FX

Global

FX Insight

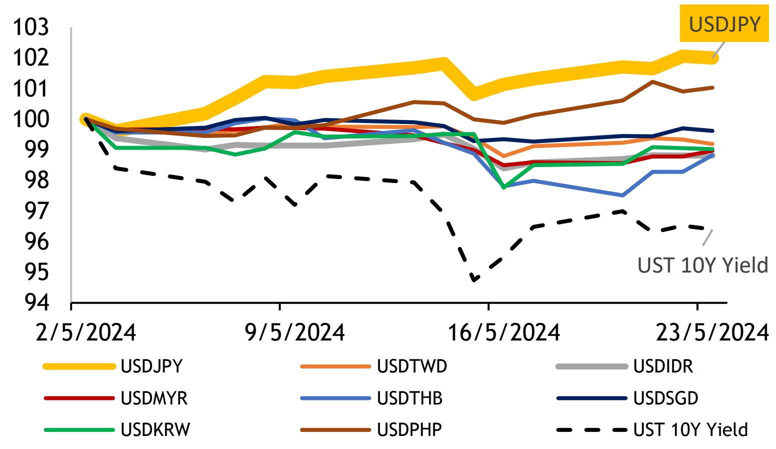
Assessing the JPY Path and its Impact on Asian FX

JPY Weakness Persist, Asian FX to Bilaterally Hold Up

Over the last few years, we have continued to witness a persistent weakening of the JPY. In this piece, we highlight our baseline and various scenarios for the JPY and its impact on major and regional currencies as well as the possible central bank intervention dynamics. Amid the recent weakness, the BOJ has reportedly recently come in twice in 2024 to intervene in the market to support the currency. Even so, pressure has remained on the currency. We have found that intervention in the past has yield mixed results and can only ensure some stability for the currency in the short run. Improvements in the currency's fundamentals would instead be needed to sustainably stem its weakness. We further analyze published and possible unpublished joint interventions since 2008 and assessed its effectiveness in influencing USDJPY and the typical movements of major and regional currencies during the period. Our findings show that the interventions were somewhat effective in reducing FX volatility but the effectiveness in reversing the direction of currency was more ambiguous and dependent on the nature of the crises.

We also found that the BOJ is in conundrum in hiking rates at a faster pace in light of JPY weakness given the damage higher rates can do to consumer sentiment. We continue to see that the BOJ would hike by 25bps in Oct 2024, 50bps in 2025 and 75bps in 2026, achieving a terminal rate of 1.50%. This slow pace of hiking would still leave them quite behind the Fed which may only cut by 50bps this year and 100bps next year. USDJPY may keep trading elevated consequently. At the same time, we found that whilst many Asian FX are sensitive to the JPY, they are historically more impacted by the DXY and CNY. Therefore, whilst JPY weakness is a concern, more close attention should be paid to the DXY and CNY. Additionally, during periods of falling UST yields, JPY recently kept weakening whilst other Asian FX strengthened or held steady. This points to the possibility that Asian FX may still hold up bilaterally well against JPY especially if UST yields do not decline sufficiently to narrow the gap with JGB yields.

As UST Yields Fell, JPY Still Weakened Whilst Other Asian FX Strengthened or Held Steady



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Introduction: Persisting Weakness

Over the last few years, we have continued to witness a persistent and constant weakening of the JPY. Initially, this move upwards for the USDJPY had come amid the divergent policy of a dovish BOJ and hawkish Fed. Hopes though would later emerge that there could be a rate convergence between the Fed and BOJ. However, there has so far only been disappointment as both the BOJ and the Fed look like they could be slow in adjusting their rates given the uncertainty regarding the inflation path in the two countries. This in turn has only further fuelled JPY weakness. Amid this weakness, the BOJ has reportedly come in twice to intervene in the market to support the currency. Even so, pressure has remained on the JPY and the path forward for the currency remains highly uncertain. On our part, we see the USDJPY actually would edge lower overtime albeit it may still stay at elevated levels in short – medium term. However, we also recognize there could be risks that the USDJPY could behave otherwise. In this piece, we look to explain this base case of ours and also the likelihood of other scenarios panning out. We also examine the effectiveness of intervention and how they have panned out in various scenarios throughout history. Finally, we assess the impact the JPY would have on other Asian FX.

Has Intervention Actually Worked?

Amid the recent JPY weakness, the BOJ has reportedly intervened twice in the market on both the 29th Ap 2024 and 1st May/2nd May 2024. On both occasions, we had seen the USDJPY fall by about 4 – 5 big figures but in those cases, upside pressure on the pair still persisted quite strongly after the reported action. This therefore begs the question whether intervention is actually effective.

In the most recent episode before this year in 2022, the BOJ had reportedly come in on three occasions – 22nd Sep 2022, 21st Oct 2022 and 24th Oct 2022. On the first occasion of 22nd Sep 2022, the USDJPY did stabilize subsequently although volatility did initially rise before falling back. However, all this proved to be rather short lived as the USDJPY began to climb whilst volatility went on the rise to even higher levels. On the second and third occasion when they intervened on the 21st Oct 2022 and 24th Oct 2022, which were all within a period of a few days, we actually see the USDJPY move slightly lower and stabilize before making a turn much lower eventually.

The 2022 marked an episode where the authorities were facing higher JPY weakness. However, if we look back further 2011, where the authorities were looking at JPY strengthening, the results of reported interventions that year appear less than successful. The strongest of the intervention had occurred on 18th Mar 2011, which was coordinated with other G7 nations to sell the JPY in an attempt to weaken it. The USDJPY would rise to over 10% to its near term peak on 6th Apr 2011. However, the pair began to decline again. Another reported intervention would occur on the 4th Aug 2011 but that saw almost no success. The BOJ then sold JPY between Oct – Nov 2011 which did manage to keep USDJPY holding at around 78.00 although that looked to be a more aggressive move compared to the prior scenarios.

