling coalition lost its lower house majority for the first time since 2009
- ◆ As widely expected, the BoJ kept its policy rate unchanged
- ◆ USD-JPY is likely to hinge on developments in the US over the near term, but will possibly fall later when the yield gap narrows

As we approach the end of the year, **the JPY is still the worst performing currency in the G10 space**, losing c7.2% against the USD year-to-date and c5.5% against the USD in October (*Bloomberg*, 31 October 2024).

While the JPY's underperformance in October was due to continued USD strength on the back of rising US yields and political uncertainty in the US, markets seemed to be concerned about Japan's political uncertainty amid the lower house election result and potential implications for the Bank of Japan (BoJ). The 27 October snap general election concluded with **the ruling coalition** (i.e., the Liberal Democratic Party (LDP) and Komeito) securing 215 out of 465 seats, **short of the 233 needed for a majority** – marking the first defeat for the ruling coalition since 2009. Some of the smaller parties that the ruling coalition would likely work with – namely the Democratic Party for the People (28 seats) and Japan Innovation Party (38 seats) – have earlier spoken out against the BoJ's recent rate hikes (*Reuters*, 28 October 2024). **Parliament will have to vote on the Prime Minister by 26 November.**

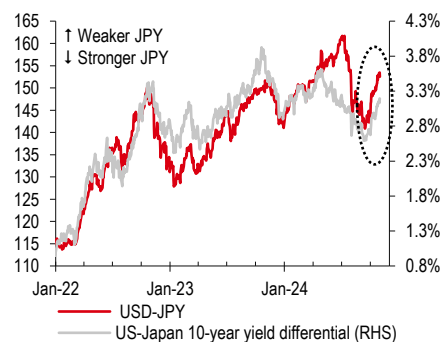
Meanwhile, **the BoJ kept its policy rate unchanged at 0.25% on 31 October**, as widely expected. The BoJ noted that the Japanese economy was moving broadly in line with projections which are almost the same as those made in July (see the table below). The JPY was slightly stronger after Governor Kazuo Ueda mentioned that currency moves are having a big impact on the economy and price trends. **Our economists still expect the BoJ to raise its policy rate to 0.50% in January 2025**, and markets are now pricing in a c60% chance for such a hike.

### 1. BoJ's key economic projections: October 2024 vs July 2024

Year-on-year, %	2024	2025	2026
<b>Real GDP</b>			
Oct 2024	0.6	1.1	1.0
Jul 2024	0.6	1.0	1.0
<b>CPI excluding fresh food</b>			
Oct 2024	2.5	1.9	1.9
Jul 2024	2.5	2.1	1.9
<b>CPI excluding fresh food and energy</b>			
Oct 2024	2.0	1.9	2.1
Jul 2024	1.9	1.9	2.1

Source: Bloomberg, HSBC

### 2. USD-JPY and its yield differential



It is worth noting that **the recent rise in USD-JPY has been much faster than the widening of the US-Japan yield differential** (Chart 2). The last time a significant gap opened up was in 2Q24, which Japan's Ministry of Finance (MoF) eventually took action to curb what it deemed as speculation and excessive JPY weakness. While such divergence is likely to be noticed by the MoF, **moves in USD-JPY will hinge on US developments over the near term**. Looking further out, **we still think USD-JPY may fall later** with the Federal Reserve (Fed) easing and the BoJ normalising.

**The JPY lost 5.5% against the USD in October...**

**...against the backdrop of rising US yields that support USD strength, alongside political uncertainties in both the US and Japan**

**BoJ comments raise market expectations for a rate hike in January 2025, supporting the JPY**

**With the prospect of monetary divergence between the Fed and the BoJ, USD-JPY is likely to decline moderately over the medium term**

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