



Today's Theme



Japan, US

## US\$ / JPY Exchange Rate Outlook



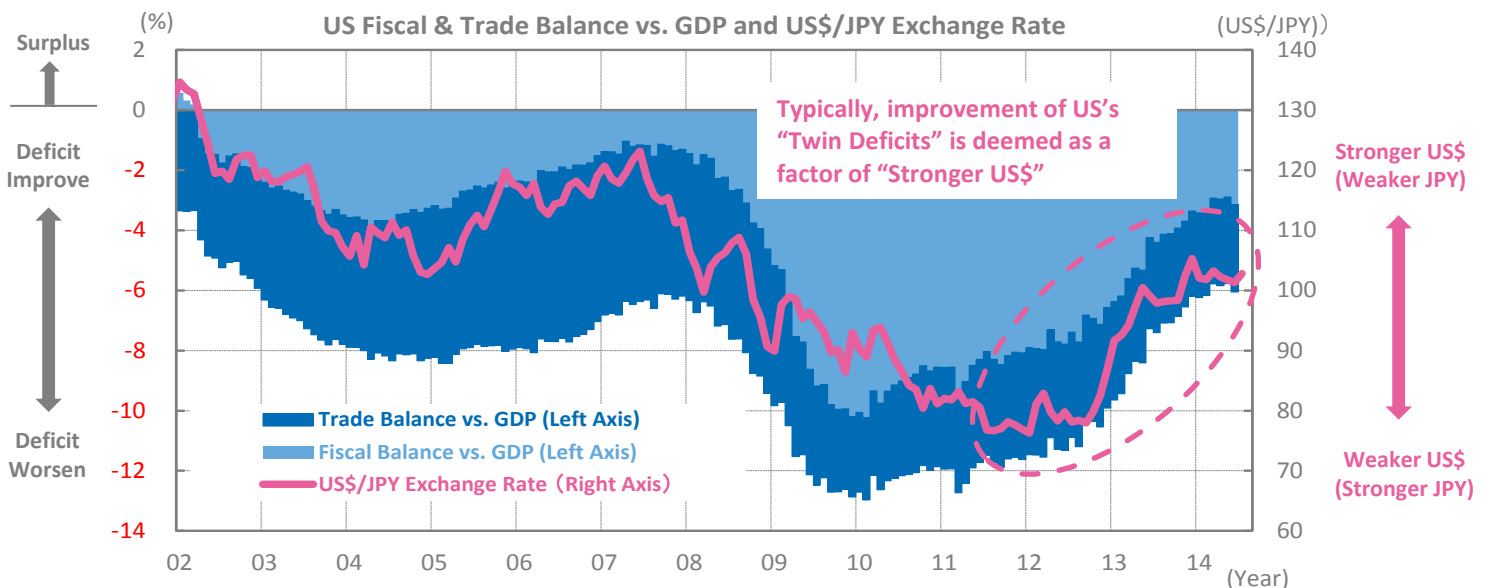
### Will JPY be back to strong vs. US\$ again?



Many factors such as difference in the direction of monetary policies, "improvement in twin deficits of the US" etc. suggest a direction of "JPY depreciation vs. US\$" in theory.

■ The Bank of Japan (BoJ) is keeping its unprecedented monetary easing policy and might implement additional easing measures depending on the outlook of CPI, while the US FRB is likely to end its quantitative easing by this autumn. Typically, such loosened monetary situation of Japan relative to the US deemed to be a factor of "weaker JPY".

■ The fiscal deficit (vs. GDP) of the US is on an improving trend due to tax revenue increase. The trade deficit (ditto) is likely to improve in mid/long term due to decreasing energy import. Typically, improvement in the twin deficits is deemed to be a factor of "stronger US\$".



(Notes) Data from Jan. 2002 to Jun. 2014 (US\$/JPY Exchange Rate is month end rate till Jul. 2014).

Trade & Fiscal Balance vs. GDP were calculated using 12 months' aggregate and annual average nominal GDP.

(Source) SMAM, based on US Treasury, US Dept. of Commerce, Bloomberg L.P. data.

### Outlook

#### US economic recovery + Japan maintaining monetary easing suggests weaker JPY

- We anticipate the US economy would accelerate in the latter half of this year due to improvement in employment environment etc. and consequently, fiscal balance would improve as well as tax revenue increases.
- In the US, production of non-conventional crude oil such as shale oil etc. are increasing.

This implies that in mid/long term, the fuel import by the US will decrease, which will be a factor to promote improvement in the trade deficit.

- The BoJ is considered to continue its monetary easing policy to achieve the inflation target of 2%. Along with the US moving towards an improvement in the "Twin Deficits", these are factors to promote "weakening of JPY against US\$".



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