

## **Thoughts on surrounding factors that influence USD/JPY rate (Part 2)**

In the previous report titled “Thoughts on factors that influenced USD/JPY rate (Part 1)”, I tried to examine the impact of factors on the USD/JPY currency market, such as monetary policy and interest rate differential between the US and Japan, falling crude oil price and Greek turmoil in order to find out the background of the USD/JPY rate hovering within the range of between 115 yen and 120 yen at this moment.

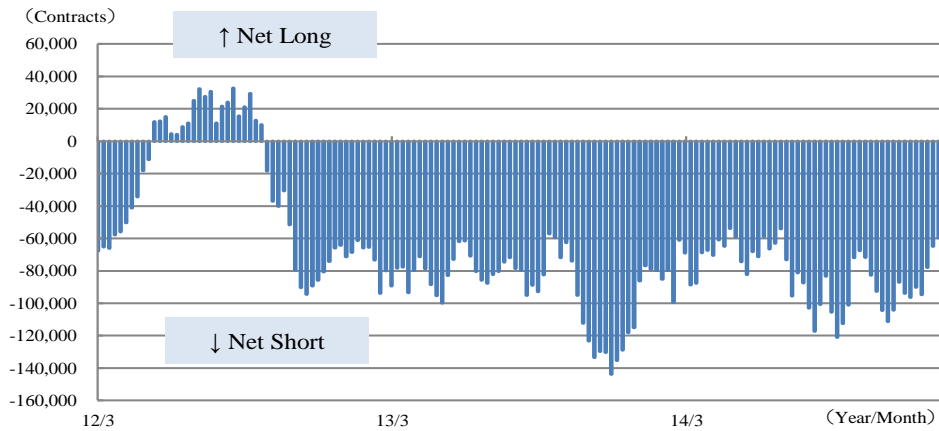
To summarise, the expansion of BOJ’s unprecedented easing is likely to be a marginal factor in the current market as an incentive of shorting JPY, since more central banks strived to implement monetary easing from the beginning of this year globally. USD is appreciated on expectation for earlier US interest rate hike by stronger-than-expected economic data and hawkish comments of FRB members. Meanwhile, falling crude oil price and Greek turmoil seem less likely to affect the direction of USD/JPY rate as commodity currencies and Euro depreciate sharply against USD and JPY.

### **Speculators focus more on monetary easing by ECB and RBA rather than the BOJ**

This time, I look into the view of the market participants by analysing the trades in the market. First, let’s start to study the position of currency futures by speculators. Currency futures are financial products traded in International Money Market (IMM), a division of Chicago Mercantile Exchange (CME) and the position of speculators is defined as the net interest of investors other than hedgers trading on their actual business demand. These data are reported to Commodity Futures Trading Committee (CFTC) every Tuesday and become public on Friday in the same week. In general, this report is useful to analyse the activities of speculators.

According to the position data as of February 3 released on February 6, the JPY short position has decreased to 59,571 contracts (1 contract = JPY12.5million) (Chart 1). In contrast, the contract number of net short position of both Euro and Australian Dollars (AUD) have increased (Chart 2). This indicates that the monetary easing of ECB and RBA is likely more appealing to the speculators than that of BOJ. It seems to be natural that the trading volume of USD/JPY decreased, while Euro/USD and AUD/USD are actively traded.

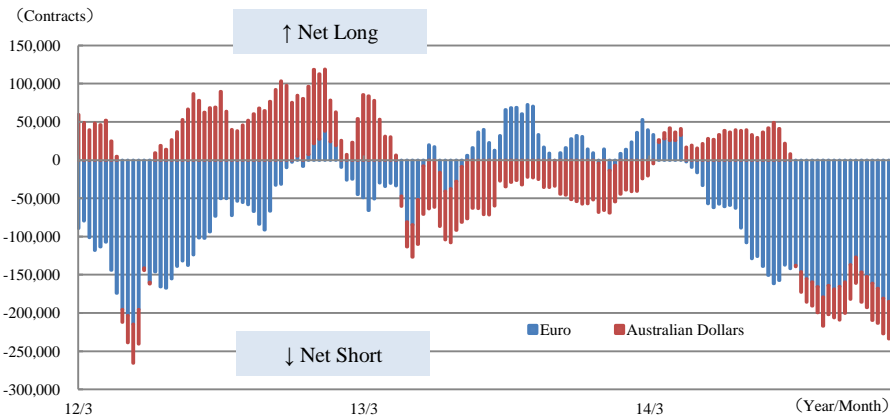
**Chart 1 : Speculators' Currency Futures Position (JPY)**



