

2017 USD/JPY Exchange Rate Outlook

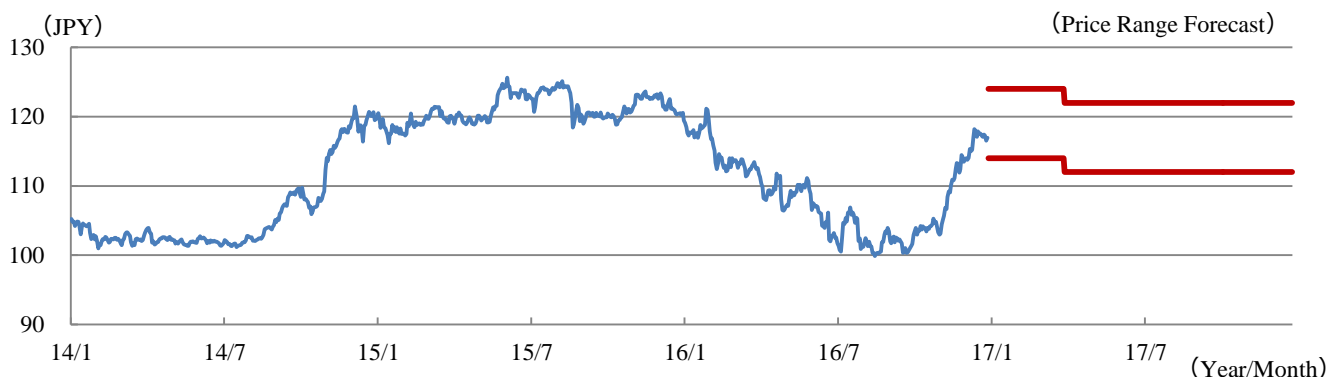
- Our forecast range for USD/JPY rate is from JPY 112 to JPY 124. If Trump’s economic policies are not disappointing, JPY will not rise sharply.
- Expectation of moderate interest rate hike in US and continuation of accommodative monetary policy in Japan suggests very moderate USD appreciation against JPY.
- USD/JPY rate is likely to be range traded in the second half of 2017, as sharp USD appreciation against JPY is unlikely based on our assumption on US’s exchange rate policy.

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SMAM’s 2017 forecast range for USD/JPY rate is from JPY 112 to JPY 124 (Chart 1). USD appreciated against JPY based on the expectation on Trump’s policies after US presidential election in November 2016, however, we need to assume relatively high volatility of USD/JPY rate as size and timing of US president-elect Donald Trump’s economic policies are not certain yet.

USD/JPY rate is expected to aim at around 120 as far as expectation on Trump’s policies prevails. In the short run, USD/JPY rate may possibly test downside of its range temporarily, as expectation on Trump’s policies seems to have lowered to some extent. Even so, we believe that JPY will not likely rise sharply as far as disappointment over incoming new president’s policies does not prevail for any reasons. However, expectation led market will come to an end around March 2017 when Trump’s policies will become clear.

“Chart 1: Price Range Forecast of USD/JPY Rate”



(Note) Data period is from 1st January 2014 to 29th December 2016. Price ranges indicated beyond January 2017 are forecast made by SMAM as of 19th December 2016. Heavy lines in red are upper and lower limits of price range forecast.

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

Expectation of moderate interest rate hike in US and continuation of accommodative monetary policy in Japan suggests very moderate USD appreciation against JPY

After early spring, we need to watch monetary policies of both US and Japan. According to distribution of FOMC member's views on where the policy rate should be (dot plot), three policy rate hikes in 2017 is indicated. We expect two policy rate hikes in 2017, as we believe USD appreciation restrains prices and that enables moderate pace of rate hike, despite acceleration of US growth pace in the second half of 2017 due to US president-elect Donald Trump's tax reduction and infrastructure investment.

Meanwhile, in terms of BOJ's monetary policy, we believe its framework of "Quantitative and Qualitative Monetary Easing with Yield Curve Control" will be maintained at least in 2017 until trend of price increase becomes clear in Japan. Expectation of monetary policies of US and Japan, a moderate interest rate hike in US and continuation of accommodative monetary policy in Japan, suggests USD/JPY rate trend of very moderate USD appreciation against JPY.

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We expect that realistic approach based on negotiation will be adopted for international trade policy and concern of market participants over US's protectionism will gradually fade away. In addition, we expect size of fiscal policy will be based on neutral fiscal policy which will be less than that of US president-elect Donald Trump's commitment. Therefore, we believe that sharp appreciation of USD against JPY based on widening of interest rate differential will not happen as yield of 10-year government bond is expected to stay within range of 2.0% to 2.8% in 2017.

Meanwhile, in 2017, JPY might temporarily appreciate due to European politics and environment surrounding China and emerging countries, however, what we really need to watch as a risk factor is currency exchange rate policy of US president-elect Donald Trump. Although direction of currency exchange rate policy is not clear yet, sharp USD appreciation might not be accepted as Trump continued to focus on supporting manufacturers in US. Even from this point, we expect to see more range-bound trade in USD/JPY rate in the second half of 2017 as one-way USD appreciation against JPY is not likely.

*** Please note that this report is a translation of Japanese report written on 10th January, 2017.**

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