Intervention Styles

- Concerns on the rise about recent JPY appreciation
- FX intervention possible if "excess volatility" emerges in the market
- "Shock and awe" has worked in the past

With question marks over the use (and effectiveness) of monetary policy to tackle currency strength over the past few years, it is perfectly possible that Japan could consider returning to direct intervention in the currency market should the JPY continue to strengthen.

Given this, it was very interesting to note Japan’s Vice Finance Minister for International Affairs, Masatsuga Asakawa (the current "Mr Yen"), say on Friday that "if the Fed does cut rates in July because it feels doing so would be necessary to prevent a US economic downturn, that's an appropriate monetary policy decision".

"But if exchange rates are moving rapidly in a way that cannot be explained by economic fundamentals, Japan has no choice but to voice concern," he added.

He subsequently said (following a meeting with his counterparts at the BoJ and FSA) that each country will cooperate with one another and take appropriate action as needed if there is excess volatility in currency markets.

He added: "There has lately been some jittery moves in the currency market".

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Newswatch

1. Iran/US: President Donald Trump tells NBC: “I think they want to negotiate. And I think they want to make a deal. And my deal is nuclear. Look, they're not going to have a nuclear weapon.”
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While it might be a little soon to start thinking what style this intervention could take, it’s still worth considering the approaches taken in the past.

Since 1991 the Japanese authorities have intervened on 329 days in USD/JPY. However, the style of intervention changed over time.

The third quarter of 1994 had seen the authorities intervene intermittently to try and stabilize the JPY. However, in the second half of October, the USD began to come under more sustained pressure despite steady JPY selling by the BoJ.

By November 2, the USD had fallen from around JPY 100 to JPY 96, its weakest level ever. By this point it was very clear that the authorities would intervene again.

What was not clear was how hard they would hit, however, authorizing the purchase of about USD 1.1bn (over 10 times the amount purchased the previous day) in several waves during the late New York morning and driving the USD up 2 JPY.

Although the JPY 96 would ultimately be broken four months later, this action (along with more modest intervention the following day) provided Tokyo with a surprisingly long-lasting reprieve from JPY strength.

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2. **Iran/US**: Secretary of State Mike Pompeo announces “significant” sanctions on Iran to start today. >

3. **US/Middle East**: President Donald Trump’s Middle East $50 billion economic vision meets a mixed response from politicians and commentators in the region. >

4. **China/US**: Vice Commerce Minister Wang Shouwen says: “Meeting each other half way (in the trade talks) means both sides have to compromise and make concessions, not just one side.” >

5. **Turkey**: Opposition candidate Ekrem Imamoglu wins the rerun Istanbul mayoral election with an increased majority. >

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**On the Radar**

June 24, 2019
surprisingly long lasting reprieve from JPY strength

Since then Japan has tried both the drip-drip of stealth intervention (notably during the 2003/2004 campaign) as well as a repeat of the "shock and awe" approach of late 2011 (albeit the scale had increased massively over the intervening 17 years).

While the late 2011 campaign of intervention saw the highest average reading of overnight volatility, this was a direct result of the enormous amount of JPY spent on the first day (JPY 8.072trn).

This was the largest daily spend ever, beating the JPY 4.5trn in August 2011 and the JPY 2.1trn in September 2010.

Was this campaign successful? What can certainly be said is that the USD rose from an all-time low of JPY 75.55 to a high of JPY 79.55 on the first day of intervention.

Moreover, although the USD didn’t break back above this high until February 2012, it also never traded below JPY 75.55 again.

Interestingly, this is how our JPY iFlow data looked both directly before and after the intervention in 2011 (see chart below).

What’s quite apparent is that cross border investors had been preparing for the move by Tokyo.

• DE Ifo business climate index (0900 BST): Reuters consensus forecast 97.3; previous 97.9

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