An eventful week for JPY

26th April 2024

Yen depreciated to lowest levels in more than 3 decades

- Bank of Japan in its monetary policy announcement today retained rates unchanged which was on the expected lines. However, yen depreciated and dropped to its lowest levels since June 1990 and shifted its threshold from 155 earlier in the week to 156.80 due to absence of any hawkish details in the policy announcement.
- Yen move was also exacerbated as the monetary policy statement was bereft of any details regarding change in the Bank's bond purchase program.
- The statement was one of the shortest as seen in the recent times and mentioned that policy board decided by a unanimous vote to keep key interest rates (uncollateralized overnight rate) to remain at around 0 to 0.1%. The statement also mentioned regarding purchases of Japanese government bonds, CP and corporate bonds; that the Bank will conduct the purchases in accordance with the decision made in the March monetary policy meeting announcement.
- Despite the recent moves in yen, BoJ head Ueda remained non-committal to any future rate hikes in the near term which pulled down Yen further post the press conference.

No change in the bond purchase program, accommodative conditions to stay

- Markets were anticipating some change in the commentary regarding the bond purchases by BoJ. However, BoJ mentioned that it will continue with bond purchases as mentioned in the March policy statement.
- To provide historical context, in the March meeting, BoJ mentioned that although it is doing away with the Yield Curve Control program (bond purchases by the BoJ to maintain the upper bound of yields for 10-year JGBs at around 1% level then) but also mentioned that Bank will continue its JGB purchases with broadly the same amount as before (6 trillion yen per month).

Recent inflation data and projections were underwhelming

- Along with the monetary policy statement, BoJ also released its quarterly projections for the economy "Outlook for Economic Activity and Prices" which showed that although inflation forecasts for FY25 was revised higher (from 1.8% to 1.9%), however it still remained below 2% which mean that there is still some time before inflation rises above 2% sustainably.
- Core inflation in Tokyo for April fell below BoJ's target level of 2% and came in way below expectations. Also, BoJ Governor Ueda mentioned in the post policy press conference that "for now, the weak yen has not had a big impact on underlying inflation".

Yen still under intervention threat

- Markets were anticipating intervention by the Japanese authorities near 155 levels for USDJPY. In-fact there were warnings also from Japan's finance minister Shunichi Suzuki who said that the government is watching currency market moves with "a high sense of urgency".
- However, Yen still depreciated as despite recent warnings, interest rate differential between US and Japan would remain the key theme as rate cut expectations from Fed are shifting further down the road while BoJ is not showing any urgency to hike rates.
- A Reuters report quoted party executive, Takao Ochi mentioning that, Japan's ruling party is not yet in active discussion on what yen levels would be deemed worth intervening in the market, though the currency's slide towards 160 to the dollar could prod policymakers to act.
- Despite the recent depreciation in yen, the movement remained orderly and smooth. Apart from yen levels, FX volatility is also considered to be a condition for intervention. Intervention by the Japanese authorities will remain in play if there is excess volatility witnessed going forward.

Our View

- US dollar exceptionalism has persisted due to stronger than expected economic data in US and subsequent repricing of rate cuts by markets (timing and quantum). Hence, the recent trend in the yen is likely to continue in short term (<3 months) unless Japan policymakers surprise with intervention efforts.
- We will keep a close watch on the data/ central bank commentary from both US and Japan.

Yen falls beyond key threshold levels this week on dovish BoJ

Source: Cogencis. UBI Research

By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Maneesh Gupta
maneesh.gupta@unionbankofindia.bank

Banking Research Team	
Kanika Pasricha **Chief Economic Advisor**	**kanika.pasricha@unionbankofindia.bank**
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Ashish D Dhok	ashish.dd@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Ajinkya Tawde	ajinkya.tawde@unionbankofindia.bank
Kanhaiya Jha	kanhaiya.jha@unionbankofindia.bank
Maneesh Gupta	maneesh.gupta@unionbankofindia.bank