On other occasions in the last 20 – 30 years of known JPY interventions, there have been periods of success but on more occasions it did not necessarily appear to have yielded the wanted results. The interesting thing is that even during periods of support from other countries to intervene in the JPY, the results have not necessarily been successful. In 2008, 2002 and 1998, the JPY continued to strengthen even as there were other countries involved. However, in 2001 and 1999 – 2000, following known interventions together with other countries, the JPY did weaken subsequently. Between 1994 – 1995, the JPY performance was mixed. In other episodes, where they appeared to be acting by themselves such as in 2010 and the 15-month period up to 2004, the JPY strengthened even as the BOJ appeared to be trying to weaken it.

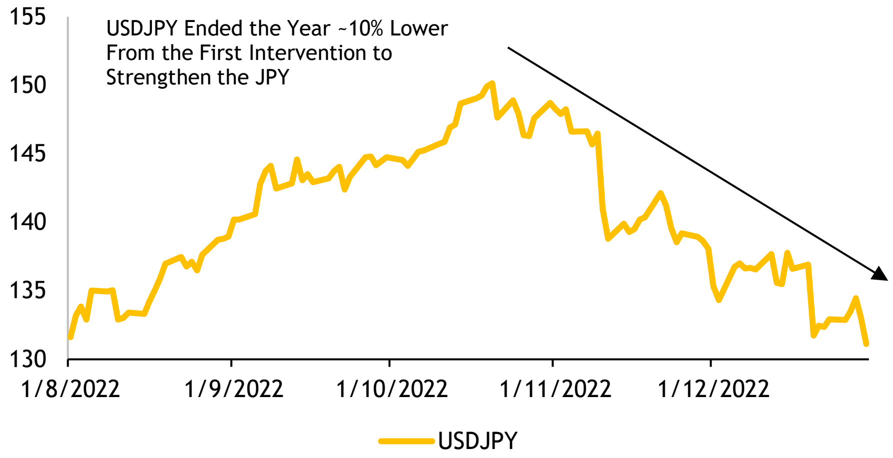
Looking at these periods of known intervention, we can draw a few key points about the effectiveness of such an action. The first point is that the intervention only appears to be effective when it happens in sync with a turn in global macro conditions becoming more favourable. However, the overall history has shown more often than not that the timing of intervention has not actually occurred accurately in sync with a turn in global conditions. That said, we do note that in recent history such as 2022, intervention did actually occur as macro events turned more favourable allowing a quite a drop in the USDJPY.

The success of the 2022 intervention does though at the same time also lead us to our second point. This point is that coordinating fiscal with BOJ actions and FX interventions do play a key part. The decision by the BOJ in Dec 2022 to widen the target yield band for 10y JGB from 0.25% to 0.50% also did provide much support to the JPY and allowed the momentum to persist. Therefore, FX intervention was much more effective when the monetary policy or the global situation is turning to be more favourable too. However, understanding that central bank independence is well respected in Japan, we would not assume that MOF would interfere in the BOJ's decision making.

The third point we would like to note is that intervention does have a tendency eventually to bring down volatility. However, whilst higher volatility is associated with a higher level of currency weakness, a lower level of volatility does not necessarily imply currency strengthening and we have noted that JPY can continue to weaken gradually amid lower volatility.

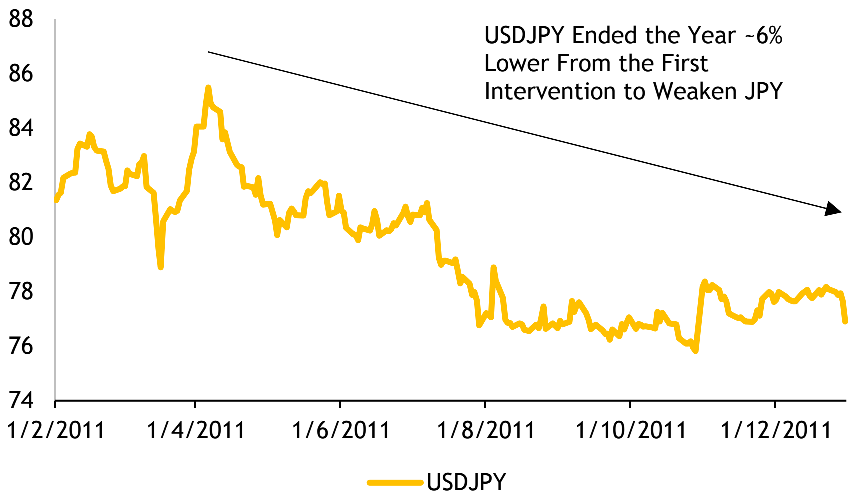
Taking these points on effectiveness and the history into account, we note that intervention can yield mixed results. It can create stability in the near term but fundamental shifts are still required to stem the unwanted moves in the currency. However, given that a weak JPY does pose upside risks to inflation, it then raises the question why the BOJ cannot just hike at a faster pace.

Chart 1: Intervention Was Much More Successful in 2022 But It Came Closer to a Period When Fed Hikes Look to Be Done & BOJ Exited NIRP



Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: However, it was Less Successful in 2011 When Overwhelmingly Less Favourable Global Sentiments Drove USDJPY to Much Lower Levels (Note: USDJPY Did Though Stabilize After a Period of Time)



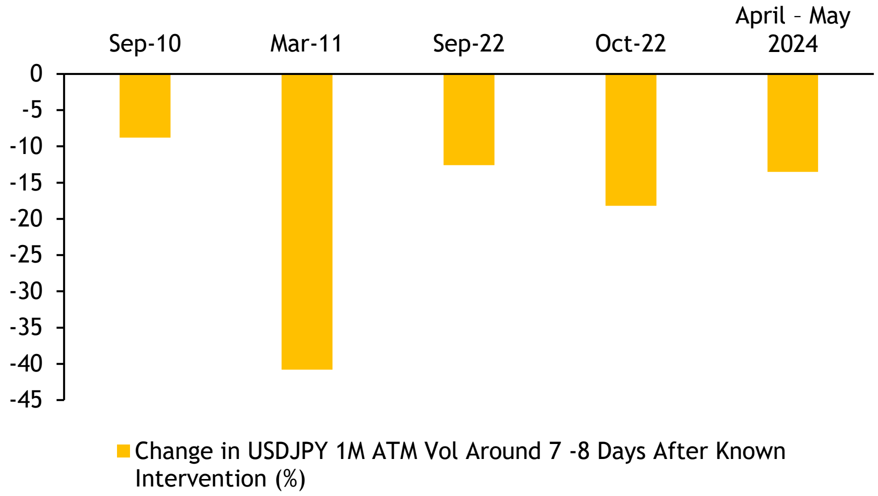
Source: Bloomberg, Maybank FX Research & Strategy

