Market comments_29Sep2022

The Bank of Japan intervened in the foreign exchange market, the yen rose sharply against non-US currencies, and the CNH fell against USD break 7.2.

1. The Japanese government intervenes in the foreign exchange market, shorting GBPJPY may be the best trading opportunity last week.

The Japanese government took the lead in intervening in the foreign exchange market.

Last Thursday, 22 September, the Bank of Japan conducted its first intervention in the foreign exchange market since June 1998. According to Tokyo currency market brokers' data, the Bank of Japan may have used US$25 billion worth of yen in a foreign exchange intervention to buy yen and sell US dollars. A few hours later, the Japanese Minister of Finance, Makoto Kanda, confirmed the Japanese government's foreign exchange market intervention, saying: " Forex intervention can be carried out on any day and anywhere, including holidays." "Couldn’t comment on the scale of the intervention because it could expand", "denied that 145 is a defensive line for the yen exchange rate". Immediately, the USD/JPY fell by about 500 pips (from 145.50 to 140.50). It was also the most significant one-day move for the USD/JPY in the past six years. As of 29 September, 10 am Singapore time, USD/JPY has returned to around 144.50 and is currently subject to the 145.00 resistance level. That is the BOJ's intervention, which may only be effective for one week.

Even if the Bank of Japan intervenes in the foreign exchange market, it may still not be able to reverse the weakness of the JPY to USD.

(1) The United States 10 Years / Japan 10 Years Government Bond spread may continue to dominate USD/JPY gains

Bank of Japan Governor Haruhiko Kuroda spoke after "the Japanese government intervened in the foreign exchange market", saying that it will continue to adhere to the easing policy and will keep the top end of the yield curve unchanged at 0.25% and the benchmark interest rate unchanged at "-0.1%", and will not follow the example of other countries and regions in removing negative interest rates. The market currently expects no changes to BOJ policy until the end of Haruhiko Kuroda’s term in March 2023.

The Bank of Japan has become the only country with negative interest rates since the Swiss National Bank exited its negative interest rate policy last week. US 10-year Treasury yields continued to rise, hitting 4% on Wednesday, the highest level in the past ten years, as the Fed's hawkish rate hike expectations continued. The 10-year Japanese government bonds yield remained below the 0.25 % ceiling held by the Bank of Japan. In the short term, the spread between the US and Japanese government bond yields may continue to dominate the USD/JPY exchange rate trend. "The Bank of Japan continues to maintain its easing policy unchanged" and "the Fed's firm policy of raising interest rates to control inflation" are deviating from each other. Unless the Bank of Japan intervenes in the FX market again, JPY continues to weaken against USD, may be challenging to avoid.

(2) Japan logged a trade deficit for 13 consecutive months

Japan is a net importer of natural energy and is extremely dependent on crude oil, natural gas and other energy sources. Coupled with the impact of the sharp depreciation of the yen in the first nine months of this year, Japan, which used to be a large trade surplus country for many years, has recorded a trade deficit for 13 consecutive months. According to recent data released by the Ministry of Finance Japan, it hit a record high of 2.82 trillion yen in August. In addition, according to August data, China remains Japan's largest export market. The recent slowdown in China's economic growth and the continued depreciation of the RMB may also be detrimental to the yen.

(3) Japan's CPI exceeded its 2% inflation target for the fifth consecutive month, but the Bank of Japan kept its easing policy unchanged.

Japan, which has long maintained low inflation or even deflation, has exceeded the 2% inflation target set by the Bank of Japan for the past five consecutive months against the backdrop of an overall rise in inflation across the globe.

According to data released by relevant Japanese departments on 20 September, Japan's core consumer price index (CPI) rose by 2.8 % year-on-year in August, which is also the highest level since 1991. Among them, the increase in energy and food costs accounted for most of the growth. After excluding energy and food, Japan's CPI rose by 1.6 % year on year in August. In other words, after removing the impact of high global inflation on Japan's imports of energy, food, and commodities, as well as the effects of the continued depreciation of the yen, Japan's domestic inflation is expected to remain at a low level. Bank of Japan Governor Haruhiko Kuroda also said, "Current commodity-driven inflation is temporary, and that stronger wage gains are needed for the sort of positive growth cycle sought by the central bank."

