

# CURRENCY PROFILE FOR JPY

18 May, 2010. Tiffany Burk. European Market Analyst.

## Performance

	GBP:JPY
Current bias for JPY	Positive
Past week	-3.67%
Past month	-6.03%
YTD	-12.42%

## Sources of JPY strength:

- The yen benefits from uncertainties and there are two major fears facing global markets at the moment. The first is the outcome of the UK election. Questions remain over whether the coalition government will be able to put through deficit reduction plans without crippling the economy and thus hurting the global growth outlook.
- The second obvious uncertainty facing global markets at the moment is how the European debt crisis will play out. Uncertainty will continue to drive safe haven flows into the yen.

## Sources of JPY weakness:

- Asian governments have been seen tightening fiscal and monetary policy recently in an effort to slow overheating regional economies. The impact on Japanese growth figures could be negative as exports shrink and could limit the BoJ's ability to increase interest rates for the foreseeable future. This will allow local investors the opportunity to continue using the carry trade
- There is growing concern that Japan could face its own debt crisis with debt to GDP at nearly 200%. Most of the debt is internally funded, which limits exposure to foreign selling pressures, however.
- Deflation continues to haunt the Japanese economy. Core prices fell 1.2% in March, which marked a 13<sup>th</sup> consecutive monthly decline.

## Monetary Policy:

The Bank of Japan is scheduled to meet this week to discuss monetary policy. The BoJ has left interest rates at 0.1% since 2008. In December of last year it created a lending facility for banks, which it expanded in March of this year. The introduction of quantitative easing measures in March prompted some speculation over the independence of the central bank, which has been subject to intense government pressure to do more to fight deflationary forces that have gripped the economy. At its last policy meeting, the governor of the central bank announced that he had instructed staff to look into ways to improve loan growth. Markets expect some sort of new loan program to be announced at this week's meeting or at the MPC's June meeting, although investors remain skeptical over how much a loan growth program can help with limited demand being recorded.

## Outlook: Yen's uptrend bottoming

The Japanese yen was recently catapulted to 14-year highs against the euro, which helped support the currency against other crosses. Against sterling the yen has recently traded at one year highs. The yen's strength has been driven by safe haven flow and has had little to do with economic fundamentals of the economy. Japanese investors were seen selling 1.57 trillion yen worth of foreign bonds recently. The data represented the second largest net selling by Japanese investors since data dating back to 2005. The repatriation of funds occurred as uncertainties over the UK political outlook grew alongside rising concerns over the European debt crisis. With some of the fear residing in recent session the yen is likely to come back under soft selling pressure as local investors continue to look for higher yields elsewhere. There is no sign that the central bank will be able to lift rates until sometime next year. Indeed, the central bank continues to grapple with deflationary forces, which appear to be easing slowly. Nevertheless, with the current uncertainties facing global markets a big drop in the yen is also not expected.

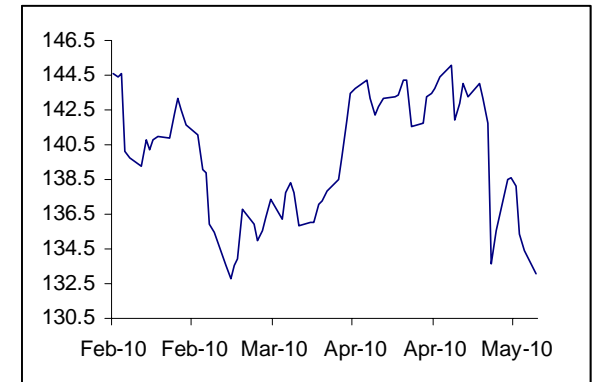
## Upcoming critical events

May 20: JPY Q1 GDP  
 May 21: JPY May BoJ MPC policy announcement  
 May 24: JPY March METI All Industry Activity  
 May 26: JPY April CSPI  
 May 27: JPY April Custom Cleared Trade  
 May 28: JPY April Retail Sales  
 May 28: JPY April Unemployment  
 May 29: JPY May Core CPI

## JPY Economic Indicators

3-Month Deposit Rate	0.52
GDP (annual rate)	3.8
Inflation (annual rate)	-1.1
Unemployment	5.0
Trade Balance	948.9bln yen

## GBP /JPY Graph



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