

## Daiwa's View

## Corrections to USD/JPY rate appear to have let up

- With market having significantly priced in policy revisions at July BOJ MPM, their postponement would create depreciation pressure on the yen

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Daiwa Securities Co. Ltd.

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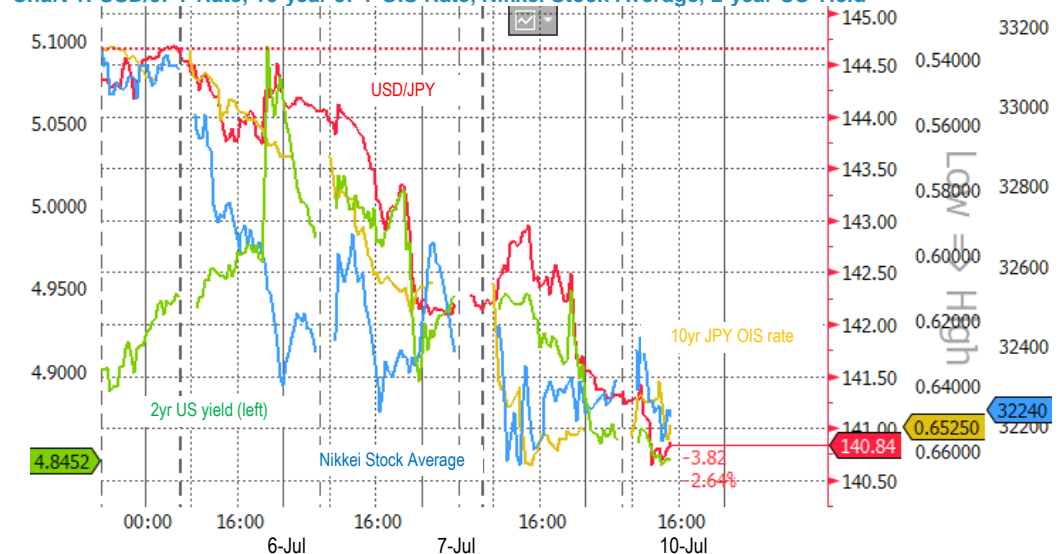
## Corrections to USD/JPY rate appear to have let up

Since last Thursday, the USD/JPY market has quickly come to feel like it is undergoing a correction. As this has happened with the 10-year US yield maintaining an uptrend (the 2-year US yield rose and returned to where it was), it feels somewhat abrupt. Furthermore, Japan-specific factors appear to be contributing to the situation.

We will summarize the situation while referring to Chart 1. During Tokyo trading hours on Thursday, 6 July, the USD/JPY rate was sold, falling from around Y144.5 to about Y143.5, in the aftermath of a plunge in the Nikkei Stock Average, and other issues. With the USD/JPY rate failing to exceed Y145 due to caution about intervention and an accumulation of yen short positions, it was a situation that made a correction likely. It may be more accurate to say that, under the circumstances, the correction took place in conjunction with the fall in stock prices.

Subsequently, the USD/JPY rate recovered to the Y144 level in line with higher US yields, reflecting the US ADP employment statistics for June. However, on the following day (Friday, 7 Jul), the yen strengthened by a maximum of nearly Y2. This movement consisted of two stages, both of which were influenced by Japanese and US factors. Firstly, one Japanese factor was the rise in JPY rates, reflecting the interview with BOJ Deputy Governor Shinichi Uchida that was released by *Nikkei* at midnight last Thursday (6 Jul).

**Chart 1: USD/JPY Rate, 10-year JPY OIS Rate, Nikkei Stock Average, 2-year US Yield**



Source: Reprinted from Bloomberg.

**Important disclosures, including any required research certifications, are provided on the last page(s) of this report.**

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I didn't get the impression that there was anything in the interview implying policy revisions at the July Monetary Policy Meeting (MPM). However, the market appears to have interpreted it differently. On 7 July, the 10-year JPY OIS rate rose by a maximum of over 5bp, and the USD/JPY rate declined by around Y1, from Y144 to Y143. Subsequently, moves to sell the dollar intensified during US trading hours, reflecting the June US jobs reports. This pushed down the USD/JPY rate further by around Y1, from the lower half of the Y143 range to the lower half of the Y142 range. Price movements were also volatile on Monday, 10 July, the beginning of the week. The USD/JPY rate rebounded close to Y143 due to purchases of the dollar by Japanese importers as well as moves to restore yen short positions by short-term investors. However, it dropped again to the lower half of the Y141 range due to a decline in US yields.