(Note) Data period is from March 27, 2012 to February 3, 2015

(Source) SMAM, based on Bloomberg L.P. data

**Chart 2 : Speculators' Currency Futures Position (Euro & Australian Dollars)**



(Note) Data period is from March 27, 2012 to February 3, 2015

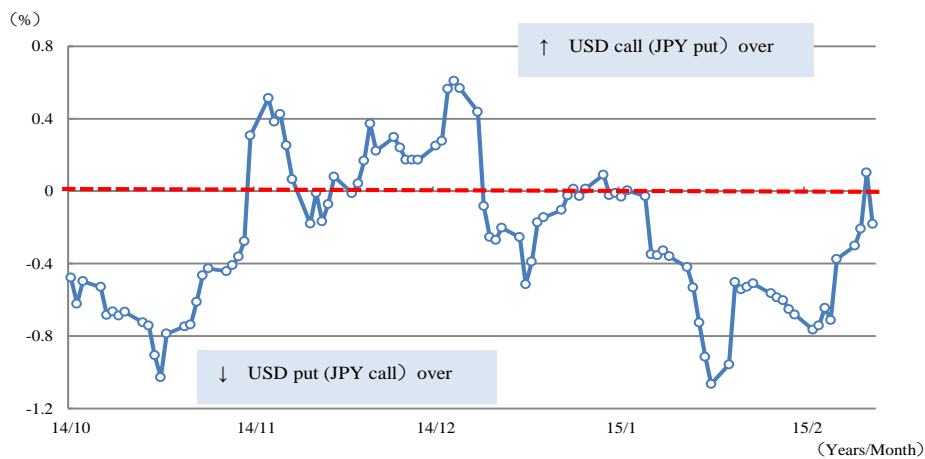
(Source) SMAM, based on Bloomberg L.P. data

**Option market showing a sign of a new direction from existing strong USD/JPY**

Next, I would like to study currency option markets. Here, I will examine the USD/JPY Risk Reversal (\*) positon. This is a useful indicator for analysing market view of currency option market participants. Taking a look at Chart 3, the Risk Reversal has been staying in the negative territory most of time since the beginning of this year. This means that the premium of USD put option (right to sell USD and buy JPY) is more expensive than that of USD call option (right to buy USD and sell JPY). In other words, it implies that more currency option market participants trade on their expectation of weaker USD vs. JPY

rather than stronger USD vs. JPY. This kind of market situation is called “USD put (JPY call) over”. However, currently, negative gap narrowed sharply and has once recovered just above parity level. Such market situation is called “USD call (JPY put) over”, which is opposite one I have explained just above. This chart indicates that more currency option market participants are likely to bet on stronger USD vs. JPY.

**Chart 3 : USD/JPY Risk Reversal**



(Note) 1. Data period is from October 1, 2014 to February 12, 2015. Calculated based on 1month option with 25% delta.  
 2. (%) shown on the chart is a volatility differential of USD call and put calculated by "USD call volatility - USD put volatility".  
 (Source) SMAM, based on Bloomberg L.P. data

**(\*) Risk Reversal is one of the option strategies which makes positions combining out-of-the-money (OTM) call and put options with same maturity date, outstanding notional amount and delta and trade in the opposite directions. The trading cost for the position is for free, as the option premiums of both put and call are theoretically same, but in the real marketplace, the premiums depend on supply/demand and are often priced differently. Those price differences reflect market participants' views.**

Not to mention, the speculators' currency futures position and Risk Reversal analysis do not precisely reflect overall activities of market participants, however, I think they could be still used as an important tool to review the currency market activities as a reference, since many of market participants use them. Risk Reversal which discloses information daily provides more updated USD/JPY market information than currency futures position that does on weekly basis. In fact, when USD/JPY rate recovered to 120 yen level on February 11, 2015, Risk Reversal showed USD call (JPY put) over and when USD/JPY rate dipped to 118 yen on the following day, the indicator returned to USD put (JPY call) over again.

I think that the USD/JPY which has been range-traded for a while, seems to show some upward movement off the range. Although such changes can be seen in the currency option market, USD/JPY still seems to be weighed. I will foresee USD/JPY currency market outlook in my next report titled “Thoughts on surrounding factors that influence USD/JPY rate (Part 3)” by using popular technical analysis.

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