The Governor of the Bank of Japan, Haruhiko Kuroda, made another speech on Monday, saying: "Easing monetary policy will continue in 2023-2024", "It will continue to support the economy and wage growth through easing monetary policy, and the easing monetary policy is expected to continue for a long time and "the upward pressure on the CPI will be gradually eliminated from next year, and, surely, the Japanese CPI will be lower than 2% next year." This is under the circumstance that most of the developed country central banks in the world are generally adopting the basic policy of "raising interest rates to control inflation", Japan still adheres to the exceptional easing policy, which may continue to be the basis for the continued depreciation of the yen.

Going long JPY/GBP may be one of the past week's best short-term trading opportunities.

From January to September 2022, the JPY depreciated by 28.55% to USD. It is the most devalued currency of the G7 countries. In this rising dollar cycle, the yen fell the most against the US dollar among the non-US currencies with relatively large trading volumes. At the same time, EUR, GBP, AUD, NZD, CAD, CNH, and SGD depreciated by 16.96%, 24.73%, 17.00%, 21.28%, 10.84%, 15.23%, 8.21% and 10.45% against USD respectively. The Singapore dollar, Swiss Franc, Canadian dollar and the RMB are the currencies that have depreciated relatively little against the US dollar.

- EURUSD: - 16.96 % (from 1.1500 to 0.9550)
- GBPUSD:- 24.73 % (from 1.3750 to 1.0350)
- AUDUSD: -17.00 % (from 0.7650 to 0.6350)
- NZDUSD: -21.28 % (from 0.7050 to 0.5550)
- USDCAD: 10.84 % (from 1.2450 to 1.3800)
- USDJPY: 28.55 % (from 113.50 to 145.90)
- USDCNH: 15.23 % (from 6.3050 to 7.2650)
- USDSGD: 8.21 % (from 1.3400 to 1.4500)
- USDCHF: 10.45 % (from 0.9100 to 1.0050)

At the same time, from January to September this year, the EUR, GBP, AUD, NZD, CAD, SGD, and CHF appreciated against the Japanese yen by 16.87%, 11.59%, 22.36%, 19.05%, 23.46%, 21.30 %, and 22.67 % respectively.

- EURJPY : 16.87% (from 124.50 to 145.50)
- GBPJPY: 11.59% (from 151.00 to 168.50)
- AUDJPY: 22.36% (from 80.50 to 98.50)
- NZDJPY: 19.05% (from 73.50 to 87.50)
- CADJPY: 23.46% (from 89.50 to 110.50)
- CHFJPY: 22.67 % (from 123.50 to 151.50)
- SGDJPY: 21.30% (from 84.50 to 102.50)
- USDJPY: 28.55 % (from 113.50 to 145.90)

Things will develop in the opposite direction when they become extreme. Last Thursday, after the Bank of Japan's intervention in the yen, the US dollar fell sharply by 500 pips (from 145.50 to 140.50, or depreciate 3.44 %) against the yen, and the yen strengthened sharply, but non-US currencies remained weak against the US dollar. In the short term, the Japanese yen has become the strongest currency. Therefore, the Japanese yen has generally strengthened against non-US currencies. According to the following data analysis, the pound has depreciated by 1,550 pips against the yen, which is the most volatile. Combined with the UK government's announcement on Friday, the UK's most significant tax cut package in half a century, the pound plunged to a record low of 1.0350 against the US dollar.

GBPJPY = GBPUSD + USDJPY. If when GBPUSD fall and USDJPY fall, GBPJPY falls, it will be the effect of a double fall. Therefore, GBPJPY fell by over 1,500 pips in only three trading days (22 September, 23 September and 26 September). This drop is staggering. As one of the international financial centres, the United Kingdom has a better foundation for economic recovery than other economies. In the next stage of the technical depreciation of the US dollar, the pound may be one of the currencies with the strongest rebound. Here is how non-US currencies fell against the yen during this BOJ intervention in the FX market.

