Macro | FX Research and Strategy

Global

FX Flash

Possible Intervention But USDJPY to Stay Elevated

Potential Intervention, Still Expect USDJPY Elevated

Overnight, the USDJPY made a sharp move downwards at around the 8.30pm mark falling from levels of around 161.50 to as low as 157.44 in a short period of time. The move was quick to elicit talk that intervention may have occurred. There were a few signs that seemed to point to there being intervention. The first is the sharp move in such a short time of the currency pair increases this suspicions of action by the authorities. Also, Kanda holding a press conference at night just after the move also makes it appear like the authorities had come in even as the currency chief was to say, “our practice is basically not to say whether we have intervened or not”. Local media - the Mainichi Shimbun also reported that intervention had occurred as they cite an unidentified government official.

If the authorities had really intervened overnight, it would also be a point of interest as to why they chose to act now. Markets at this point are not actually heeding much to the verbal warnings of the government officials but at the same time, it is not exactly that the officials were expressing a stronger sense of urgency. However, we do note that last night did represent a good opportunity for intervention given the softer than estimated US CPI data. The reading yesterday had also help further support expectations of a Fed cut to come in Sep. JP OIS at this point are seeing a 67.5% chance of a 15bps hike in Oct, also implying that markets may still see a BOJ hike as some while to go and they can keep contributing to JPY weakness. Therefore, the authorities had essentially seized an opportune time to slowdown the currency weakness and squeeze the shorts.

However, beyond what has already happened, the question is where does the JPY head to from here. Intervention can only provide temporary support for the currency. Fundamentally, little has changed just yet for the JPY. US CPI data may have been softer than expected but the path downwards for inflation is still likely to be bumpy and we see the Fed may only cut twice this year. The BOJ in contrast is likely to be slow with its tightening cycle given our expectations of only a 15bps increase in Oct 2024 (from the upper bound of 0.10% to 0.25%). The recent bond market meeting appeared to imply market players are not exactly in unison too on the level of bond purchase reduction. This makes it more challenging for the BOJ to hike at the same time or too soon after a bond purchase reduction as the market could need more time to absorb the monetary adjustments. The JPY therefore would still stay as an attractive funding currency. There was a move upwards this morning in the USDJPY pair and this could represent some attempt to buy on the dips but some retracement upwards after a sharp fall is not uncommon too. We do note that the BOJ is reportedly doing rate checks of the JPY against the Euro this morning and this could be some attempt by the authorities to

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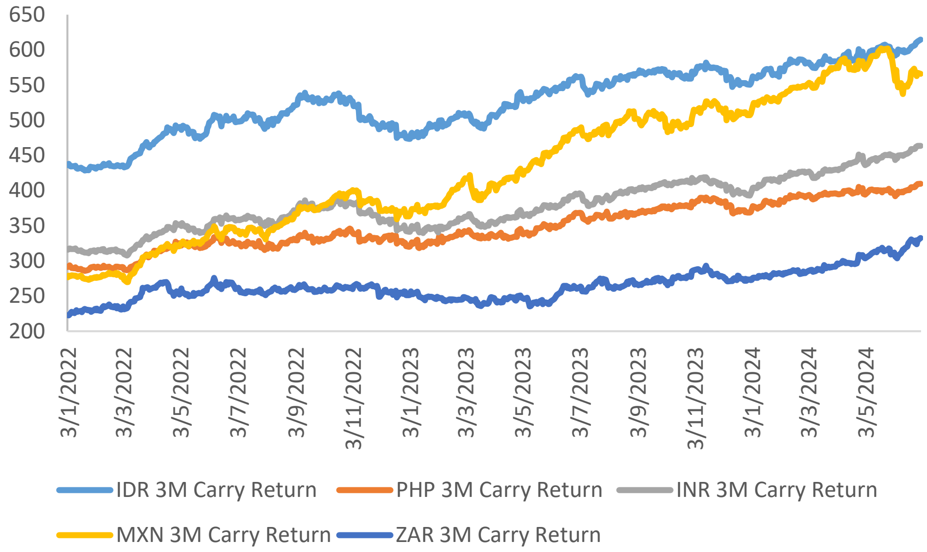
prevent the pair from climbing back up too much. Overall, we continue to stick to our forecast for the USDJPY and expect it to head higher into third quarter with UST yields staying elevated before ending the year lower as the Fed's easing cycle becomes more entrenched. Near term, we expect the USDJPY to be volatile.