Table 1: Intervention in Recent Times Has Occurred After a Rise of About 4-5% in USDJPY Within a Month

Intervention Period	Change in USDJPY One Month Until the Day Before First Intervention of the Period
2024	Around 4.59% Rise
2022	Around 4.79% Rise
2011	Around -5.31% Decline
2010	Around -3.67% Decline

Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: Intervention Has a Tendency to Bring Down Volatility



Source: Bloomberg, Maybank FX Research & Strategy

Analysing published and unpublished (suspected) coordinated Central Bank Interventions with the BOJ

History of Central Bank Co-ordinations with the BOJ

1985 Plaza Accord: Currency markets are no stranger to Central Bank co-operations. Most notably, the 1985 Plaza Accord that took place among France, Germany, the United States, the United Kingdom, and Japan was successful in fulfilling the motive of weakening the US dollar to alleviate the US trade deficit. However, these interventions, which resulted in a surge in JPY strength relative to the dollar, brought with it adverse effects on Japan's growth and deflationary pressures. By 1987, the dollar weakened by as much as 25.8%. The Louvre Accord was drafted in that year, allowing the dollar to rebound.

1990s: The Bank of Japan (BOJ) continued to intervene in currency markets to prevent excessive yen appreciation and harm to Japan's trade balance. These interventions involved coordinated efforts with other central banks, including the US Federal Reserve.

2000s: Japan continued to be an active player among the G7 currencies, intervening even after the Global Financial Crisis by intervening in its FX market through currency swaps, lowering of swap rates and joint selling of the Yen.

Chart 4: Consolidation of Published and Suspected Unpublished Concerted Interventions involving BOJ

Source: Bloomberg, Maybank FX Research & Strategy Estimates

Understanding Episodes of Suspected Unpublished Coordinated Interventions

Apart from published coordinated interventions, we attempt to uncover suspected unpublished ones to paint a clearer picture of the conditions that trigger a response from BOJ, allowing us to predict future movements and its impact. The rationale behind central banks staying silent about such interventions is to minimize speculation, preserve their credibility and concomitantly reserves, as well as to allow them to adjust their strategies without excessive attention.

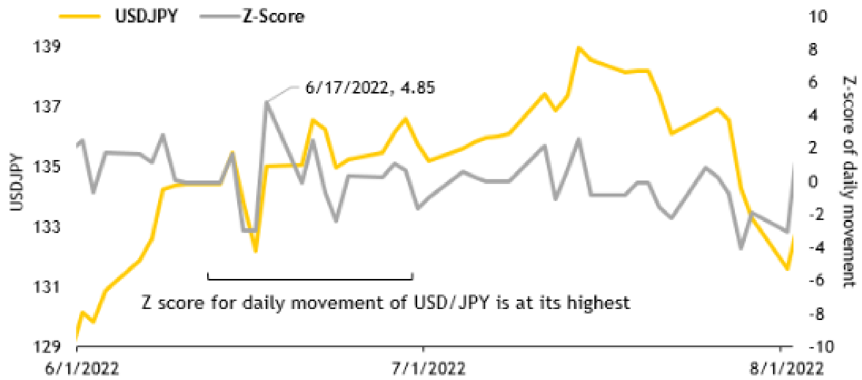
To uncover some of these potential interventions, we look at the following thresholds:

1. Decreased volatility of currency post intervention.
2. A greater standard deviation from the mean movement of USD/JPY (derived by Z-score).
3. Possible joint statements and central bank announcements in the same period.

June 2022

On 17 Jun 2022, USDJPY volatility spiked. Its Z-score rose to 4.85 standard deviations. This came a day after a rare statement issued jointly by BOJ and MOF on that day, expressing concerns for the sharp falls in JPY. Meanwhile, SNB tightened its monetary policy to counter inflationary pressures on 16 Jun 2022. That resulted in significant CHF strength thereafter which did not have effect on the JPY.

