

## **USD/JPY continues range-traded**

- Expectation of late next move by FRB and BOJ would result in directionless trading.
- USD appreciation pace is likely to slow after Fed's lift-off, while BOJ holds on current monetary policy.
- The high in June 2007 at 124.14 yen would be a resistance.

### **Expectation on late next move by FRB and BOJ would result in directionless trading**

Currently, USD/JPY has been traded in a narrow range for couples of months. The USD opened at 119.70 against JPY this year and moved lower to 115.86 on January 16. Then, the USD has been range-traded around 120 after temporarily soaring to recent high at 122.03 on March 10. The current USD/JPY moves only 6.17 yen from the rate at the beginning of this year (as of April 14).

The divergence of monetary policy between the US Fed and BOJ in principle causes the USD to strengthen against JPY, as BOJ maintains its quantitative easing (QE), while Fed is expected to move to hike rate this year. However, the odds of the later first rate hike by Fed and the later additional easing by BOJ are increasing in the markets on the latest economic fundamentals of the two countries. With this reason, USD has been range-traded around the current level. Since the difference in the monetary policy between US and Japan affects USD/JPY rate substantially, I would like to summarize the outlook of the monetary policies of the both central banks as below.

### **USD is likely to appreciate slowly after Fed's lift-off, while BOJ holds on current monetary policy**

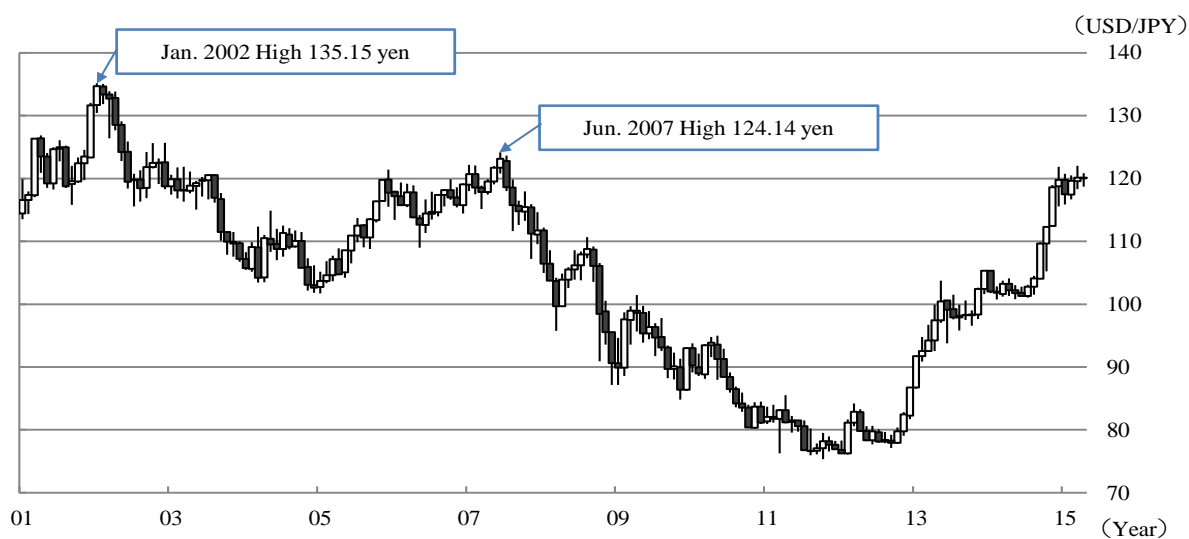
Kuroda, Governor of Bank of Japan showed his view at the press conference on April 8: a) the risk of receding to deflation or late exit from deflation encountered in last October is currently reduced, b) the trend of good's price is getting rather stable, and c) the inflation rate is expected to accelerate from this autumn. Therefore, the current monetary policy is very likely to be kept hold as far as the inflation expectation is not changed so much, even if consumer price y-o-y growth temporarily dips into negative. Thus, the reacceleration of USD against JPY led by additional QE is less likely for the time being.

The Fed's lift-off is anticipated to be late this year or as early as this September and rate path is also expected to be at a considerably moderate pace. In case the US Treasury yield is substantially limited to rise, USD is highly likely to strengthen at a slower pace. I believe that the currency market is likely to be affected by the US economic data as Fed's Yellen stated "data dependent."

## The high in June 2007 at 124.14 yen would be a resistance

As mentioned above, the USD/JPY is likely to be traded directionless for some time as market participants are on the sidelines due to lack of fresh incentives on the monetary policy of US and Japan. I think that BOJ's additional easing would be necessary together with the Fed's rate hike in order for the USD to further strengthen against JPY. Since Kuroda reiterates that the consumer prices y-o-y growth is highly likely to attain the target of +2% in FY2015 or around, the central bank has to take some action in case the inflation target is very likely to be unachievable close to the FY2015 end. If the BOJ maintains the current policy framework, the expectation on the additional QE would increase and JPY might get weaker against USD towards the end of this year. In my view, the technical resistance for USD/JPY is 124.14 of high in June 2007 before the financial crisis. However, Japanese government does not seem to need early additional easing as further JPY depreciation would result in the increase in imports' prices and reduce the benefit from low crude oil price. As long as the market participants take this point into account, further sharp climb of USD will be less likely.

Chart 1 : USD/JPY Rate Historical Chart (Monthly basis)



(Note) Data period is from Jan. 2001 to Apr. 2015. Apr. 2015 till 13th.

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

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