Table 1: USDJPY Forecast

Forecast	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USDJPY	165.00	160.00	152.00	150.00

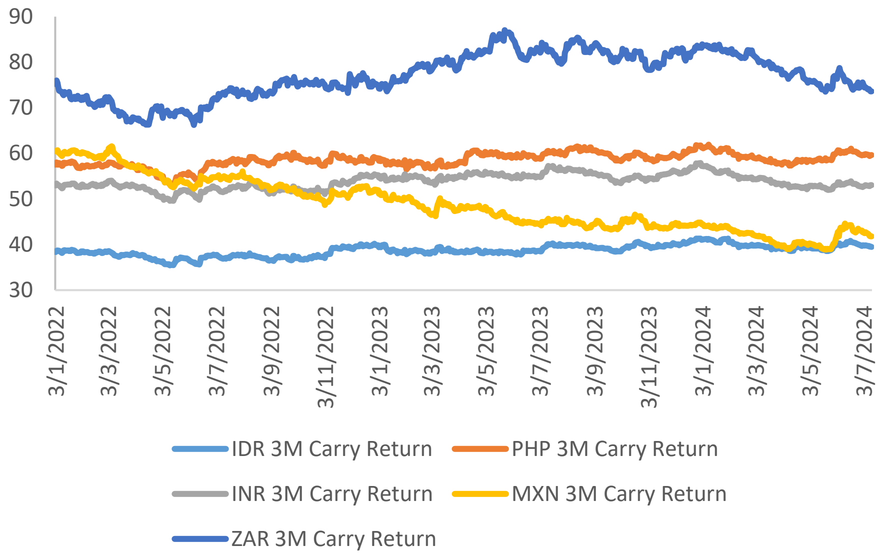
Source: Maybank FX Research & Strategy

Chart 1: The JPY as Carry Funding Currency For High Yield is Likely to Remain Attractive



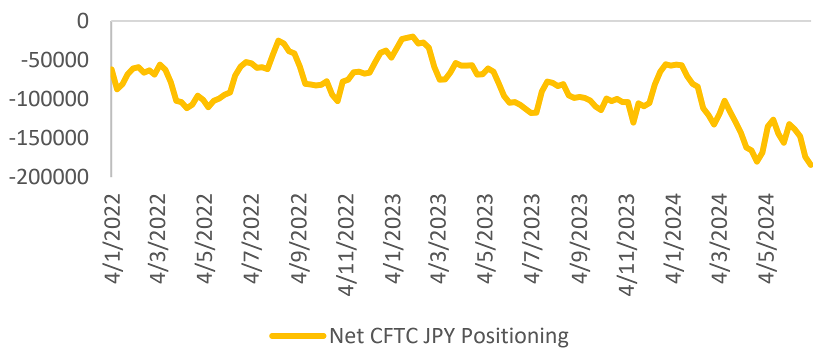
Source: Bloomberg, Maybank FX Research & Strategy
Note: Carry is reflected as a result indexed to 1 Jan 1999 i.e. a reading of 100 implies that carry is identical to carry on 1 Jan 1999 and 200 implies a carry of 2 times carry on 1 Jan 1999. Computed based on borrowing JPY placing it in at the xxx three month deposit, and selling IDR in three months based on the forward rates on the day to unwind.

Chart 2: In Comparison, Carry Funding with the CHF has Not Been as Attractive Compared to JPY



Source: Bloomberg, Maybank FX Research & Strategy
Note: Carry is reflected as a result indexed to 1 Jan 1999 i.e. a reading of 100 implies that carry is identical to carry on 1 Jan 1999 and 200 implies a carry of 2 times carry on 1 Jan 1999. Computed based on borrowing CHF placing it in at the xxx three month deposit, and selling IDR in three months based on the forward rates on the day to unwind.

Chart 3: CFTC Positioning Implies that Markets Were Strongly Net Short on the JPY and Last Night Can Provide a Good Opportunity to Short Squeeze



Source: Bloomberg, Maybank FX Research & Strategy
Note: Negative number denotes net short whilst positive number implies net long

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