Chart 5: Movements in USD/JPY and Z-Score of changes in USD/JPY around June 2022

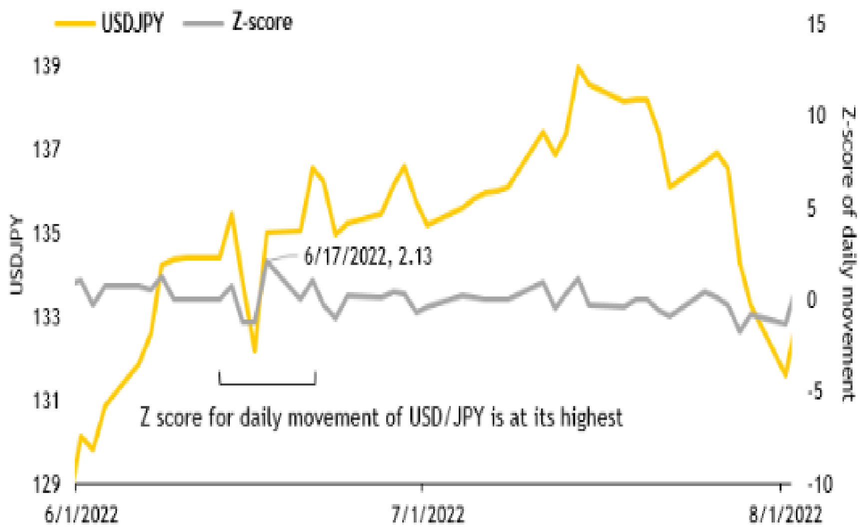


Source: Bloomberg, Maybank FX Research & Strategy Estimates

October 2022

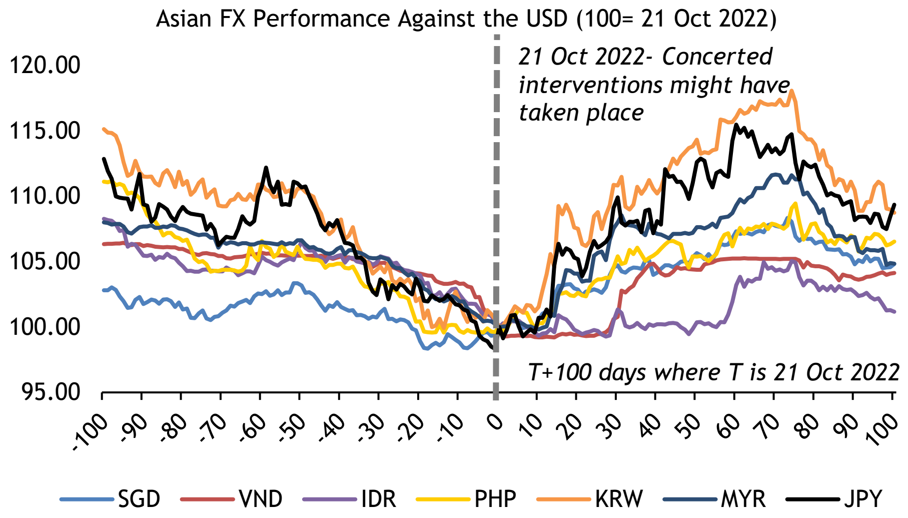
On October 21, 2022, the USD hit a new high against the JPY around 152, leading to speculations of an intervention by BOJ. This is supported by a higher Z-score of the USDJPY and there were several central bank statements released during this period, hinting at potential joint interventions. The BSP announced that they would take aggressive action to prevent further weakening of the PHP on 21 Oct. BI delivered a 50bps rate hike on 19 Oct and even the ECB raised interest rates within the same period by 75bps on 27 Oct. USDJPY reached an interim peak for the year in this month, underscoring the effectiveness of a probable joint interventions by multiple central banks. The first Fed pivot for the hiking cycle was also approaching at that point (slowing the pace of rate hikes) and markets have priced in the next hikes aggressively, leaving the USD vulnerable to the downside. As such, the concerted interventions by multiple central banks were particularly effective in this period. Most Asian currencies rebounded strongly thereafter with KRW in the lead, clocking gains of around 13% vs. the USD by the end of the year.

Chart 6: Movements in USD/JPY and Z-Score of changes in USD/JPY around October 2022



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Chart 7: Most Asian currencies troughed in Oct 2022 (100 days before and after the day that concerted interventions might have taken place)



Source: Bloomberg, Maybank FX Research & Strategy
Note: All currencies were indexed with their respective prices on 21 Oct 2022 taken to be 100. For example, the SGD index is based on SGDUSD.

Table 2: Impact of the Interventions on Major Currencies, USDSGD and USDMYR.

Episode/Periods	Impact on DXY	Impact on USD/JPY	Impact on USD/EUR	Impact on USD/CHF	Impact on USD/SGD	Impact on USD/MYR	USD/JPY 1M ATM Volatility
Published: 6/4/09	-0.51%(E)	+0.02%	-0.94%(E)	-0.36%(E)	-0.34%	-0.50%	-4.25 pts
Published (G7 to Sell JPY): 17/3/11	-1.63%	-2.48%	-1.29%	-2.87%	+0.17%	-0.12%	-4.43 pts
Published: 30/11/11	+0.72%	+0.87%	+1.24%	+1.31%	-0.43%	-1.45%	-1.26 pts
Published: 15/3/20	+3.71%	+2.33%	+6.75%	+6.44%	+5.52%	+5.45%	-5.53 pts
Published: 19/3/23	-0.48%(E)	-2.60%(E)	-0.92%(E)	+0.50%	-1.52%	-1.76%	-2.13 pts
Effectiveness	**2 out of 5 published interventions were effective**						
Unpublished: around 10/6/22	+1.78%	+0.52%	+1.84%	-0.54%	+1.11%	+0.14%	+0.11 pts
Unpublished: around 25/10/22	-1.20%	-0.96%	-1.05%	-0.49%	-0.68%	+0.33%	-1.84 pts
Unpublished: around 29/4/24	-0.18%	-0.62%	-0.51%	-0.68%	-0.54%	-0.56%	-0.06 pts
Effectiveness	**2 out of 3 possible unpublished interventions were effective**						
Average	0.55%	-0.06%	0.92%	0.88%	0.45%	0.24%	

Source: Bloomberg, Maybank FX Research & Strategy
Note: 1) Start and end taken as 5-7 business days before and after published/unpublished interventions. 2) (E) denotes that the intervention was deemed successful in changing the direction of the respective currency targeted. 3) Cells in green denote a desired effect while cells in red denote an undesired effect. 4) The effects of FX interventions were most apparent one day after the events themselves. 5) The goal of G7 on Mar 2011 was to weaken the JPY, quite unlike other episodes here. 6) Average of currency performance was taken for all episodes except for the Mar 2011 episode.

Since 2009, published interventions had been successful in **reducing the volatility** of USD/JPY (based on chart 4), more so than the speculated unpublished interventions. In the table above, we look at the currency performance to better assess the effectiveness of interventions in **reversing** the direction of currency movement.

