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Masahiro Ichikawa
Senior Manager

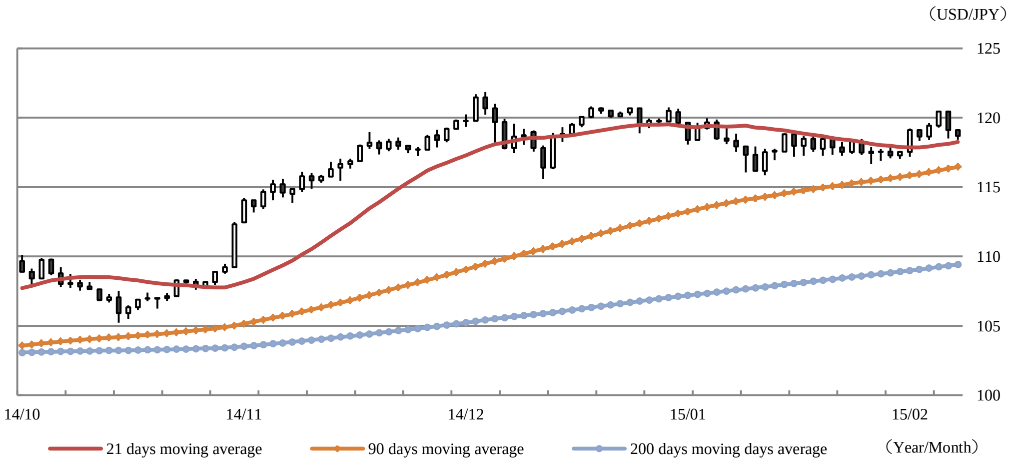
Thoughts on surrounding factors that influence USD/JPY rate (Part 3)

In my previous report titled “Thoughts on surrounding factors that influence USD/JPY rate (Part 2)”, I studied trade patterns of Foreign Exchange (Fx) market participants by examining speculators’ position of currency futures trading and the trend of Risk Reversal in currency option market. In short, one of the reasons why JPY depreciation against USD lost momentum is the speculators’ increasing preference to short Euro and Australian Dollars rather than JPY these days. In addition, USD/JPY Risk Reversal shows currency option market participants are betting on weaker USD against JPY, which might be preventing JPY from weakening further against USD.

Moving averages could indicate the support levels of USD/JPY rate in the short run

In this report I am going to give a view on the USD/JPY market using some well-known technical analyses. Please refer to the detailed explanations on those technical analyses at the end of this report. First, let’s start to review the moving averages (Chart 1). As of February 13, the USD/JPY moving averages (MAs) of 21 days, 90 days and 200 days were around 118.25 yen, 116.45 yen and 109.42 yen respectively. Those MAs indicate that USD/JPY was still in the upward trend as it was traded above all of the three MAs. Going forward, when USD slides against JPY the market participants would suppose each of them as support level in the short run.

Chart 1 : USD/JPY Rate Moving Averages

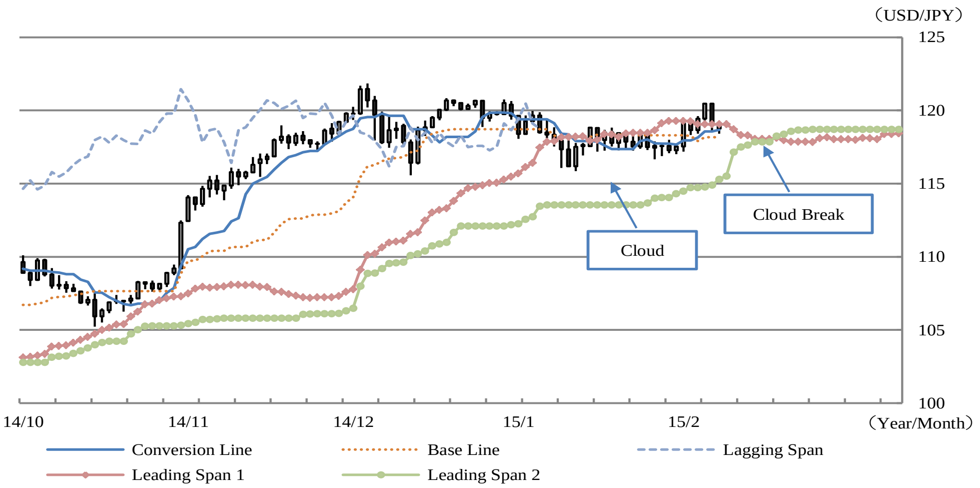


(Note) Data period is from October 1, 2014 to February 13, 2015
(Source) SMAM, based on Bloomberg L.P. data

Ichimoku Chart indicates mixed signs of bull and bear

Next, another popular analysis, Ichimoku Chart analysis indicates a mixture of bullish and bearish signs for trading (Chart 2). The USD is likely to move higher against JPY when the candlestick chart breaks through the ceiling of the "Cloud", but we have to be careful as the bar chart dipped into the "Cloud" again on February 13. And the crossing of "Conversion Line" over the "Base Line" is another sign of stronger USD, however, no clear direction is seen yet as the candlestick remains at around the "Lagging Span". The USD/JPY should keep above 120 yen level to confirm the clear direction sign, called "Triple Bull signs". They are (a) Candlestick chart breaking through the "Cloud" upward, (b) "Conversion Line" crossing the "Base Line" upward and (c) "Lagging Span" crossing the candlestick chart upward. We should keep our eyes closely on the USD/JPY market as the chart shows a "Cloud Break" at the end of this month, which would often indicate a sign of changing market trend.

