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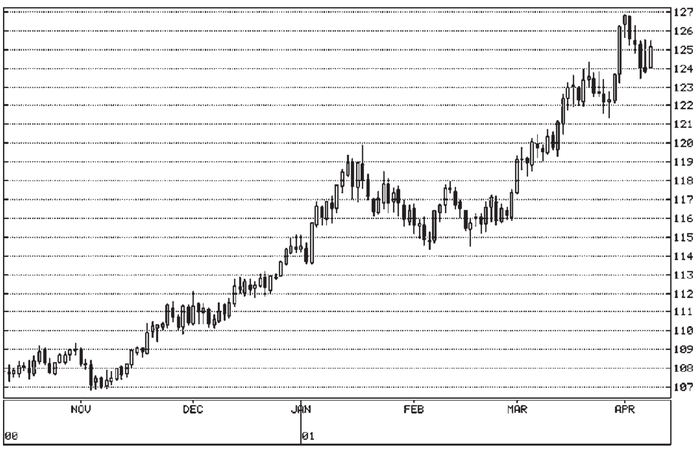
Global Strategy and Investment Trends by David Fuller http://www.fullermarkets.com

# Comparing statements from Japanese monetary policy officials on the yen with inter-day trading in Japan

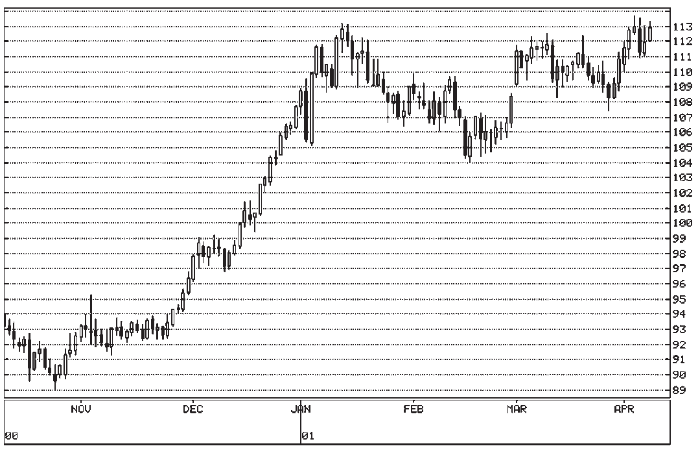
**Is the BoJ and MoF trying to hold the yen up while locals bail out? -** The yen is in a cyclical bear market for technical and fundamental reasons familiar to readers of Fullermoney. We know that the 'born again' Bank of Japan is now committed to 'quantitative easing' in order to pull out of the deflationary spiral it helped to create. In other words, it is printing money. Japanese officials have repeatedly stated that they are not targeting the yen to engineer a competitive devaluation, which would certainly be provocative, drawing criticism from other Asian countries and the US. Technically, what the Japanese say is true because they are officially targeting money supply (M2+CDs) and retail prices. However, by printing trillions of yen until money supply is substantially above the current level of 2.7% and consumer prices are rising rather than falling, they will certainly weaken it relative to other reserve currencies. Moreover the BoJ has announced that it will maintain the "zero interest rate policy" during its quantitative easing. Therefore who would want to buy and hold yen knowing that it will have no yield and supply can only increase? Obviously very few people relative to those would like to sell the Japanese currency. Some have profited handsomely from the yen's cyclical decline over the last five months and the potential for further gains is considerable. Enter Japan's monetary officials who do not want the home side to lose out, especially as it had previously repatriated yen after bailing out of the euro last year while also shoring up parent company balance sheets before the fiscal yearend on 31st March. Consequently BoJ Governor Masaru Hayami, Finance Minister Kiichi Miyazawa, Vice Finance Minister Haruhiko Kuroda and others have been jawboning on a daily basis recently. Kuroda has been the most outspoken, contributing an article to the Wall Street Journal last Thursday and warning, "if excessive moves continue we won't hesitate to take appropriate action". These comments are for overseas consumption, intended to deter the yen carry trade and trigger a few stops. Meanwhile, Japanese are bailing out of yen. The recent inter-day trading shows the yen weakening during Asia's trading session, followed by an after-hours warning issued in time for the European opening. This has had the desired effect of firming the yen through the close of US trading, enabling Japanese institutions to do more selling at favourable rates. The policy is sensible because if Japan's monetary officials know that they will devalue their currency over the medium to longer term, they can help their banks, insurance companies and other large investors by mentioning privately that it might be a good idea to export capital. After the yen has fallen significantly over the next year or more, Japanese institutions will be able to lock in a large profit by repatriating capital once again. Meanwhile, Japan's monetary officials' strategy of managing the yen's decline will work for a while, until everyone else recognises what is going on.

Best regards - David Fuller

**US Dollar/Yen : Daily 125.17**




**Euro/Yen : Daily 112.87**

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