We compared the change in spot rates 5-7 business days before and after the published or suspected (referred to as unpublished here) intervention has occurred across the major currencies, as well as USDSGD and USDMYR. The results shown suggests that the effectiveness of the interventions in changing the currency directions are ambiguous. **2 out of 5 of the published interventions achieved their objectives,** such as the G7 intervention in 2011 to devalue the JPY was successful in weakening the currency. **2 out of 3 speculated unpublished interventions were generally effective in strengthening currencies against the dollar.**

The liquidity intervention in Mar 2020 did not seem effective at first. Markets were exceptionally volatile due to the Covid-19 pandemic where there was significant uncertainty on the damage that the pandemic could bring. It took a longer time for calm to return to markets. USD liquidity swap arrangements were established, policy rates were slashed to zero and massive quantitative easing was launched on 15 Mar 2020 but the DXY index continued to surge another 5.5% before peaking around 5 days later. In such an environment of immense world-wide risk aversion, interventions are less likely to succeed.

In Mar 2011, G7 acted to weaken the JPY in order to calm the markets. This was also a very Japan-specific crisis where an earthquake struck near a coast of Honshu which precipitated into a Tsunami and caused a nuclear accident. So an outright joint intervention by the G7s to lean against the effects and volatility brought about by a country-specific crisis was successful. Concerns over the European sovereign debt crisis could have contributed to the JPY safe haven demand, especially after Greece got its credit rating downgraded to junk in Jan by Fitch. As such, there was FX intervention in this case was arguably less effective.

For Apr 2009 and Mar 2023, FX interventions were considered “effective”. For 2009, the crisis was more US-centric and as such, the risk aversion was comparatively more contained. That gave the central banks better chance of success in intervention. As for the Mar 2023 joint liquidity operation, USD funding was again an issue amid fears of banks collapse contagion in the US and Switzerland. However, the fears were relatively short-lived as Switzerland forced UBS to take over Credit Suisse while short-term emergency liquidity facilities were also quickly set up to support vulnerable banks in the Fed as well (e.g. Bank Term Funding Program).

Taken together, FX interventions normally come at a time of great volatility stemming from crises of sorts. The effectiveness of FX interventions depends on the severity of the crisis. The Great Lockdown in 2020 that resulted in the greatest economic downturn the world has seen saw relatively limited effectiveness in liquidity interventions and it took significant emergency facilities, monetary policy easing to calm markets. On the other hand, concerted interventions were likely more effective against more contained crisis such as the GFC which was primarily US-specific.

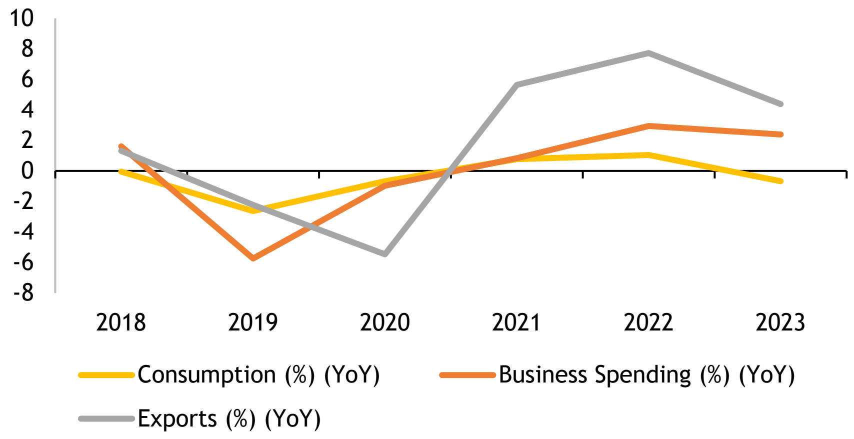
Why Can’t the BOJ Just Hike at a Faster Pace? Especially Given the Upside Risk a Weak JPY Poses for Inflation

As the weak JPY can actually pose an upside risk to inflation and with intervention not necessarily yielding the wanted results, it then appears that the BOJ should consider a hike. However, the situation facing the BOJ at this point is rather complex. The risk of a weak JPY creating more than expected upside inflation risks can lead to real wages dropping and in turn weigh on consumption. Also, higher import price driven inflation is not what the BOJ is looking for but rather they are aiming for demand driven price increase. Dropping real wages and supply side or import price driven high inflation consequently together can hurt consumer sentiment, which would prevent stronger demand pick-up. In essence, it would also hurt the chances for the BOJ to try to ensure that a virtuous wage price cycle becomes more entrenched. A situation such as this would therefore create merit for the BOJ to hike rates at a faster pace. On the other hand, hiking rates at a faster pace can in itself weigh on the economy and hurt demand.

On trying to discern the central bank's concerns on the JPY, Ueda's views regarding the impact of the JPY on inflation has been changing though in the last couple of weeks. The central bank governor post the 26 Apr policy meeting had said that the board believed that the impact of the weak JPY on underlying inflation is not big at that point so that no action was needed. However, the tone of his words has since shifted regarding this subject as he appears increasingly more concern of the transmission channel of the JPY weakness on inflation. He had recently said, "we need to be mindful of the risk that the impact of currency volatility on inflation is becoming bigger than in the past." Additionally, he had also said, "exchange-rate moves could have a big impact on the economy and prices, so there's a chance we may need to respond with monetary policy." Minister of Finance Suzuki has said "it's important to maintain close policy coordination so as not to hinder the implementation of other policies and reduce the overall effectiveness of policy making." It is difficult to discern directly from his words any particular clues on whether a hike would be coming soon but that is not unexpected given that the government would want to respect central bank independence. Even so, we can interpret his words to some extent as expressing the futileness of MOF's requested intervention actions if the BOJ moves differently.

