

Daiwa's View

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- There was probably no “rate check” either

Fixed Income Research Section
FICC Research Dept.

Chief FX Strategist
Kenta Tadaide
(81) 3 5555-8466
kenta.tadaide@daiwa.co.jp



Daiwa Securities Co. Ltd.

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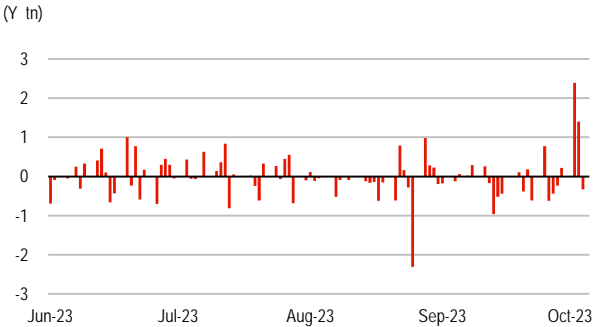
On 3 October, immediately after the USD/JPY rate temporarily rose to Y150.16, it declined sharply to Y147.13. As the rate plunged by about Y3 immediately after topping Y150, this invited market speculation that the MOF implemented yen-buying currency intervention. However, it is highly likely that there was no actual intervention. It won't be until the end of the month that we find out officially whether currency intervention was implemented. However, we can run an estimation by using data at the BOJ and money market brokers. Projections for excess funds of “treasury funds and others” in changes in the BOJ's current account balance, which was announced by the BOJ yesterday, stood at Y10bn. This figure almost matched initial projections by money market brokers. When authorities implement yen-buying intervention, these figures show a divergence. However, yesterday's results were unchanged from initial projections. Based on this data, we estimate that there was no actual currency intervention (Chart 1).

Reconfirming verbal intervention by the authorities, we noted that Minister of Finance Shunichi Suzuki stated that, if excessive fluctuations happened, the authorities would take appropriate measures, and would leave all potential measures available to them. Deputy Finance Minister Masato Kanda stated that authorities would respond appropriately, while leaving all means at their disposal. Considering that authorities have yet to use stronger wording such as “resolute measures,” there appears to still be some ways to go before actual intervention is implemented. Furthermore, when the USD/JPY rate plunged on 3 October, some said that the BOJ had conducted a “rate check.” However, today, after more than a day has passed, no such news has been reported. Therefore, a “rate check” probably wasn't conducted either.

Yesterday, Deputy Finance Minister Masato Kanda expressed the view that the price range in a certain period should be considered, in addition to volatility in the short term, saying that if (currency fluctuations) accumulated in the same direction, that could lead to rapid fluctuations via a fair degree of widening of the price range. The USD/JPY rate has risen by more than Y20, from its lowest point in 2023 in the upper Y120 range to around Y150. From a historical perspective, the annual price range for the USD/JPY rate has been considerably large this year. Considering this, we would not be surprised if intervention were actually implemented any time now (Char 2).

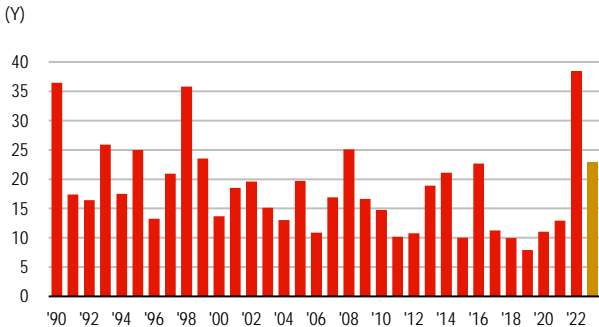
That said, the current rise in the USD/JPY rate is caused by dollar appreciation in line with higher US yields. Therefore, it is not easy to reverse USD/JPY rate trends via currency intervention amid rising US yields. Furthermore, if such intervention were conducted with poor timing when there were constraints on the amount of foreign currency reserves available, it would invite speculative investors. Therefore, that could entail the risk of accelerating depreciation of the yen, in addition to wastefully using up foreign currency reserves. We still think that the probability of currency intervention will increase substantially when the USD/JPY rate exceeds Y151.95, which was the highest rate in 2022. However, it may be hard to make a decision amid the ongoing uptrend with US yields.

Chart 1: Difference with Projections for "Treasury Funds and Others" in Changes in BOJ's Current Account Balance as of Beginning of Month



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

Chart 2: USD/JPY Rate Price Ranges



Source: Bloomberg; compiled by Daiwa Securities.

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