

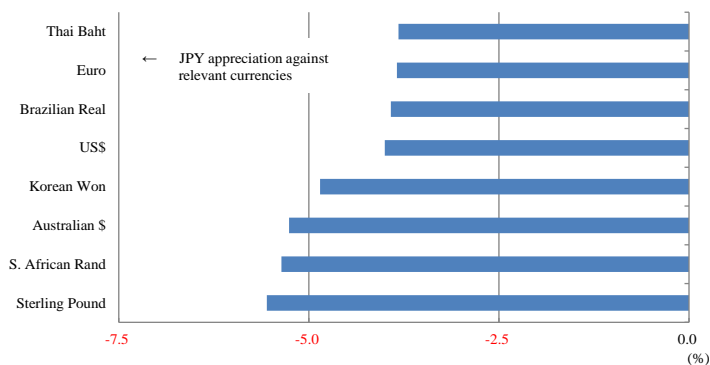
Trying to find out trigger for reversal of JPY appreciation

- While crude oil price stabilizing, speculators seem to have led recent sharp JPY appreciation.
- Background of buying JPY were; i) FRB's dovish stance, ii) expectation on return of risk-off sentiment by crude oil price fall and iii) low possibility of BOJ's intervention.
- Need to keep an eye on G 20 Summit (14th and 15th April, 2016) and meeting of major oil producers (17th April, 2016) as triggers for reversal of JPY appreciation.

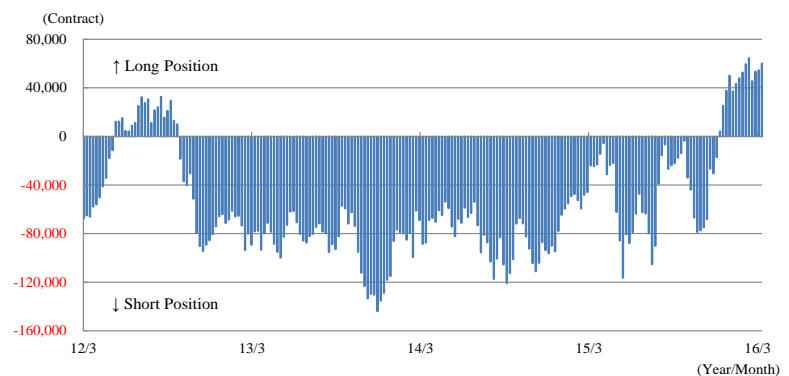
While, crude oil price stabilizing, speculators seem to have led recent sharp JPY appreciation

JPY once appreciated against USD to JPY107.67 on 7th April, 2016. Later, on 8th April, 2016, JPY dropped to JPY109 level against USD by warning comment by Finance Minister Aso on sharp rise in the currency value, however, JPY purchase gained its momentum again and finally USD/JPY rate closed at JPY108.07 in New York market. JPY appreciated even across all major currencies other than USD (Chart 1) because of increasing risk-off sentiment triggered by crude oil price fall in early April.

However, sharp JPY appreciation of the past few days seemed to be led by speculators, as crude oil price has stabilized recently for a while. As a fact, based on currency futures listed on International Money Market in Chicago, JPY transaction by speculators (as of 5th April, 2016) announced on 8th of April, 2016 was a net long of JPY by 60,073 contracts (1 contract = JPY12.5 million) (Chart 2). Aggressive purchase of JPY by speculators can be confirmed by such data.

"Chart 1: Rate of Change of Major Currencies Against JPY"

(Note) Rate of change against JPY from 31st March, 2016 to 8th April, 2016.
(Source) SMAM, based on Bloomberg L. P. data.

"Chart 2: Speculators' JPY Position of Currency Futures Transaction"

(Note) Data period is from 27th March, 2012 to 5th April, 2016.
(Source) SMAM, based on Bloomberg L. P. data.

Background of buying JPY were; i) FRB's dovish stance, ii) expectation on increasing risk-off sentiment by crude oil price fall and iii) low possibility of BOJ's intervention

While, I have been expecting bottom of USD/JPY rate to be middle of JPY106 level or watershed of around JPY105, it is already approaching these levels. Unlike stocks and bonds, asset classes generating cash flow stream, currency exchange rate is simply an exchange rate of two currencies. Therefore, it is often the case that currencies shoot up or plunge when speculation of market participants bet on one direction.

However, certain reasons are necessary for market speculators to bet on one direction. Speculators seem to have built JPY net long position on the basis of factors such as i) FRB's dovish stance, ii) expectation on increasing risk-off sentiment by falling crude oil prices and iii) low possibility of BOJ's currency intervention, this time. Therefore, if i) to iii) factors turn around, in other words, if expectation of earlier interest rate hike in the US rises, crude oil price sharply pick up and BOJ's turns to the intervention, these might be a trigger for reversal of JPY appreciation against USD, as speculators are expected to reduce their JPY net long position.

Need to keep an eye on G 20 Summit (14th and 15th April, 2016) and the meeting of major oil producers (17th April, 2016) as triggers for reversal of JPY appreciation

However, we need not see i) to iii) scenario actually materializes for the JPY to depreciate. First, as to factor i), JPY is expected to depreciate against USD if market participants recognize stronger than expected US economic data and stabilization of global economy as well as financial conditions, which FRB focuses on, as FRB is not likely immediately to turn hawkish. Next, as to factor ii), key is whether or not crude oil production can be freezed at the meeting of major oil producers (17th April), however, I believe crude oil price will rise and JPY will weaken against USD if any comments were to be made by persons concerned.

Lastly, as to factor iii), although possibility of BOJ's intervention is quite unlikely at this moment, pace of JPY appreciation can be slowed by comments of member of currency authority expressing concern over excessive volatility of JPY. Meanwhile, it is extremely important for Japan to get international agreement about currency intervention, especially with US. Therefore, sharp JPY depreciation can be expected if any clue relating to currency exchange were to be found in memorandum of joint statement at G 20 Finance Ministers and Central Bank Governors Meeting scheduled to be held in Washington (14th and 15th April, 2016).

*** Please note that this report is a translation of Japanese report written on 11th April, 2016.**

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