USDJPY: -3.44 %, or down 500 pips (from 145.50 to 140.50)
EURJPY : -4.18%, or down 600 pips (from 143.50 to 137.50)
GBPJPY: -9.42 %, or down 1550 pips (from 164.50 to 149.00)
AUDJPY: -4.56%, or down 440 pips (from 96.50 to 92.10)

NZDJPY: -5.29 %, or down 450 pips (from 85.00 to 80.50)
CADJPY: -3.33 %, or down 360 pips (from 108.10 to 104.50)
SGDJPY: -2.93 %, or down 300 pips (from 102.50 to 99.50)
CHFJPY : -5.28 %, or down 800 pips (from 151.50 to 143.50)

Sources: tradingview , Japan intervened in the foreign exchange market. With Friday's announcement of the UK government's "biggest tax cut in the UK in half a century", GBP plunged to a record low of 1.0350 against the USD. In just three trading days (22 September, 23 September and 26 September), the GBPJPY fell by over 1500 pips.

<u>In the three months towards the end of the year, the market may look for a shift from "extreme appreciation" to "appropriate depreciation" of the US dollar.</u> After last week's September Fed interest rate meeting, Fed Chairman Powell expressed his determination to "firmly achieve price stability and achieve the 2% inflation target in the long run". The Fed raising interest rates to control inflation and the appreciation of the US dollar is a strategy that has to be carried out. At present, the Fed's "hawkish" expectations of aggressive interest rate hikes at least until the end of this year have been reflected in the US dollar index's sharp rise of 450 pips in the past week or a rise of 4.08 % (from 110.20 to 114.70). The market may still need some time to digest the Fed's firm determination to fight "inflation". As of 29

September, 10.00 am Singapore time, the US dollar index was quoted at 112.15. Fiscal year settlement near the end of the year, fiscal deficit, trade deficit, debt pressure, the problems of these three US factors may re-emerge related problems that lead to the government shutdown. The principle that an excessive extreme appreciation of the dollar could be a brake on US economic development has always been there. Appropriate depreciation of the US dollar to support economic development is the primary national policy in the medium and long term. In the three months approaching the end of the year, the timing and rate of the depreciation of the US dollar may be the critical points that the market needs to pay attention to.

2. CNH fell against USD below 7.2.

Under the influence of various unfavourable factors, USDCNH breaks 7.2000. The US dollar continues to be strong, EU demand slows down, the risk of global economic recession intensifies, and China's foreign trade surplus (since August) has been significantly revised down. In addition to the "easing" related monetary policy launched by the People's Bank of China since August to stimulate the economy, the risk reserve requirement for foreign-exchange forward sales was recently raised from 0% to 20% on 28 September to reduce the demand for foreign-exchange forward sales by enterprises and to help achieve a balance between supply and demand in the foreign exchange market. This is also the second policy adjustment made by the People's Bank of China to this round of rapid depreciation of the RMB. The first adjustment, on 15 September, was a cut in the foreign exchange deposit reserve requirement for Chinese financial institutions from 8% to 6%.

Under the influence of the above factors, yesterday (28 September) morning, when the US dollar index reached a maximum of around 114.50, the USDCNH broke above 7.2000 and reached a maximum of about 7.2650.

Last night, the US Dollar Index pulled back sharply (114.70-112.30) as the US Dollar may have opened a phase of topping and retracing. Non-US currencies are finally taking a breather. EURUSD retraced slightly up 200 pips (from 0.9550 to 0.9750), GBPUSD retraced sharply up 550 pips (from 1.0350 to 1.0900), USDCNH retraced sharply up 1200 pips (from 7.2650 to 7.1450), AUDUSD retraced up 170 pips (from 0.6350 to 0.6520), NZDUSD retraced up 180 pips (from 0.5550 to 0.5730), USDCAD retraced 230 pips (from 1.3830 to 1.3600), NZDUSD retraced 180 pips (from 0.5550 to 0.5730) and USDCAD retraced 230 pips (from 1.3830 to 1.3600). In the three months approaching the end of the year, the timing and rate of the depreciation of the US dollar may be the key points that the market needs to pay attention to. Non-US currencies may have a chance to take a breather.

Short term risk

Need to focus on the release of the US Department of Labor's "Non-farm payrolls change" data at 8:30 pm next Friday, 07 October. If the data changes significantly, the US dollar index may rise and fall sharply. Non-US currencies also correspond to a sharp fall or rise.

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