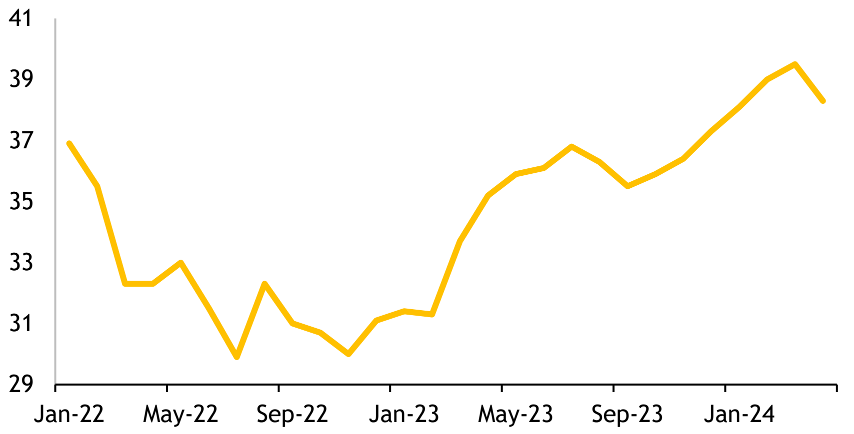
Examining the situation as it is, we maintain our view that the BOJ would hike rates by 25bps in Oct 2024 and another time by the same amount again in Jun 2025. We believe they would undertake the hikes under that sort of schedule given they would want more time to watch how data evolves to see if the strong results from the Shunto wage negotiations would eventually feed into higher wage data and support more demand driven inflation. Whilst, the import price pressures from a weaker JPY does create concern, we do believe that the USDJPY should still be able to hold below the 160.00 mark in the near term, giving the BOJ breathing space in the interim. Markets would be wary about pushing the pair too rapidly above that level given the risk of intervention and fear of earlier of hikes (even if it does not happen). History has also shown that post intervention, the pair can stabilize for a period of time. If the pair does move rapidly above the 160.00 level again, we do not rule out that they may intervene again especially if the USDJPY rises by around 5.00% within a month.

Chart 8: Japan's Economy Remains Imbalance as it Continues to be Mainly Driven by the Corporate and External Sector Whilst Consumption Stays Weak



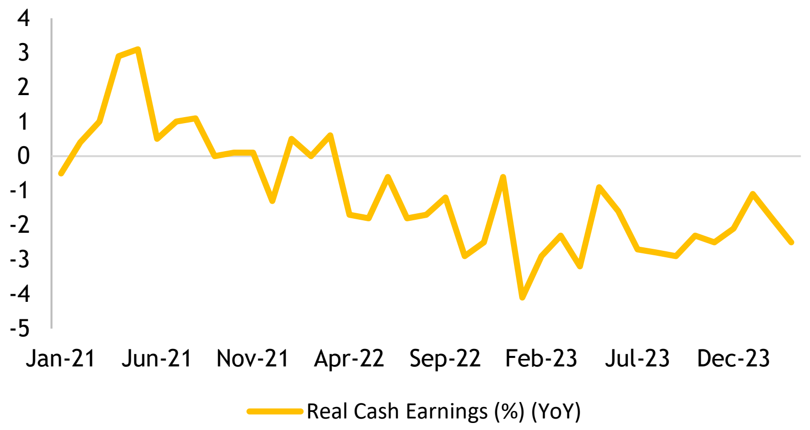
Source: Macrobond, Maybank FX Research & Strategy

Chart 9: The BOJ Faces a Conundrum In Raising Rates Too Quickly as They May Dent Consumer Sentiment But That in Itself Can Also be Dented by Higher Inflation Caused by a Weaker JPY



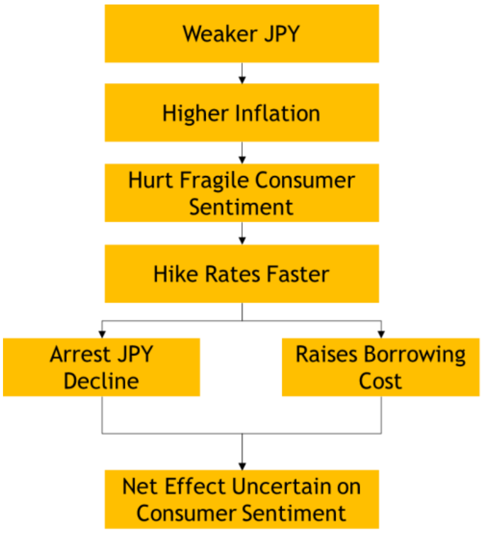
Source: Macrobond, Maybank FX Research & Strategy

Chart 10: Real Wages Keep Declining Amid Higher Inflation, Weighing on Consumer Sentiment - Weaker JPY Can Worsen This



Source: Macrobond, Maybank FX Research & Strategy

Chart 11: BOJ Faces a Conundrum in Raising Rates to Address Inflation Affected by a Weak JPY



Source: Maybank FX Research & Strategy

What is Our Base Case?

In our base case we see the USDJPY hitting 160.00 by end 2Q 2024 although it should edge lower after that as the Fed starts to ease (2 cuts of 25bps this year) and the BOJ also does another 25bps hike in Oct 2024. Near term into end 2Q 2024, upwards pressure could still arise from speculators testing the authorities resolve to tolerate currency weakness. ***Beyond 2024, we see the BOJ hiking by 25bps in Jun 2025 and Oct 2025 before moving another 75bps in 2026. We see the nominal neutral rate or terminal rate for the BOJ at 1.50%.*** The Fed's long run interest rate is at around 2.50% (based on the Fed's dot plots), which would mean the differential would still be at 100bps.

(As a note, the nominal neutral rate for the BOJ is calculated by adding an assumed real rate at around -0.20% to a long term inflation rate at 2.00%, which would give us 1.80% and rounded downwards towards 1.50%. Long term inflation rate is taken as 2.00% as it is the BOJ's target inflation rate level. The -0.20% rate level is calculated by taking the average of several proposed r star rates as stated in a chart on page 62 of the BOJ's Apr 2024 Outlook Report - Outlook for Economic Activity and Prices (April 2024) (boj.or.jp). As a caveat, we would like to state the r star is strictly an estimate and can constantly change depending on how conditions evolve*)*

Other Scenarios - Understanding What Happens to the JPY in More Uncertain Events

Despite our base case view, we also do recognize that there is a possibility that other more uncertain scenarios can develop. The first of these scenarios is one which could lead to more downside for the JPY. This would be if US inflation stays stubbornly high such that the Fed would hold rates into the end of 2025. Under this situation, we do believe in the possibility that the USDJPY could head much higher beyond the 160.00. Whilst, we do think the BOJ would hike rates faster, their terminal rate at 1.50% would still mean that Japanese rates would still be quite behind the US rates at 5.50%. The BOJ rate hike schedule under this scenario would be 25bps in Jul 2024, 25bps in Oct 2024, 25 bps in Dec 2024 and another 75bps in 2025. This scenario is quite a grim outcome but we assign only 5% probability that it would occur. This is simply because we are not inclined to believe that US data would not sufficiently soften enough such that the Fed would be unable to engage in rate cuts this year.

