



Japanese yen

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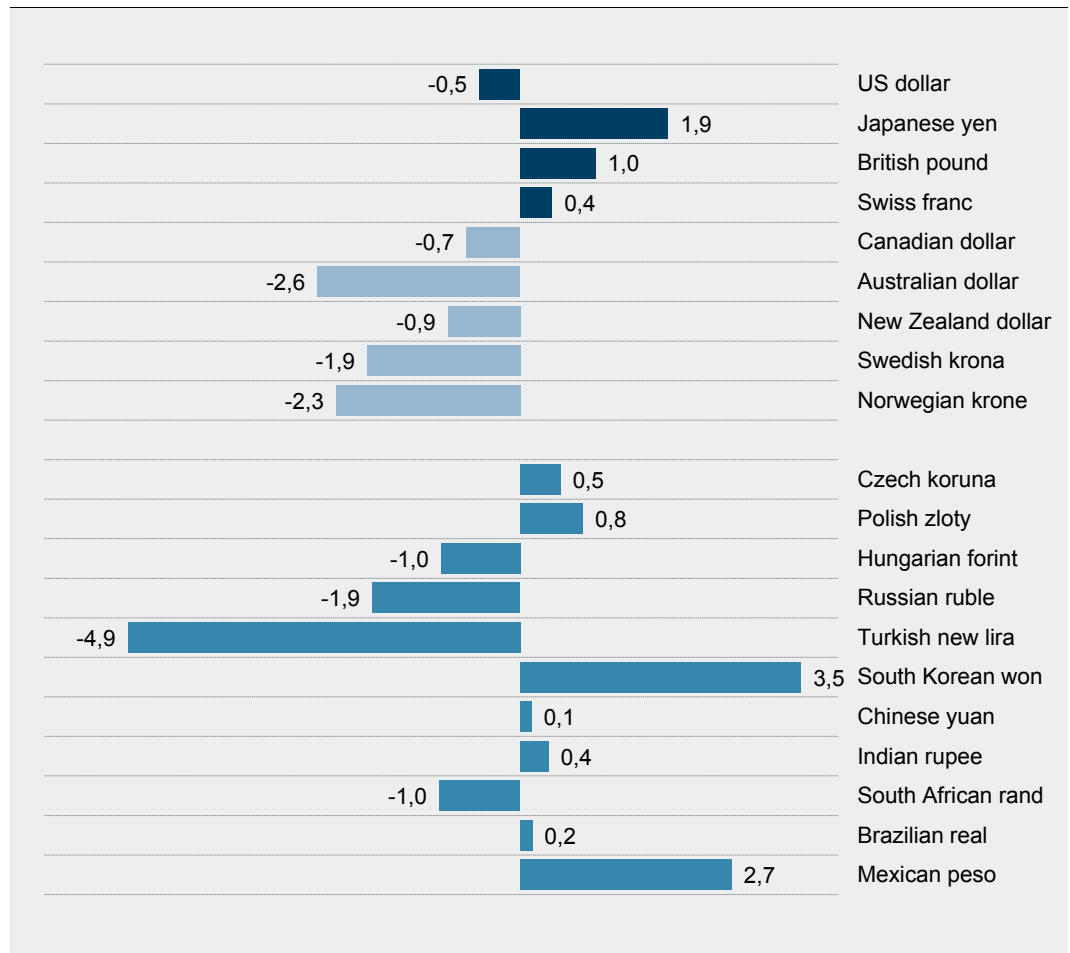
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- The Japanese yen was most recently among the winners, while the euro-dollar exchange rate was treading water. By contrast, commodity currencies and the Turkish lira came under pressure.
- The yen depreciated against the euro in 2017, but gained against the US dollar. Unlike the other central banks, the Bank of Japan is not planning to abandon its expansionary monetary policy. However, the Japanese yield disadvantage is put into perspective on the basis of a long-term comparison. The valuation of the yen remains favourable. At the same time, a waning appetite for risk in the financial markets could boost the demand for the yen. On balance, the yen should advance slightly against the euro and the US dollar in 2018.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 10/24 to 11/22/17)



