

Daiwa's View

Stealth intervention?

- Estimations based on changes in current account balances at BOJ

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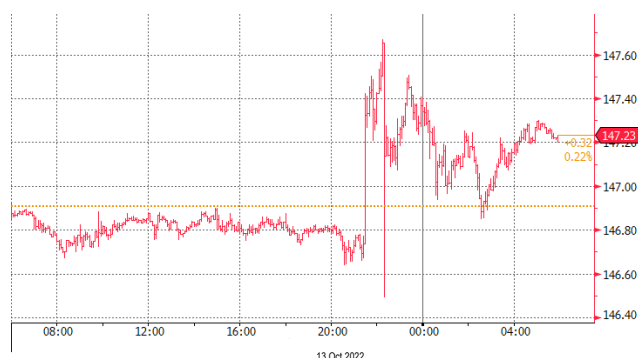
Stealth intervention?

At the end of last week, the USD/JPY rate momentarily rose to Y148.86, hitting a 32-year high. The rate hit new highs several days in succession. It edged upwards throughout the day, rising to the Y147 level during London trading hours. In the University of Michigan's surveys of consumers in October (the preliminary release during New York trading hours), one-year and five-year ahead US inflation expectations rose to 5.1% (4.7% in Sep) and 2.9% (2.7%), respectively. This led to acceleration of purchases of the dollar in line with a rise in US yields. The USD/JPY rate topped Y148, rising to just below Y149.

Meanwhile, the market is speculating that the government and BOJ conducted stealth intervention on 13 October. On the 13th, the USD/JPY rate rose to 147.67, hitting a 32-year high, the highest level since August 1990. Immediately after that, the rate sharply declined by slightly more than Y1 (Chart 1). Regarding this price movement, some market participants suspected that the authorities had once again implemented intervention. At a press conference in Washington on the 13th, Minister of Finance Shunichi Suzuki commented about the yen being at its weakest in 32 years by saying that excessive moves by speculators could not be tolerated and that the authorities would take appropriate action against excessive moves. When questioned whether currency intervention had been implemented, MOF officials declined to specify, saying that they announce it in some cases, but don't in other cases.

We do not find out the actual figures for the scale of intervention by the Japanese authorities regarding the total monthly amount and regarding the detailed daily data until the end of the month and the next quarter, respectively. However, we can estimate the figures by using data at the BOJ and money market brokers. Based on projections for changes in current account balances at the BOJ (announced on the 14th), some believe that the authorities implemented yen-buying/dollar-selling intervention once more on the 13th.

Chart 1: USD/JPY Rate on 13 Oct



Source: Reprinted from Bloomberg.

Chart 2: Difference with Projections for "Treasury Funds and Others" in Changes in BOJ's Current Account Balances as of Beginning of Month



Source: BOJ, Ueda Yagi Tanshi; compiled by Daiwa Securities.

After the government and BOJ conduct yen-buying/dollar-selling intervention, the government receives yen funds from private-sector financial institutions, intervention counterparties, via current account balances at the BOJ. These movements are reflected in "treasury funds and others" in changes in current account balances at the BOJ after two business days when intervention funds are settled. As trends in fund receipts/payments in the government division are grasped by the BOJ and money market brokers in advance, the projected amount is announced on the third business day of the month.

For example, when yen-buying/dollar-selling intervention was conducted on 22 September, the projection for "treasury funds and others" in changes in current account balances at the BOJ was minus Y3.6tn on 27 September, two business days after the intervention. The projection that was announced at the beginning of the month was minus Y700bn. Therefore, the difference, Y2.9tn, which is the amount that the government receives from private-sector financial institutions via intervention, indicates the scale of intervention. For reference, the scale of intervention for the month, which was announced by the MOF at end-September, was Y2,838.2bn.

If we assume that the intervention was conducted on 13 October, it is to be settled on the 17th, two business days after the intervention. On the 14th, the BOJ announced that the projection for "treasury funds and others" in changes in current account balances was minus Y4.09tn. As the projection as of the beginning of the month was minus Y2.7tn, it has been speculated that intervention worth around Y1.39tn (the difference between the two figures) might have been implemented.

When intervention was conducted on 22 September, the MOF clarified at a press conference that it had intervened in the currency market. This time, however, the MOF declined to specify whether it had conducted intervention once again, as mentioned above. If intervention was conducted, it would have been stealth intervention. That said, looking at price movements on the 13th, several minutes after the yen strengthened instantaneously, moves to sell the yen returned. In addition, if the authorities had implemented monetary intervention, in our view, there would have been a slightly wider price range.

Based on the data for changes in current account balances at the BOJ, we cannot deny the possibility that intervention may have been conducted. However, the projections for "treasury funds and others" fluctuate by several hundreds of billions of yen. Therefore, it is difficult to judge whether the difference with the projected amount at the beginning of the month indicates the scale of intervention or the fluctuation of "treasury funds and others" itself. In particular, we get the impression that fluctuations tend to increase at the middle of the month. For example, intervention was probably not conducted on 12 July or 13 September, but the difference is greater than that on 17 October (chart 2).

If we assume that stealth intervention was implemented, it would be difficult to say that it was effective as of 13 October. However, if the speculation about stealth intervention that is currently spreading comes to permeate the market, a sense of caution could spread within the market, and that might restrain the pace of yen depreciation. However, as long as the main factor behind the strong dollar is the Fed's tightening stance backed by a strong US economy, it will not be easy to produce a turnaround in USD/JPY rate trends via currency intervention.

It would be difficult even for the US government to correct the strong dollar against fundamentals. In her press conference on 14 October, Treasury Secretary Janet Yellen said that differences in economic shocks between countries and in the policy responses to them largely explained the appreciation in the US dollar. This suggests that the US does not intend to correct the strong dollar for now.

On 14 October, Deputy Finance Minister Masato Kanda commented about the yen being at its weakest in 32 years by saying that the authorities were ready to take resolute measures when excessive fluctuations are repeated. However, with the situation having already shifted to one in which monetary intervention has been implemented, verbal intervention cannot be expected to be effective. In addition, with market participants likely to gradually become accustomed to the use of monetary intervention, we should continue to be cautious about further rises in the USD/JPY rate for the time being.

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