Another scenario would be if the JPY comes under heavy pressure such that the BOJ would have to make the decision to hike at a slightly faster pace than our base case. In this scenario, the BOJ may hike twice this year, once in Jul by 25bps and another time again by the same amount in Oct by 25bps. However, they may hike by 25bps in Jun 2025 and by the same amount in Oct 2025 before undertaking another 25bps in 2026. In this scenario, the Fed is likely to still cut rates in 2024 by 50bps whilst slashing rates by another 100bps in 2025. We see that the USDJPY could fall lower towards the 148.00 mark by year end in this scenario given the support the BOJ would give and finish at 142.00 by end 2025. Overall, we assign around 30% probability that this could happen given that markets appear to be constantly testing the resolve the of the BOJ to tolerate currency weakness. However, the jawboning and the constant threat of intervention/hikes together with other measures such as reducing JGB purchases may prevent near term rapid JPY depreciation.

The last scenario we look at would be the most optimistic case whereby US inflation data rapidly cools, allowing the Fed cuts at a much faster pace at 150bps this year alone in 2024 and 150bps in 2025. At the same time the BOJ feels sufficiently comfortable with hiking rates possibly by 25bps in Oct 2024, another 25bps each in Jun 2025 and Oct 2025 and by 75bps in 2026. Under this outcome, the rapidly narrowing yield differentials would give much relief to the JPY and guide the USDJPY towards the 135.00 level by end 2024. However, we see a very low probability of this occurring at 5% given that the current US economy is still running a little too hot.

Table 3: Our Base Case Plus Other Various Scenarios With Assigned Probabilities

Scenario	USDJPY Forecast	Probability
Base Case: BOJ hikes 25bps in 2024, 50bps in 2025 and 75bps in 2026 (25bps in Oct 2024, 25bps in Jun 2025, 25bps in Oct 2025 and 75bps in 2026) Fed Cuts 50bps in 2024 and 100bps in 2025	End 2024:152.00 End 2025: 142.00	60%
Grim Scenario: BOJ hikes 75bps in 2024 and 75bps in 2025 (25bps in Jul 2024, 25bps in Oct 2024, 25bps in Dec 2024, 25bps in Jun 2025, 25bps in Oct 2025 and 25bps in Dec 2025) Fed hold rates steady until end 2025	End 2024: 170.00 End 2025: 180.00	5%

Near Term JPY Stressed Scenario: BOJ hikes by 50bps in 2024, 50bps in 2025 and 50bps in 2026 (25bps in Jul 2024, 25bps in Oct 2024, 25bps in Jun 2025, 25bps in Oct 2025 and 50bps in 2026) Fed cuts by 50bps in 2024 and 100bps in 2025	End 2024: 148.00 End 2025: 142.00	30%
Optimistic Scenario: BOJ hikes 25bps in 2024, 50bps in 2025 and 75bps in 2026 (25bps in Oct 2024, 25bps in Jun 2025, 25bps in Oct 2025 and 75bps in 2026) Fed cuts by 150bps in 2024 and 150bps in 2025	End 2024: 135.00 End 2025: 120.00	5%

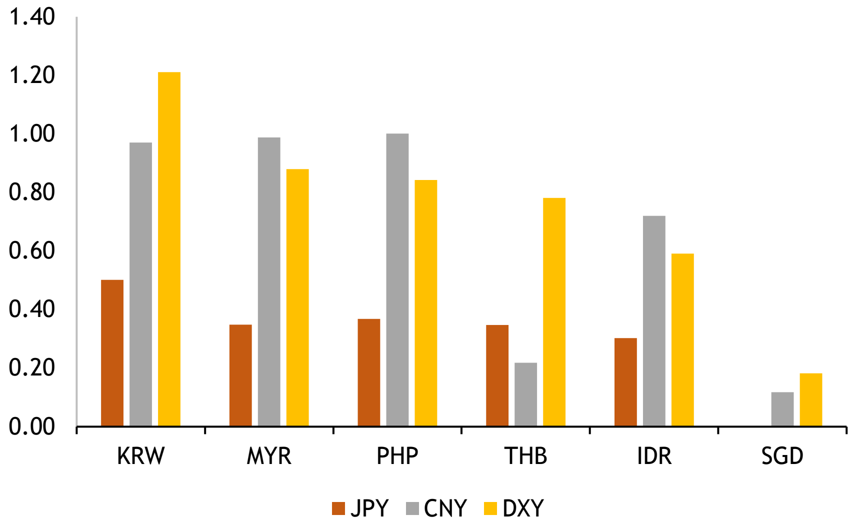
What Would be the Impact on the Asian Currencies?

We find that IDR, THB, PHP and KRW appear to be quite sensitive to the JPY. This comes as little surprise given the large Japanese investment interest in Indonesia, Thailand and Philippines whilst Japan and South Korea have a strong trading relationship. The findings also seem to show that the MYR has quite some sensitivity to the JPY but this could just be purely coincidental as the MYR and JPY had a tendency to depreciate together in the last couple of years. The SGD meanwhile appears to exhibit little sensitivity to the JPY.

However, we do note that Asian FX are more sensitive to the CNY and USD. This is also not out of our expectations given that China and the US generally tend to both be the biggest trading partners and investors for many countries in the region.

