Daiwa Securities

Daiwa's View

USD/JPY rate hit 32-year high

- Market likely to continue testing Japanese authorities' stance on intervention

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Yesterday, the USD/JPY rate rose to Y147.67 at one point, hitting a 32-year high, the highest level since August 1990, slightly exceeding the Y147.66 level (logged in August 1998) that the market had been eyeing before. This was driven by a rise in US yields and a raised projection for the terminal rate due to the announcement of hotter-than-expected US CPI for September.

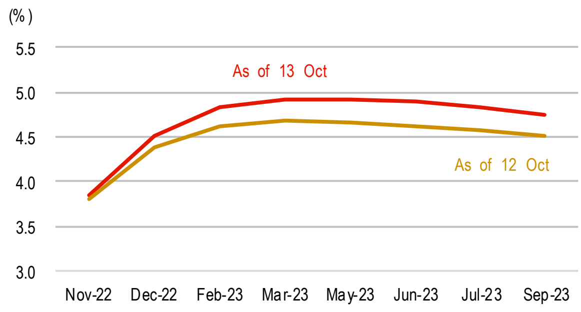
Since the government and the BOJ implemented yen-buying/dollar-selling intervention on 22 September for the first time since June 1998 (about 24 years ago), there had been a strong sense of caution regarding intervention at around Y145, but in October, the rate topped Y145. This week, the rate continued to test the recent high of Y145.90 logged immediately before the intervention. However, in the absence of strong verbal or monetary intervention at around Y146, the market actively tested higher USD/JPY rate levels, with the rate rising to slightly below Y147 on 12 October.

The statement regarding the exchange rate market at the G7 Finance Ministers and Central Bank Governors' meeting held on 12 October was "Recognising that many currencies have moved significantly this year with increased volatility, we reaffirm our exchange rate commitments as elaborated in May 2017." After the meeting, Minister of Finance Shunichi Suzuki said that excessive moves by speculators could not be tolerated, and that they were watching trends in the exchange rate market with a strong sense of urgency, and wanted to take appropriate action against excessive moves. Regarding currency intervention, he said that there was no exact currency rate level that would trigger an intervention, that they were watching volatility rather than levels, and that they would take bold action if there were sharp fluctuations due to moves particularly by speculators.

Three weeks have passed since the currency intervention was implemented. As shown by the fact that the USD/JPY rate has exceeded one threshold level after another, the effects of intervention have been diminishing. Although the upward pace of the USD/JPY rate is now accelerating, no strong verbal intervention was heard from the government or the BOJ yesterday. The market is likely to continue testing the Japanese authorities' stance on intervention while paying close attention to headlines about rate checks by the BOJ and verbal intervention mentioning resolute measures and being on standby.

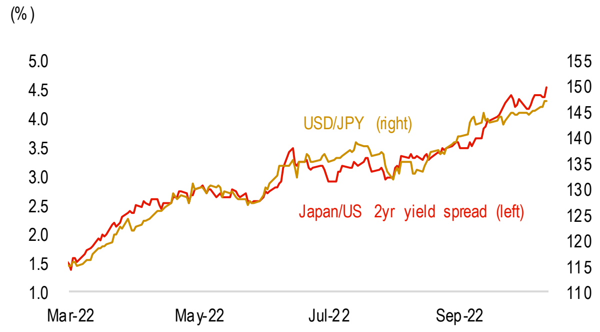
It is not easy to produce a turnaround in USD/JPY rate trends via currency intervention. As shown by Chart 2, we think that the USD/JPY rate is expected to head toward Y150, given the strong correlation between the USD/JPY rate and the Japan/US 2yr yield spread since the start of rate hikes by the Fed (as pointed out in our previous report *Daiwa's View: Government and BOJ fire live ammunition* dated 26 Sep 2022). Beyond the high of Y147.66 recorded in August 1998 lies a void with no particular threshold levels. We should be cautious about further rises in the USD/JPY rate.

Chart 1: Market Pricing in Fed Rate Hikes



Source: Bloomberg; compiled by Daiwa Securities.

Chart 2: Japan/US 2yr Yield Spread, USD/JPY Rate



Source: Bloomberg; compiled by Daiwa Securities.

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