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

A strengthening yen? Not if the MoF wants to prevent it.

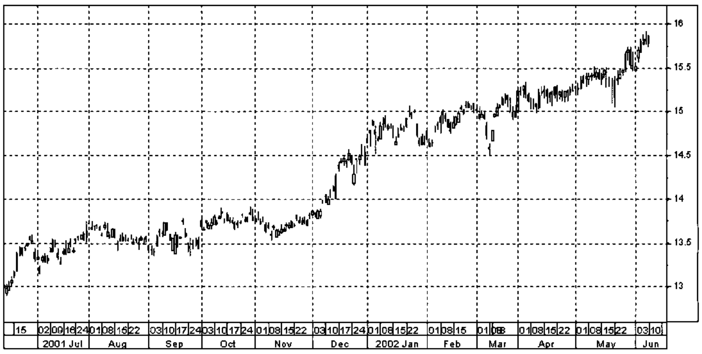
Psychologically, it's easier for a government to weaken rather than strengthen its currency. All it needs to do is print more of it, and then talk it down or even intervene on occasion. Lower short-term interest rates, relative to other currencies, also make it less attractive to hold. In theory, it ought to be no more difficult to strengthen a currency, with the central bank sterilising excess liquidity and hiking rates, while also jawboning and actually intervening on occasion. In practice, it seldom works out that way because in markets, confidence is more easily undermined than restored. Also, raising interest rates and/or draining liquidity may not be credible alternatives if these measures jeopardise a central bank's preferred level of economic growth. Japan, where the Ministry of Finance makes the actual decision on currency intervention, has actively managed its currency in recent years. This has mainly been to weaken the yen but they have also talked it up, as we saw earlier this year. The MoF has been unusually successful in moving the yen and one factor may be the slow growth of money supply - only 3.5 percent (M2+CD) at the latest reading. With so little money actually in circulation, jawboning and/or actual intervention could have a greater market impact. In any event, the Japanese Government clearly fears a too strong yen even more than a currency that is depreciating too rapidly. This is hardly surprising given Japan's overall weak economic performance and persistent deflation. While the economy did grow 1.4 percent in 1Q 2002, ending three consecutive quarters of decline, half of this recovery came from export earnings, which are threatened by an appreciating yen. Consequently the BoJ has been instructed to intervene against the weak US dollar on four occasions in the last three weeks. Such persistence sends a strong message, which the market is beginning to reflect, mainly through a weaker yen against higher-yielding currencies, led by the Norwegian Krone and including the Australian and New Zealand dollars. Two of these have extended their overall uptrends against the yen. Others should follow their lead, at least until Japan next warns that the yen is falling too rapidly. Meanwhile, the currently in-form euro should follow their lead and is currently eroding overhead resistance.

Sterling and the US dollar have steadied near base support against the yen. I remain short yen, alternating range trading with trend-running tactics, as outlined in FM216 and earlier issues.

Best regards - David Fuller

Charts supplied by Bloomberg.

Norwegian Krone/Yen: 15.859 (Daily)



Euro/Yen: 117.85 (Daily)

Sterling/Yen: $182.20 (Daily)

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