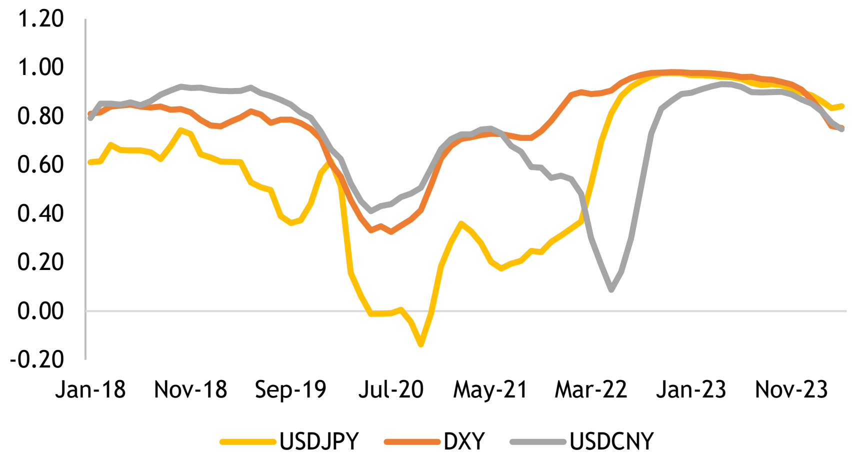
However, looking at the 24 month rolling correlation, we actually find that the JPY's correlation with other Asian currencies has been climbing again. Meanwhile, the correlation with the CNY has not been as strong compared to the JPY in the last few years. This could be simply due to the efforts of the PBOC to keep the USDCNY more stable whilst the JPY has been weakening in line with other Asian currencies amid the rising Fed rates. Meanwhile, Asian currencies have over the years continued to show strong correlation with the USD. Overall, despite the importance of the JPY, it appears that most Asian currencies show more sensitivity to USD and CNY historically.

Chart 12: Attention Should be Paid to the USD and CNY Given That Asian Currencies Appear More Sensitive to Them than to the JPY



Source: Bloomberg, Maybank FX Research & Strategy
Note: Sensitivity is calculated based on weekly data for the period of Jan 2015 - Apr 2024

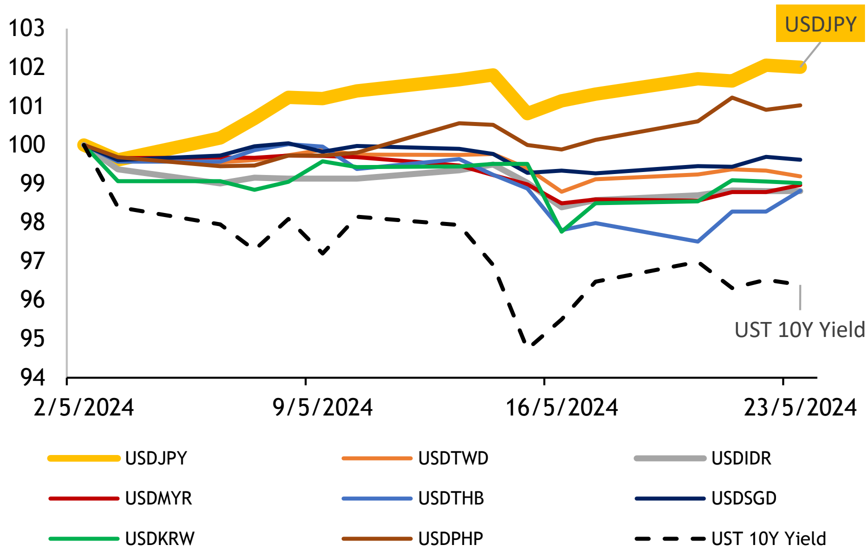
Chart 13: Asian FX Has Appeared More Correlated to the JPY in Recent Years



Source: Bloomberg, Maybank FX Research & Strategy
Note: Numbers represent the 24-month rolling correlation between an equal weighted index of USDKRW, USDMYR, USDPHP, USDTHB, USDIDR and USDSGD with the USDJPY, DXY and USDCNY

Recently, we have noticed that despite UST yields having declined for most of May (itself driven by some softening in US data and an easing of concerns of another Fed hike), USDJPY actually edged up whilst other USD – Asian pairs traded lower. This could be due to the wide rate differentials between the US and Japan still weighing on the JPY whilst other higher yielding Asian currencies benefitted more from the fall in UST yields. UST yields had fallen insufficiently to narrow the yield gap with the JGBs but this fall was enough to reduce the difference between UST yields and other high yielding Asian sovereigns. This points to the possibility that Asian FX may still hold up bilaterally well against JPY if UST yields do not decline sufficiently to narrow the gap with JGB yields.

Chart 14: Whilst Other USD - Asian Pairs Head Lower in Line with Falling UST Yields, USDJPY in Contrast Edges Higher, Creating the Risk Other Asian FX May Keep Outperforming Against JPY Even as Fed Softens



Note: Prices are indexed to 2 May 2024.
Source: Bloomberg, Maybank FX Research & Strategy

Conclusion

As stated, our base case scenario has been that the USDJPY would edge down gradually albeit it may still trade elevated over the next year. The BOJ hikes itself may be too slow and gradual and the US and Japan rate differentials are likely to keep weighing on the JPY. Interventions may stabilize the currency in the near term but it cannot sustainably change the direction of the currency in the medium - long term. Meanwhile, within Asia, the DXY and CNY appear to have more of an impact on regional currencies compared to the JPY. Overall, whilst JPY weakness should not be ignored, more close attention should instead be paid to the DXY and the CNY. Additionally, during periods of falling UST yields, the JPY recently kept weakening whilst other Asian FX strengthened or held steady. This points to the possibility that Asian FX may still hold up bilaterally well against JPY especially if UST yields do not decline sufficiently to narrow the gap with JGB yields.

Table 4: Maybank Forecast of USDJPY

Forecast	2Q 2024	3Q 2024	4Q 2024	1Q 2025
USDJPY	160.00	155.00	152.00	150.00

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