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17 February 2015
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# Thoughts on surrounding factors that influence USD/JPY rate (Part 1)

Looking back the recent trend of USD/JPY rate for the past couple of months, USD sharply appreciated against JPY by the BOJ's quantitative & qualitative easing on Octobers 31, 2014, and accelerated appreciation to JPY121.85 level later on December 8. After that, the USD seemed to top out and be hovering within a range of between 115 and 120 yen.

On February 11, 2015, USD rose against major currencies during the New York time zone including JPY against which rose to middle of 120 yen level closing at the highest for the day. Closing at 120 yen level during the New York time zone is for the first time since January 2. After the USD/JPY rate touched the upper limit of currency rate band, its trend seems to lack a clear direction. I am going to try to analyse the background of such trend and also outline a set of surrounding factors influencing on the USD/JPY rate.

## Monetary policy of the US and Japan still remains as the key factor, however, the impact of BOJ's monetary policy is relatively weakening

First, let me go over the monetary policy of the US and Japan which has made a significant impact on USD/JPY currency market. Prevailing general perception is such that divergence of monetary policy between the two countries is a key factor to drive USD higher and JPY lower as the interest rate in the US is expected to be raised whereas Japan is likely to see an additional easing this year. I think this basic perception is still effective.

However, expansion of the unprecedented easing by BOJ seemed to become a less influential factor for a accelerating progress of weaker yen since more cetral banks globally seemed striving to promote weakening their currencies and implemented additoinal easing from the beginning of this year including the ECB's decision to put in place their full-fledged monetary easing. This would be more than a sufficent factor to slowdown the speed of JPY depreciation as market participants put aside the divergence of monetary policy between the US and Japan as a factor to influence their currency movement for a moment.

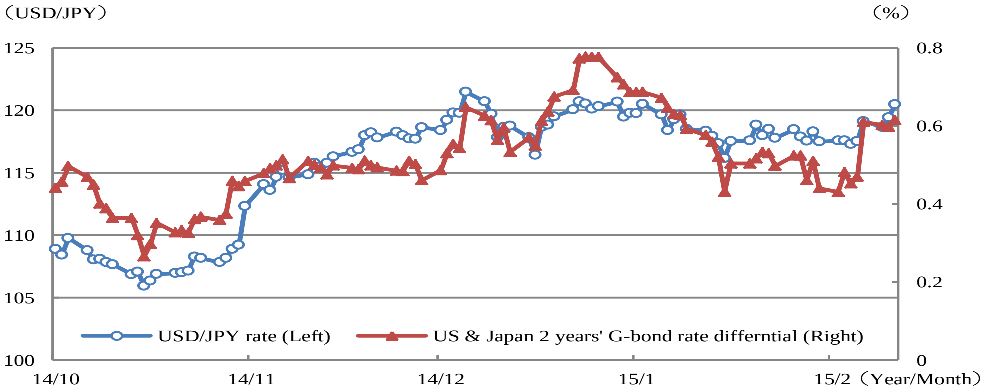
## USD/JPY rate reacted sensitively to the US interest rate fluctuation

On the other hand, turning our focus on to the US, the expectation of rate hike in coming June re-emerged as the strong growth of employment was confirmed by the January employment report released on February 6. Consequently, 2-year government bond's yield differential between the US and

Japan widened by about 14 basis points (bp, one bp is 0.01%) on the 6th of February, at the release of employment data, from the previous day of the 5th, while USD strengthened against JPY from 117 yen level to 119 yen level.

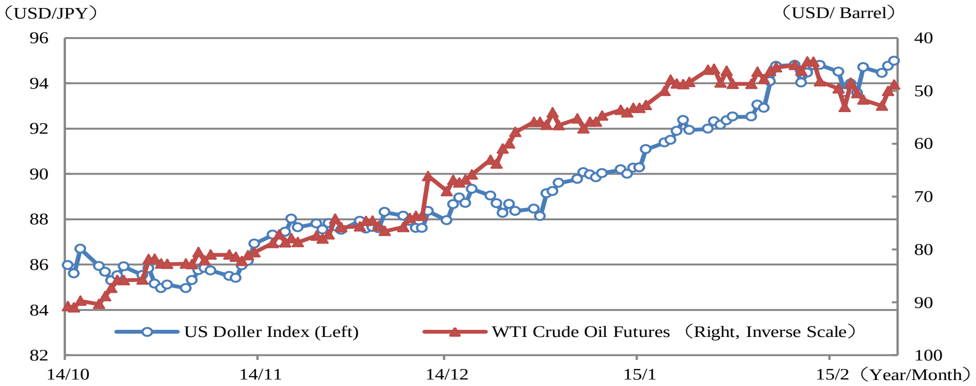
Change in the interest rate differential between the US and Japan that derived from the divergence of their monetary policy is still remaining as a strong factor to affect the USD/JPY currency market (See Chart1). Due to high expectation on solid recovery in US economy, making a long position in USD/JPY would be on the right track when incentives on early US rate hike such as better-than-expected economic data and hawkish comment by Fed members come into the marketplace.

**Chart 1: USD/JPY Exchange Rate and US & Japan Interest Rate Differential**




(Note) Data period is from October 1, 2014 to February 11, 2015
(Source) SMAM, based on Bloomberg L.P. data

**Chart 2 : US Doller Index and Crude Oil Price**




(Note) Data period is from October 1, 2014 to February 11, 2015
(Source) SMAM, based on Bloomberg L.P. data

## Falling oil price and Greek turmoil will make USD/JPY rate lead directionless trading

Last, I would like to look at the crude oil price. Chart 2 illustrates US Doller Index which represents comprehensive value of USD against six major currencies calculated by Intercontinental Exchange of the US and the price of WTI crude oil futures. We can find that falling crude oil price and strengthening USD moved in tandem. However in terms of USD/JPY rate, falling crude oil price does not seem to be a factor to determine its direction for the short term. Commodity currencies are directly pushed down by the falling crude oil price and are more likely tend to weaken against JPY when they fall sharply against USD. Therefore, if both USD and JPY strengthen against the commodity currencies, USD/JPY rate will fluctuate without any clear direction.

This could be applied to the concern over Greece. The selling pressure on Euro will mount up if the negotiation on finacial support to Greece becomes difficult and this makes Euro weaker against both USD and JPY, resulting in unclear direction of USD/JPY rate.

By exploring factors surrounding the USD/JPY currency market, as I did this time, we can find out what really moves USD/JPY rate. I am planning to discuss the same topic in my following report, too. In the next report, I will try to foresee USD/JPY currency market by examining the trading activity of speculators and currency option market participants and as well as from the view points of technical analysis.

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