

FX Viewpoint Flash

Currencies
Global

USD-JPY beyond 156 after the BoJ's decision

- ◆ The JPY weakens to a fresh 34-year low after the BoJ's decision
- ◆ The BoJ sees price risks skewed to the upside for fiscal 2024
- ◆ USD-JPY is still mainly driven by its yield differentials and FX intervention risks, in our view

USD-JPY traded through another key level (i.e., 156) after the Bank of Japan's (BoJ) policy decision today (26 April). Markets were probably disappointed by **the lack of changes regarding the BoJ's stance about bond purchases made in March**; while the benchmark rate is maintained at a range of 0% to 0.1%, as expected.

But, in our view, **the BoJ's latest outlook report was actually quite different from the previous January edition in various hawkish ways**. Notably, the BoJ now said that underlying inflation will increase gradually over the next few years to reach a level that is consistent with its price stability target (January: inflation will move toward achieving the target). Besides, despite raising the inflation forecast, the BoJ still sees upside risk for this current fiscal year (ending March 2025). It said the risks are balanced thereafter, but that is a change from seeing downside risks in the past. Finally, the BoJ said if its projections are realised, it will adjust monetary policy. **Our economists now expect the next rate hike of 25bp by the BoJ to be in 3Q24**.

In the meantime, **the two most important drivers for USD-JPY are still yield differentials and FX intervention (or the lack thereof)**. Since the lurch of USD-JPY above 152 on 10 April, 10-year yields have risen further by c33bp in the US, exceeding the c11bp in Japan (see the chart below). Meanwhile, the lack of intervention – not even media reports of a “rate check” – has probably emboldened short JPY positions, which are the largest since mid-2007 (CFTC, 25 April 2024).

USD-JPY and its 10-year yield differentials



Source: Bloomberg, HSBC

There was a joint ministerial statement with the US Treasury (and the Korean Finance Ministry) “acknowledging **serious concerns... about the recent sharp depreciation of the Japanese yen** (and the Korean won)” on 17 April. A G7 statement released on 18 April also contained a line reaffirming the group's view that excessive and disorderly FX moves are harmful. However, undermining these statements, US Treasury Secretary Janet Yellen commented on 25 April in a Reuters interview that **currency interventions should be “rare”** and there should be **consultations “in advance”**. Meanwhile, **we have heard little from Masato Kanda** (Japan Vice Minister in charge of FX) over the past week, while Shunichi Suzuki (Japan Finance Minister) has been somewhat cryptic (for example – Bloomberg headlines today: “cannot say whether action is needed on weak yen”, “declines to say whether FX moves are excessive”).

The JPY breaches 156 against the USD, after the BoJ's decision

But there were some hawkish elements in the BoJ's outlook report

USD-JPY is still mainly driven by its yield differentials and FX intervention risks, in our view

FX intervention will come or not?

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