

2019 JPY/USD rate outlook

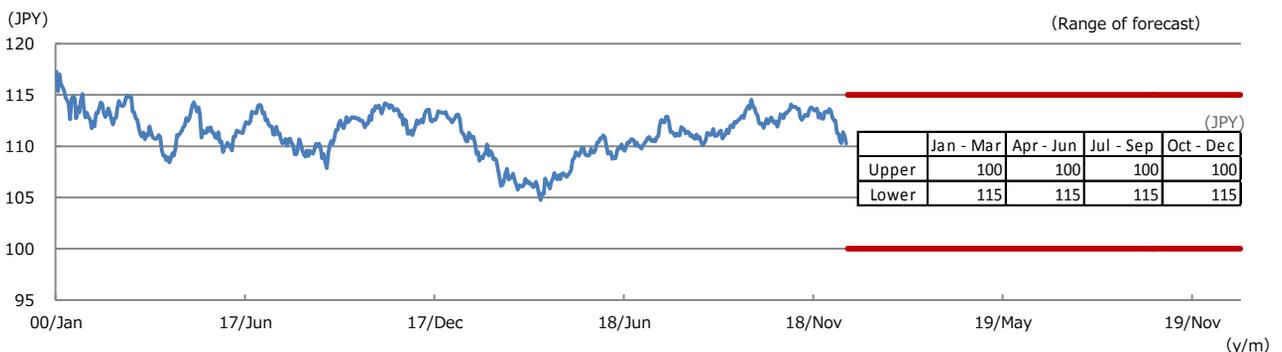
- In 2019, we expect a range-bound movement of JPY/USD rate (JPY 100 to 115) slightly towards stronger JPY.
- However, JPY may not dramatically strengthen against USD as we expect US recession can be avoided and the interest rate will be raised in December.
- We expect JPY/USD rate of JPY 107 at the end of 2019. Weaker JPY is unlikely as BoJ will maintain its current monetary policy despite the subdued price.

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We expect a range-bound movement of JPY/USD rate (JPY 100 to 115) in 2019 (Diagram 1). We expect overall markets are not likely to turn into risk-on mode as concern over economic slowdown may possibly remain temporary. Also, JPY is likely to slightly strengthen against USD within the range, as expectation of delay in US interest rate hike is growing.

In recent years, USD and JPY tend to move to the same direction against other currencies. Both USD and JPY weaken in risk-on mode and strengthen in risk-off mode. Therefore, we expect JPY/USD rate to move within a narrow range as both USD and JPY may strengthen if the concern over global economic slowdown increases and may weaken if it reduces.

“Diagram 1: Range of JPY/USD forecast



(Note) Actual data from 4 Jan 2017 to 28 Dec 2018. Forecast data from 4 Jan to 30 Dec 2019, by SMAM as of 21 Jan 2019. The bold lines indicate the upper and lower limit of forecast.
 (Source) SMAM, based on Bloomberg L.P. data.

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We estimate the US real GDP growth rate in 2018, 2019 and 2020 to be +2.9%, +2.6% and +1.9%, respectively. As growth rate of US economy is expected to slowdown after 2019, we believe that the recession is avoidable as it is on process of convergence towards the potential growth rate of +1.8% per annum (SMAM estimate). Accordingly, concern over global economic slowdown is likely to reduce over time.

As to US monetary policy, the current policy rate is likely to be maintained for some time as we expect weaker US economy in 1H 2019. However, we expect the interest rate to be raised in December for once and no more hike for a while as the economy is likely to recover slowly in 2H 2019. According to US economic and monetary policy outlook, JPY would not dramatically strengthen against USD.

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Now, turning our eyes on Japan, we expect the real GDP growth rate in 2018, 2019 and 2020 to be +0.7%, +0.8% and +0.6%, respectively. We believe that the potential growth rate in 2019 would remain around +0.7% to +0.8% as the economic measures will offset the impact of consumer tax hike in October 2019. Also, the LDP and Komeito together is expected to secure the majority seats (including uncontested seats), winning the Upper House election this Summer.

As to BoJ's monetary policy, we do not expect changes in the target level of Yield Curve Control as the current framework is likely to remain at least for 2019. Moreover, demand by market for additional easing may increase due to possibility of slowdown in Consumer Price Index (all items, less fresh food). However, JPY is unlikely to dramatically weaken as BoJ would react based on current monetary policy. Accordingly, we expect JPY/USD rate of JPY 107 at the end of 2019.

***Please note that this report is a translation of Japanese report written on January 23, 2019.**

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