Chart 2 : USD/JPY Rate Ichimoku Chart



(Note) Data period is from October 1, 2014 to February 13, 2015

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

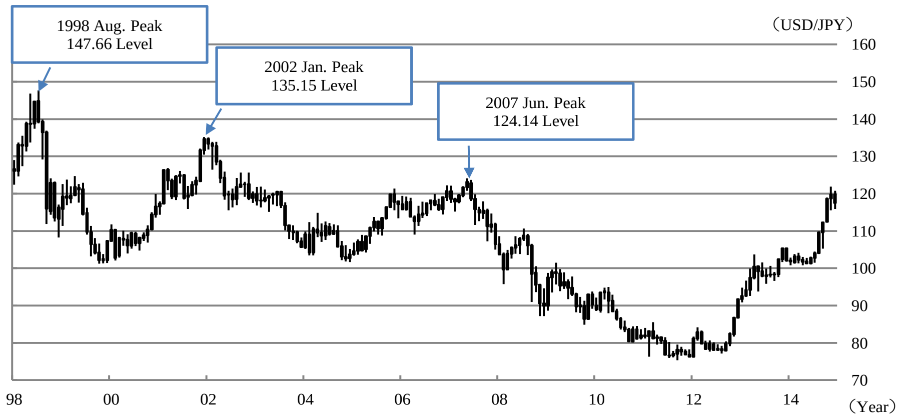
As far as the Moving Average and the Ichimoku Chart analysis, the appreciation of USD against JPY is continuing, however, the recent momentum seems to get weakening. Therefore, it would be a good idea to take the support levels into account, once you see the USD moving notably lower against JPY, by using the MAs and the signals of Ichimoku Chart. Other than those two technical analyses mentioned above, "Parabolic System" and "Point & Figure" are used to judge the market trend, and "Bollinger Bands" and "Relative Strength Index" (RSI) are used to judge the oversold/overbought condition of the market. It is also a good idea to analyse the market using several technical analyses simaltaneously.

Short term view: Continuing range-trade is anticipated for the time being, however, the high in June 2007 can be a resistance for USD

I explained the factors surrounding the USD/JPY Fx market in my three reports. My basic view is intact that the USD/JPY market is likely to move on the prospects for the divergence of monetary policy between US and Japan, which results in stronger USD and weaker JPY. However market participants are likely to be reluctant to short JPY against USD at this moment, since their interest in the BOJ's additional easing is declining as more central banks are rashing to ease their monetary policy in the world. Mr. Amari, Minister in charge of economic revitalisation, said "Neither government nor BOJ has commited to the specific deadline of achieving 2% inflation target" on January 27, and a media reported on February 12 "Some officials in BOJ started to think a further easing would be harmful for the Japanese economy".

Technical analyses suggest some downside risk in USD/JPY, while the currency pair is likely to be traded between 115 and 120 yen for a while. However, the USD/JPY is likely to be affected by US economic data and Fed's monetary policy outlook for the time being as the momentum of USD is on the stronger US economic data and interest rate rise in the US. The Chart 3 below shows the resistance lines of USD/JPY for reference as market participants often target recent highs when USD/JPY sharply advances beyond the current range. USD/JPY rose to its high of 124.14 yen in June 2007 before financial crisis, and this would become a resistance line for the time being.

Chart 3 : USD's Past Peak Levels against JPY



(Note) Data period is from February 1998 to January 2015

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

(Reference)

Candlestick Chart

The chart looks like a candlestick containing four key prices, namely opening price, highest price, lowest price and closing price. The Chart tracking price movement range on daily, weekly and monthly basis are called “Daily Candlestick Line”, “Weekly Candlestick Line” and “Monthly Candlestick Line” respectively. The Candlestick bar with higher closing price than opening price is called “White Body” coloured in white and the chart with lower closing price than opening price is called “Black Body” coloured in black. Generally, when White Body bar appears in succession, it is interpreted as bull market whereas Black Body appears in succession, it is interpreted as bear market. Highest and lowest prices are expressed as “Shadows” drawn on both upper and lower side of the Body. In general, when long downward Shadow appears in a bear market and long upward Shadow appears in a bull market, they are interpreted as the sign of reversal of the trend. Other than these, various patterns of market implication exist with various shapes and conbination of Candlesticks.

Moving Average

A typical methodology to analyse market trend by drawing a line plotting an average price over a set amount of time. For the Daily chart, 5 days, 21 days, 90 days and 200 days moving averages are widely used. The Moving Averages are referred as support lines and registance lines when judging timing of trades using Dailly Candlestick or bar chart.

Ichimoku Chart and Cloud

The chart is used to forecast future price movement as well as its center prices based on the relationship between the position of Candlestick Chart and 5 lines taking into account of market trend within a given period of time. The 5 lines are (i) Base Line: the value of (26-day-high + 26-day-low)/2) should be plotted on that day, (ii) Conversion Line: the value of (9-day-high + 9-day-low)/2) should be plotted on that day, (iii) Leading Span 1: the value of (Conversion Line + Base Line)/2) on that day should be plotted at 26 days later, (iv) Leading Span 2: the value of (52-day-high + 52-day-low)/2) on that day should be plotted at 26 days later, (v) Lagging Span: the value of Closing price on that day should be plotted at 26 days prior. The area surrounded by the Leading Span 1 and 2 is called a “Cloud”.

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