

Currency Intervention – October 2011

After August 2011, the Japanese yen has been fluctuating in the 76 yen/U.S. dollar range level. The stronger yen continued to persist despite Bank of Japan's efforts to curb the currency's appreciation through loose monetary policy. On the morning of October 31st, the yen soared to a post World War II high of 75 yen/U.S. dollar level on the Oceania market. However, after registering a record high in early trading, the yen dropped sharply around 10:20 a.m. and an hour later at 11:35 a.m., it had weakened down to the 79 yen/U.S. dollar level.

The market immediately suspected that the Japanese government had intervened in the foreign currency market since such movement would be impossible given the current state of affairs. Later, Finance Minister Jun Azumi confirmed the government's action at an emergency press conference.

At the press conference Mr. Azumi stated that the intervention was carried out unilaterally and not through a joint intervention. He emphasized that the strengthened yen does not correctly reflect the fundamentals of the Japanese economy and that the continued speculative positions triggered the government to take action at 10:25 a.m. On October 26th, Mr. Azumi had expressed his belief that the 76-77 yen/U.S. dollar level range is not a suitable rate. At the press conference held on October 31st he would only state that the government "will continue to intervene in the market until satisfied."

However, the effectiveness of the unilateral intervention has yet to be proven and skepticism over whether the currency rates after the intervention are sustainable still remains. We believe that the recent currency movement reflects the shift in investor sentiment regarding the possibility of the deployment of the QE3 (quantitative easing) by the U.S. Federal Reserve and the European sovereign debt crisis.

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