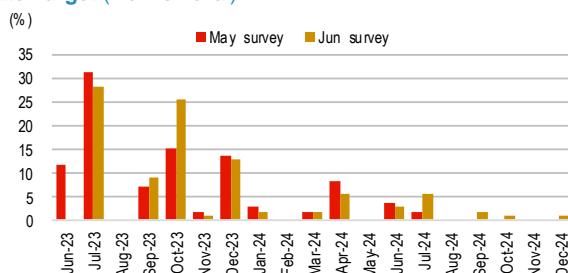
Yesterday, after the flow of actual demand was concluded during Tokyo trading hours, developments with the USD/JPY rate were led by US yields. A focus of near-term interest will be the US CPI for June due out on Wednesday, 12 July. If CPI readings are weaker than expected, the USD/JPY rate may test levels below Y140. Looking forward a little further, we note that there is increasing interest in the July BOJ MPM following last week's article about the interview with BOJ Deputy Governor Shinichi Uchida. As indicated by the rise in the 10-year JPY OIS yield, expectations of policy revisions are increasing in the market, which is also seen as a driver of the yen market.

In the QUICK Monthly Market Survey (Bonds), there was a questionnaire regarding the BOJ's monetary policy—specifically, about the timing of (1) revisions to the long-term interest rate target (incl. its removal) and (2) the removal of negative interest rates. In the latest survey in June, many still expect revisions to the long-term rate (incl. its removal) in July—more than 60% of respondents expect revisions by the October meeting. Moreover, more than 75% expect policy revisions by the end of the year (Chart 2).

The largest number of respondents anticipated that negative interest rates would be removed in the Apr-Jun quarter in 2024 (Chart 3). With regard to the order in which policy revisions are expected to be made, a growing portion of the market holds the view that the YCC will be removed first, followed by negative interest rates later on. In his interview, Deputy Governor Uchida discussed removal of negative rates, asserting that it was a 0.1% rate hike, and that given the current economic and price conditions, the BOJ thought there was still a long way to go before it would be able to make a decision about the issue. In the market, as well, no speculation at all has emerged regarding removal of negative interest rates at the July MPM (refer to our 10 Jul 2023 report [Daiwa's View: Rise in long-term yield does not mean risk-on movement](#)).

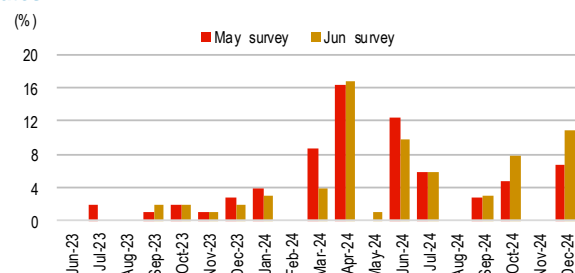
The 10-year JPY OIS yield continued to climb yesterday, rising to the level it was at in mid-April, when expectations for policy revisions increased ahead of BOJ Governor Kazuo Ueda's first MPM on 27-28 April. If the market is currently factoring in only revisions to, or the withdrawal of, the YCC policy, without also pricing in the subsequent removal of negative interest rates, a rise to the 0.8% level, like what was seen at the beginning of the year, may be unlikely. If so, there will be limited room for the yen to appreciate in line with rising JPY rates. If policy revisions are postponed at the July meeting, as well, expectations that are currently priced in will evaporate, increasing pressure lowering JPY rates and depreciating the yen.

**Chart 2: Market Expectations for Revisions to Long-term Interest Rate Target (incl. removal)**



Source: QUICK Monthly Market Survey (Bonds); compiled by Daiwa Securities.

**Chart 3: Market Expectations for Removal of Negative Interest Rates**



Source: QUICK Monthly Market Survey (Bonds); compiled by Daiwa Securities.

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