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US Presidential Election and USD/JPY Rate Movement

- Relation between President's political party and currency rates is a popular topic for argument.
- No significant correlation between President's political party and USD/JPY rate is observed in reality during presidency term of office.
- USD got stronger for the first year after inauguration of President regardless of President's political party.

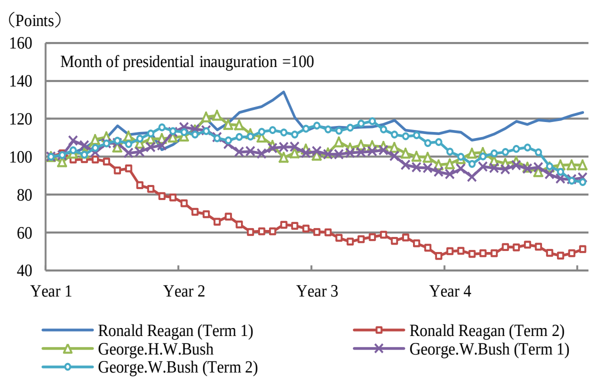
Relation between President's political party and currency rates is a popular topic for argument

The U.S. presidential election is scheduled on November 8, 2016. Despite a year and a half left before the election, the race for the election in reality has already started since Hillary Clinton, former U.S. Secretary of State declared to run for the election on April 12. The relation between president's political party and currency rates is often argued among the market participants. As this popular topic will attracts investors' attention, I would like to examine this issue prior to the presidential election is going into a full swing.

No significant correlation is observed between President's political party and USD/JPY during presidency term of office

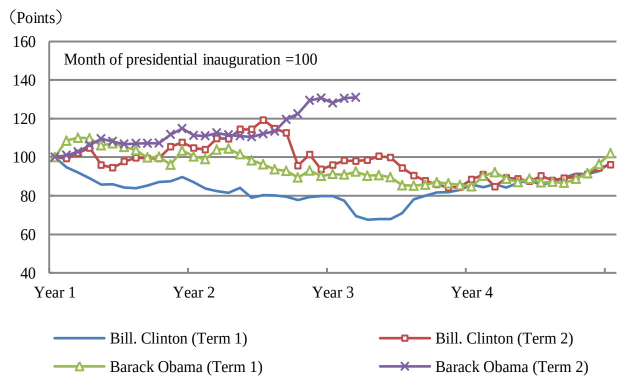
In general, the Republicans aim for a free market capitalism with a limited government, whereas the Democrats allow a big government to intervene national economy and markets. For that reason, US dollar is deemed more influenced by the policy of the Democratic President and hence the currency is considered to have a tendency to get weaker under the presidency of the Democrats, while it tends to get stronger under that of the Republicans. Thus, I would like to examine how USD/JPY moved in reality during the terms of every office for the past Presidents after 1981.

"Chart 1: Republican President and USD/JPY Rate"



(Note) Data period: Reagan Term 1 from Jan. 1981 to Jan. 1985, Term 2 from Jan. 1985 to Jan. 1989, George H.W. Bush from Jan. 1989 to Jan. 1993, George W. Bush Term 1 from Jan. 2001 to Jan. 2005, Term 2 from Jan. 2005 to Jan. 2009.
(Source) SMAM, based on Bloomberg L.P. data.

"Chart 2: Democratic President and USD/JPY Rate"



(Note) Data period: Clinton Term 1 from Jan. 1993 to Jan. 1997, Term 2 from Jan. 1997 to Jan. 2001, Obama Term 1 from Jan. 2009 to Jan. 2013, Term 2 from Jan. 2013 to Mar. 2015.
(Source) SMAM, based on Bloomberg L.P. data.

The Chart 1 illustrates USD/JPY under the terms of the past Republican Presidents' office, while the Chart 2 does USD/JPY under those of the past Democratic Presidents' office. All lines representing USD/JPY rates on the both charts start at 100 at the beginning of the presidency terms at the end of January until the end of the term for four years. The Chart 1 shows USD/JPY got stronger four times of the total five Republican presidency terms, while USD/JPY got weaker only one time. The Chart 2 shows two wins and two losses for USD/JPY of the four Democratic presidency terms. (USD/JPY for the current second presidency term of Barrak Obama is tentatively shown until the end of March 2015). As you can see, there is no significant correlation between President's political party and USD/JPY during President's term of office.

USD got stronger for the first year after inauguration of President regardless of President's political party

Now, I would like to examine USD/JPY focusing on a shorter period for one year rather than four years. For the period of one year, the Chart 1 shows USD/JPY got stronger four times out of five. During the second presidency term of Ronald Reagan, USD/JPY significantly got weaker on a correction from strong US dollar as a result of the Plaza Accord (September 1985). The Chart 2 shows three wins and one loss for USD/JPY for one year period. The time of rapidly weakening USD/JPY corresponds to the period of the first presidency term of Bill Clinton when hawkish US trade policy was adopted putting downward pressure on USD/JPY. In total, USD/JPY moved higher during the first one year of the presidency term for four years, for seven times out of nine presidency terms regardless of the President's party.

On the observation above, I can conclude that the argument on the relation between the U.S. presidential election and USD/JPY as follows. First, there is no clear correlation between President's political party and USD/JPY rate during President's term of office. Nevertheless, USD/JPY is more likely to be affected by other long-term fundamental factors such as inflation rate difference between two countries for a long period. Secondly, USD/JPY tends to get stronger for the first one year in the presidential term regardless of political party of the President. This would be brought by the positive market sentiment to buy USD cheering new Presidents after the end of long-lasted election. In conclusion, direction of USD/JPY is not decisively determined by political party of the new President. Whichever the party wins the presidential election, we should carefully take Japanese yen's factor into consideration, when observing USD/JPY market, such as Japanese government's currency policy, adding to the US policy and multinational agreements.

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