■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets

Sources: Bloomberg, Helaba Research

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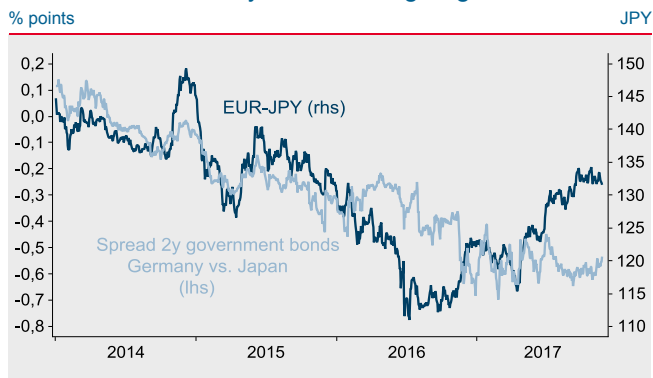
JPY: more opportunities than risks

The Japanese yen often times has little life of its own. The exchange rates against the euro and the US dollar then reflect merely the development of these two currencies. In 2017, the euro appreciated clearly against the US dollar. As a result, the yen lost more than 6 % against the euro this year, but appreciated a 5 % against the US dollar. However, one should not neglect a look at Japanese factors that influence the currency.

Monetary policy argues against the yen

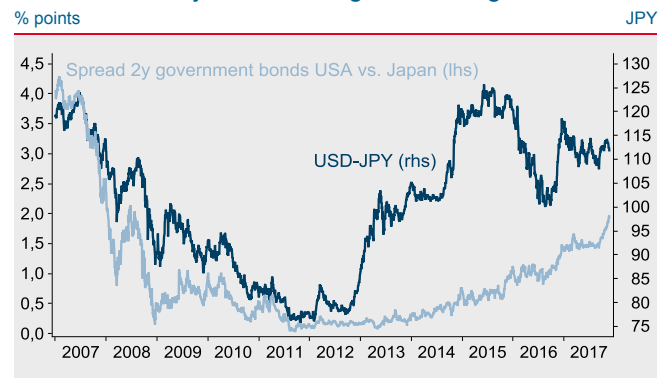
Essentially, things could be so simple in the currency market: the decisive driver is monetary policy. The US central bank raises its key rate and reduces its bond portfolio. While the ECB is still taking time with its turnaround on interest rates, in principle it has initiated a change of course by reducing its asset purchases. In contrast, Japan's central bank does not seem to be departing one inch from its very expansionary course. The Bank of Japan (BoJ) is capping not only its key interest rate, but also the long-term bond yields close to zero. Accordingly, the yen is losing relative attractiveness.

Yen with short-term yield advantage against euro



Sources: Macrobond, Helaba Research

Short-term US yield advantage becoming relative



Sources: Macrobond, Helaba Research

Unfortunately, reality is usually more complicated. In fact, on short-term bond yields, the yen even displays a rather stable advantage against the euro, and the disadvantage has barely grown on long-term interest rates. Against the US dollar, Japan's yield lag on long-term securities fluctuated, though on balance it did not expand in 2017. To be sure, the US interest rate advantage has expanded noticeably on two-year bonds. However, in historical terms, this advantage is by no means especially high – in view of the current dollar-yen exchange rate.

