

FX Viewpoint

Currencies
Global

JPY: Still more bad news than good news

- ◆ Markets debate over intervention amid a sudden JPY move
- ◆ But with a reluctant BoJ, unsupportive BoP, and speculative trading, the JPY is likely to remain weak...
- ◆ ...probably until the Fed cut rates

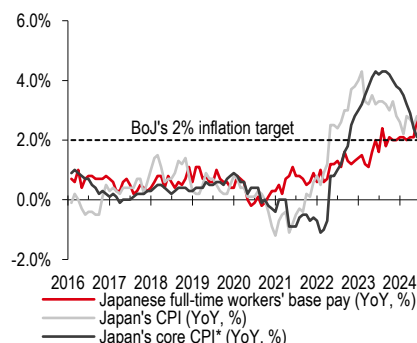
The JPY climbed more than 2% against the USD on 11 July in the wake of softer-than-expected US CPI inflation, prompting a new round of market debate over FX intervention (*Bloomberg*, 11 July 2024). Japan's vice finance minister, Masato Kanda, said that recent moves in the JPY are not reflecting fundamentals and the government generally does not comment on whether it intervened in FX markets (*Bloomberg*, 11 July 2024). Beyond this sudden move, the JPY has remained stubbornly weak against the USD for the following three key reasons, in our view:

1. A reluctant Bank of Japan (BoJ): Base pay for full time workers in Japan is growing at its fastest pace in decades in May (Chart 1). But as inflation has passed its peak and consumption is weak, markets doubt if the BoJ will raise rates decisively. Rates markets are currently pricing in a hike to 25bp only by October 2024 (*Bloomberg*, 11 July 2024), while our economists have a non-consensus view of a BoJ hike on 31 July. For bond purchases, a Bloomberg survey published on 26 June suggests that most analysts expect the BoJ to reduce its monthly government bond purchases modestly to around JPY5-5.5trn (from the current JPY6trn).

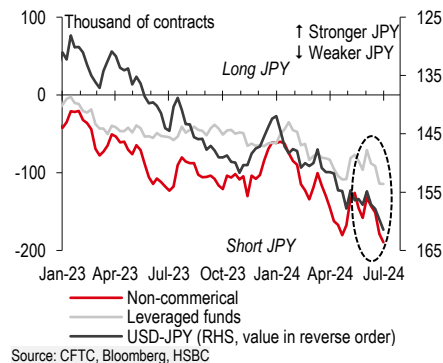
2. Unsupportive balance of payments (BoP): Japan was running a **monthly trade deficit of USD4.2bn on average** in the period of January to May 2024; similar to its 2023 monthly average of USD4bn. Further narrowing of the trade deficit would probably require a large decline in oil imports and/or a recovery in exports. At the same time, **foreign income earned by Japan residents is at a record high level**, as indicated by the primary income surplus (Jan-May monthly average: USD23bn; 2023: USD21bn). **Residents are also trying to accumulate more foreign assets** via outward direct investments (January-May monthly average: USD15bn), or via the purchase of foreign bonds (January-May monthly average: USD9bn), while aggregate data suggests residents as a whole did not make net outward portfolio equity investments in January-May (*CEIC*, 5 July 2024).

3. Speculation. Commodity Futures Trading Commission (CFTC) data indicates that speculative selling of JPY had rebounded to extreme levels as of 2 July (Chart 2).

1. Japan's wage growth and inflation



2. JPY speculative net positions



Until the Federal Reserve (Fed) cuts rates, it may fall upon Japan's Ministry of Finance to put some friction in the upward momentum of USD-JPY.

Markets debate over FX intervention again

The BoJ may normalise its monetary policy at a very gradual pace

Japan still runs a trade deficit, with residents trying to accumulate more foreign assets

Speculative short JPY positioning is at extreme levels

The Fed's rate cut could be a turning point for USD-JPY

Disclosure appendix

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