JPY & US Yields

• JPY stable against gold since 2013 despite aggressive monetary policy measures by the BoJ

• Helps highlight why JPY is so sensitive to shifts in US yields

• Does this make FX intervention more likely?

One of the more interesting aspects of trading over the past 48 hours has been the way that JPY and gold have shadowed each other’s performance closely.

This isn’t as surprising as it might first appear, and understanding this could help clarify how events might play out in the currency markets over the summer.

By December 2012, the JPY had been weakening against gold for 12 years (albeit with a dramatic correction in 2008). The election of Prime Minister Shinzo Abe that month only encouraged the view that this trend would continue thanks to the pressure he was bringing to bear upon the Bank of Japan.

The opening months of 2013 saw the JPY continue to retreat against gold as Prime Minister Abe’s battle with the then governor of the BoJ, Masaaki Shirakawa, intensified. JPY weakness continued on through March as investors correctly anticipated a radical shift in monetary policy at the BoJ’s April 4 meeting. Over the following few days the JPY did decline further against gold, hitting its weakest level in 33 years on April 10.

Newswatch

1. Japan: FX chief Masatsuga Asakawa says: "If the Fed does cut rates in July because it feels doing so would be necessary to prevent a U.S. economic downturn, that's an appropriate monetary policy decision. But if exchange rates are moving rapidly in a
The day before this, however, *The Wall Street Journal* published a telling report. The paper noted: "While gold prices have softened globally, the declining value of the JPY against the USD makes the precious metal worth a lot more in Japan. Japanese families are now scrambling to dig out gold objects from closets and jewelry boxes, and selling it to metals dealers, converting their passive assets into cash that some say they plan to put to work on everything from vacations to children’s allowances”.

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Much as had proved the case back at the start of 2002, Japanese retail investors proved prescient, with April 10 proving the low point for the JPY against gold.

Although subsequent policy shifts (the October 2014 decision to expand its asset purchase program, the

2. **US/Iran:** The New York Times, citing senior White House officials, claims that President Trump approved military strikes against Iran on Friday morning and that aircraft were en route when the decision was taken to abort the mission. >

3. **UK:** Boris Johnson and Jeremy Hunt remain as the two candidates to enter the second round of the Conservative Party leadership race. >

4. **Australia:** The CBA-Markit composite PMI climbed to 53.1 in the first 19 days of June, up from 51.5 in the comparable May period. () >
imposition of a negative deposit rate and the introduction of yield curve control in 2016 have acted to temporarily weaken the JPY, each move has proved relatively short-lived and more modest that the previous one.

The net result has been to see bullion trade in a historically narrow range against the JPY.

This goes a long way towards explaining the JPY’s relative indifference yesterday to the comments from BoJ Governor Haruhiko Kuroda and its high sensitivity to US yields.

The conclusion was a simple one. The disinflationary forces at work within Japan had mounted to such a level that virtually nothing the BOJ did was able to materially weaken the JPY against the most monetary policy sensitive of benchmarks.

This goes a long way towards explaining the JPY’s relative indifference yesterday to the comments from BOJ Governor Haruhiko Kuroda and its high sensitivity to US yields.

This, of course, was the implicit point behind Mr Asakawa’s comment this morning. Taking this one stage further it could be argued that given domestic monetary policy has had little noticeable impact on the JPY over the past half a decade or so then this could mean that more direct methods such as intervention might begin to be considered again by the authorities should currency strength persist.

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