Daiwa's View

FICC Research Dept

Two consecutive days of currency intervention shows that MOF is in earnest; what will BOJ do?

- Changes in BOJ's current account balances imply intervention on a scale of about Y2tn on 12 Jul, as well
- Line of defense for USD/JPY rate is around Y159; EUR/JPY trends also warrant attention
- Opinions regarding Jul rate hike by BOJ may be divided, but, in 2022, easing was modified after intervention

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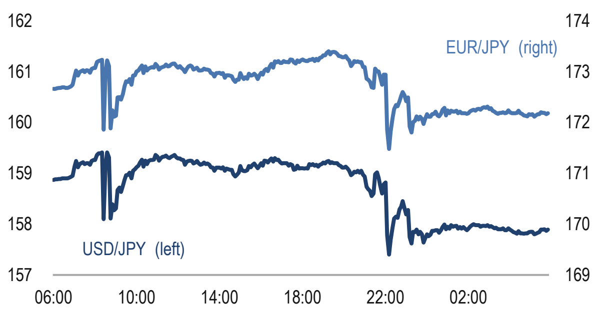
Yen-buying intervention on a scale of Y2tn may have occurred on 12 Jul, as well
In the forex market, the view has emerged that the government/BOJ implemented currency intervention for two consecutive days on 11 and 12 July (Chart 1). Currency intervention occurring on the 12th would be settled two business days later on the 17th. However, it is possible to estimate the scale of intervention by using data at the BOJ and money market brokers. According to our estimations based on projections for changes in current account balances at the BOJ announced yesterday, yen-buying intervention on a scale of Y2tn may have been implemented (Chart 2). As a reference, the scale of intervention on the 11th is estimated to have been about Y3.4tn.

On 16 July, the BOJ announced that the projection for Treasury Fund and other sources of changes in current account balances at the BOJ on the 17th was minus Y2,740bn. The projection announced at the beginning of the month was minus Y600bn. Therefore, we estimate that the difference, Y2,140bn, indicates the scale of yen-buying intervention. Projections for Treasury Fund and other sources of changes in current account balances at the BOJ fluctuate by several hundred billion yen. When large fluctuations occur, the difference exceeds Y1tn, or Y2tn in very rare cases. Therefore, while it is difficult to say with certainty, market participants likely have to recognize that currency intervention may have been implemented.

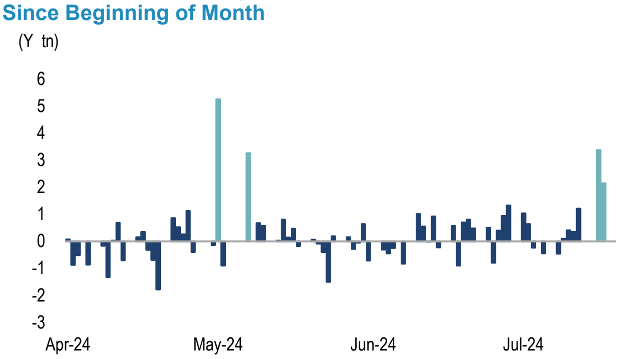
The MOF is scheduled to announce data showing the scale of the actual intervention by the monetary authorities at 19:00 on 31 July 2024. However, data will only be disclosed on a monthly basis, showing the total amount for one month (from 27 Jun to 29 Jul). Therefore, we will not know the details of that intervention (dates, amounts, and traded currencies). The actual results, on a daily basis, for Apr-Jun that will allow us to confirm the details are scheduled to be released in early August (1-7 Aug). This data will include the interventions on 29 April and 1 May, but data for July will not be announced until early November.

Chart 1: USD/JPY Rate and EUR/JPY Rate on 12 Jul



Source: Bloomberg; compiled by Daiwa.

Chart 2: Divergence from Projections for Treasury Fund and Other Sources of Changes in Current Account Balances at BOJ Since Beginning of Month



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

There were news reports on the morning of the 12th that the BOJ had implemented a "rate check" against the euro. We are wondering whether euro-selling/yen-buying intervention was implemented at this time for the first time? At the time when the rate check and actual intervention appear to have been implemented, the EUR/JPY rate was at around Y173. Going forward, we will have to carefully check the EUR/JPY rate as well as the USD/JPY rate. If there had been no intervention on the 12th, we would have viewed something around Y162 as the line of defense for the USD/JPY rate, but we now feel a need to lower that to around Y159.

For reference, the euro-buying/yen-selling intervention conducted every year from 1999 to 2003 totaled Y1,075.3bn. At that time, the average EUR/JPY rate was around Y120. Before that, dollar-selling/Deutsche Mark-buying intervention was conducted in August 1991 (Y13.9bn) and Deutsche Mark-buying/yen-selling intervention was conducted in August 1993 (Y4.8bn).

Speculation about Jul rate hike by BOJ divided due to currency intervention
While the trend towards yen depreciation has been stemmed by growing speculation about a September rate cut by the Fed and developments that appear to have been currency intervention, some are of the opinion that it has become less likely that the BOJ will decide to implement an additional rate hike at the July Monetary Policy Meeting (MPM). However, others speculate that the BOJ will raise interest rates in line with the MOF's decision to implement intervention.

The grounds for putting off a rate hike are that (1) the BOJ would now have leeway to carefully check price trends due to the sharp appreciation of the yen and (2) it would buy time to implement measures in a piecemeal manner until the start of rate cuts by the Fed (expected in Sep). Also, some are concerned that, if the BOJ hikes interest rates due to a commitment to forex rates, it could face rate-hike pressure going forward due to a weakening yen.

The grounds for a rate hike in July are that the BOJ would coordinate with the government from a policy mix perspective. Furthermore, the Nikkei published an article on 15 July entitled "Will BOJ be the next to respond to yen depreciation? It's looking like weak consumption may spur a rate hike." The article stated that awareness was taking root at the BOJ that weak private consumption was caused by inflation, and that, therefore, a stronger stance should be taken towards yen depreciation, the cause of weak consumption.

While both arguments are persuasive, the latter turned out to be the case in 2022. Looking back on that time, yen depreciation accelerated due to former BOJ Governor Haruhiko Kuroda stressing continued easing at his post-meeting press conference on 22 September 2022, which was followed by yen-buying/dollar-selling intervention being implemented for the first time in about 24 years. Even after that, the yen continued to weaken. Following intervention on 21 and 24 October, Prime Minister Fumio Kishida and Mr. Kuroda had a meeting on 10 November. At the December MPM, the BOJ made the surprising decision to widen the fluctuation range of long-term interest rates.

The government and MOF are likely in agreement that, to paraphrase Deputy Finance Minister Masato Kanda, it would be serious and problematic if the lives of ordinary people were threatened by a rise in import prices due to yen weakness caused by speculative behavior. To begin with, we cannot say that it is good to combine monetary easing and currency intervention. We want to keep in mind that, as BOJ Governor Kazuo Ueda stated, it is entirely possible for the BOJ to decide on a rate hike at the July MPM in line with the MOF (depending on data) while also deciding on the details for measures to reduce JGB purchases.

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