Monetary basis growing more slowly

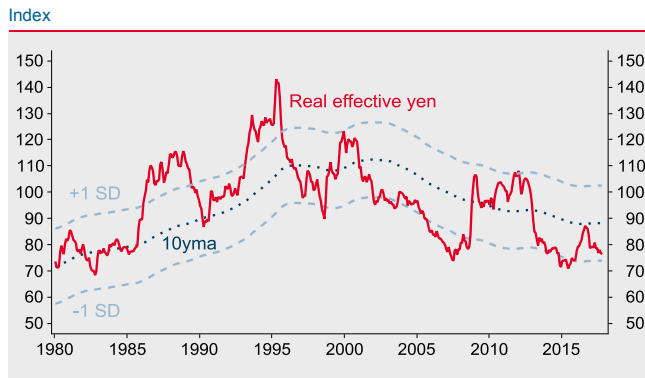
Even the quantitative measures of the BoJ are becoming relative. At this time, Japan's central bank is guiding primarily the long-term yield level with its asset purchases. To do so, it is not using as much money as it did in previous years, when Japan's monetary basis was boosted every year by around 80 trillion yen. Thus, the money supply of Japan's central bank is growing much more slowly than in previous years, and above all compared to the euro zone. It is likely that the monetary basis in the euro zone will grow more slowly again than in Japan only in the second half of 2018.

Monetary policy will tend to continue weighing on the yen, since the interest rate differences are likely to expand further in 2018. This applies more vis-à-vis the US dollar than against the euro. However, this disadvantage of the yen does not carry as much weight as might appear at first glance. Moreover, even Japan's loose monetary policy is not carved in stone. Re-elected Prime Minister Abe continues to argue in favour of expansionary measures, and new members of the BoJ will also be chosen accordingly. Inflation remains subdued and should be at 0.6 % in 2018 – not far off from its current rates. By contrast, growth in 2017 will be above average at around 1.5 % and should stand at a solid 1.0 % in the coming year. Still, very gradual adjustments of monetary policy can at least not be ruled out entirely.

Favourable yen as export advantage

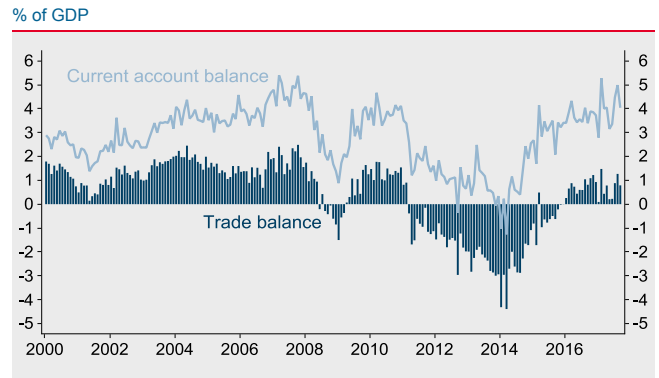
Valuation indicators, on the other hand, support the yen. Japan's currency seems favourable on the basis of both real exchange rate indexes and mean-adjusted purchasing power parities. This is reflected in Japan's current account balance, which is showing a very high surplus at 4 % of GDP. Even if the strong plus is the result rather of investment income than of trade surpluses, it could run afoul of protectionist-oriented US President Trump – and not completely without reason. After all, the charge of currency manipulation against Japan cannot be entirely dismissed. Should political pressure actually arise from the US, the yen should profit, especially since the long-term valuation indicators underpin this.

Yen very favourably valued



Sources: Macrobond, Helaba Research

Japan with high current account surplus

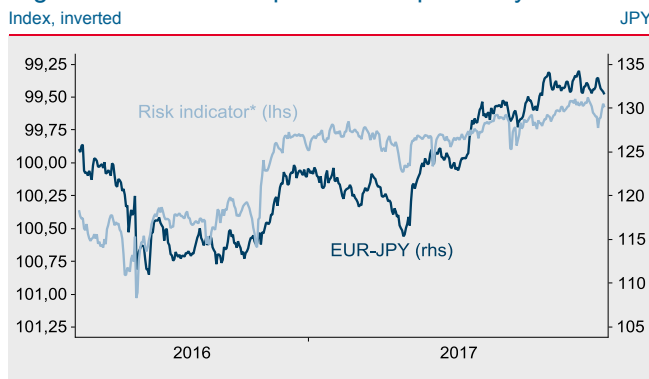


Sources: Macrobond, Helaba Research

Yen as safe haven

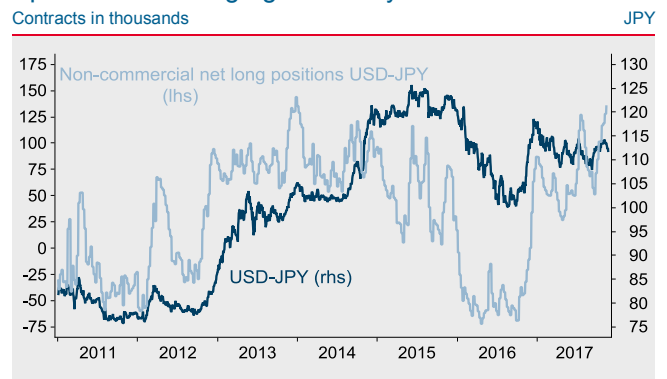
The yen continues to be seen as a safe investment haven. Although that may not seem entirely plausible given Japan's horrendous national debt of around 240 % of GDP, empirically market participants continue to act that way. In part, the market behaviour is explained by the fact that investors take on debt in the Japanese currency and liquidate their positions again (i.e., buy back yen) if risk aversion rises. Moreover, Japan's yield disadvantage narrows in such an environment. Should the currently high tolerance for risk in the financial markets suffer a pronounced setback, something we assume will happen over the course of 2018, the yen should appreciate noticeably – at least temporarily. Moreover, there are currently large speculative positions against the yen, something that has often been a conraindicator.

Higher risk aversion a potential help to the yen



* calculated from VIX, High-Yield Spreads, Gold-Copper-Ratio
Sources: Macrobond, Helaba Research

Speculators betting against the yen



Sources: Macrobond, Helaba Research

While monetary policy will tend to continue weighing on the yen, valuation indicators, current account balances, and market sentiment as a conraindicator rather argue in favour of Japan's currency. With that, the risk-reward ratio for 2018 is generally positive. Even if contrary developments are possible over the short term, the yen should advance on balance. Thus, the dollar-yen exchange rate could drop below 110 again and the euro-yen exchange rate to 125.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q4/2017	Q1/2018	Q2/2018	Q3/2018
vs. Euro	(vs. Euro, %)						
US dollar	-11,0	-0,5	1,18	1,15	1,10	1,15	1,15
Japanese yen	-6,5	1,9	132	130	127	125	125
British pound	-3,8	1,0	0,89	0,85	0,85	0,90	0,90
Swiss franc	-7,7	0,4	1,16	1,15	1,12	1,15	1,17
Canadian dollar	-5,8	-0,7	1,50	1,48	1,44	1,50	1,47
Australian dollar	-6,0	-2,6	1,55	1,51	1,47	1,49	1,47
Swedish krona	-2,9	-1,9	9,86	9,70	9,50	9,40	9,20
Norwegian krone	-5,7	-2,3	9,64	9,40	9,10	9,00	8,90
Chinese yuan	-5,9	0,1	7,80	7,71	7,48	7,88	7,88
vs. US-Dollar	(vs. USD, %)						
Japanese yen	5,2	2,4	111	113	115	109	109
Swiss franc	3,8	0,9	0,98	1,00	1,02	1,00	1,02
Canadian dollar	5,9	-0,2	1,27	1,29	1,31	1,30	1,28
Swedish krona	9,2	-1,4	8,34	8,43	8,64	8,17	8,00
Norwegian krone	6,0	-1,8	8,15	8,17	8,27	7,83	7,74
Chinese yuan	5,1	0,4	6,61	6,70	6,80	6,85	6,85
US-Dollar vs. ...	(vs. USD, %)						
British pound	8,0	1,5	1,33	1,35	1,29	1,28	1,28
Australian dollar	5,7	-2,0	0,76	0,76	0,75	0,77	0,78

*22.11.2017

Sources: Bloomberg, Helaba Research ■