

# Forex Market Weekly

## Focus on speculation about US/Japan trade, currency issues

- Weaker yen on easing concerns over US/China trade, US/Russia clash over Syria
- Possible yen depreciation as geopolitical risks involving Syria ease
- Speculation US could pressure Japan to pump up yen

### This week's USD/JPY forecast range

**16-20 Apr: Y106-108/\$ (Y107.3 at end-previous week)**

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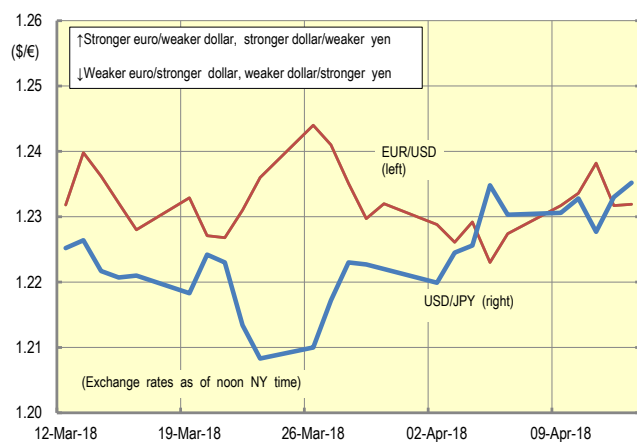


## Weaker yen as fears about possible US/China trade war, US/Russia military clash ease

### Overview of last week's forex market

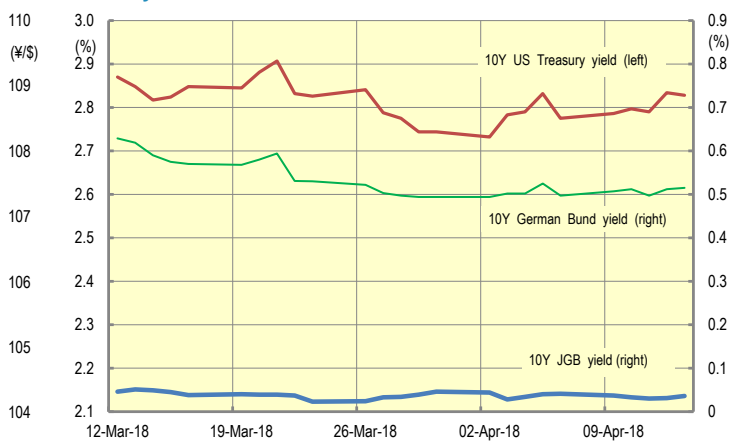
The week started with a modest USD/JPY gain as concerns about a trade war between the US and China eased after US President Donald Trump predicted trade concessions from China. Trump even declared that, "China will take down its trade barriers." However, the dollar peaked following media reports China was mulling yuan devaluation as one retaliatory measure in its trade spat with the US. China also said concessions were currently impossible as both sides had yet to sit down at the negotiating table. The USD/JPY then fell to Y106.61 after Trump said a "major decisions" on the US response to Syria's use of chemical weapons was likely over next 24 to 48 hours and that all options, including military action, were on the table. However, the USD/JPY then rebounded after Chinese President Xi Jinping pledged to significantly expand access to Chinese markets and cut car import tariffs. The USD/JPY again turned lower on concerns a coalition made up of the US, France, and England was preparing military strikes against Syria. However, Russia used its "hotline" with the US to maintain dialogue about the situation in Syria, which apparently helped to reduce concerns about a military clash between the two super powers. Equity markets in Europe and the US recovered and the USD/JPY rose to Y107.78. However, US stock markets and the USD/JPY retreated somewhat toward the weekend after the April University of Michigan Consumer Sentiment Index was weaker than expected.

Chart: Forex Market: USD/JPY, EUR/USD



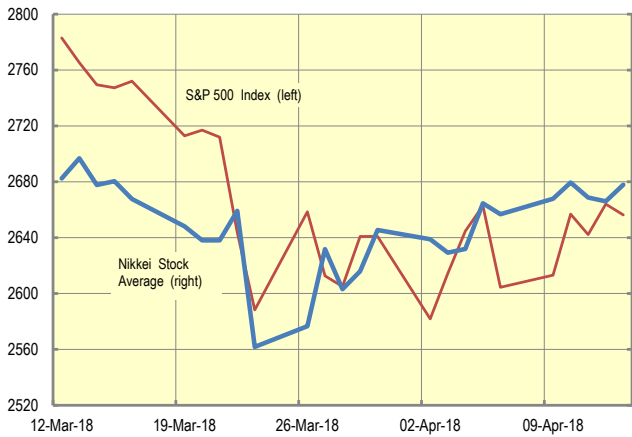
Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Bond Market: 10Y Sovereign Bond Yields in Japan, US, and Germany



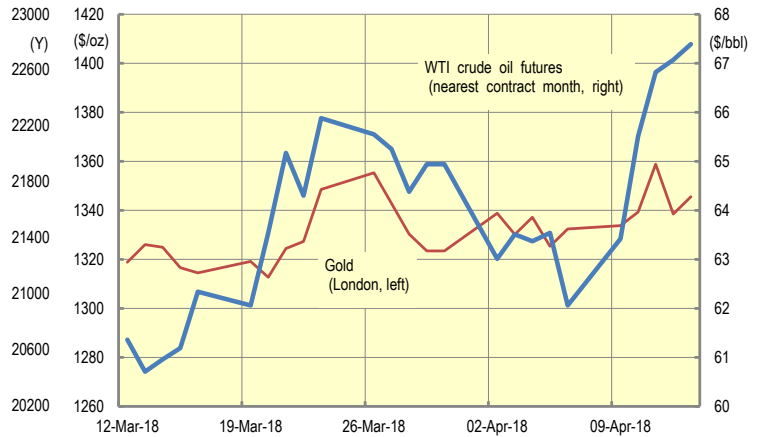
Source: Thomson Reuters; compiled by Daiwa Securities.

**Chart: Stock Market: US S&P 500, Nikkei Stock Average**



Source: Thomson Reuters; compiled by Daiwa Securities.

**Chart: Commodity Market: Crude Oil Futures, Gold**



Source: Thomson Reuters; compiled by Daiwa Securities.

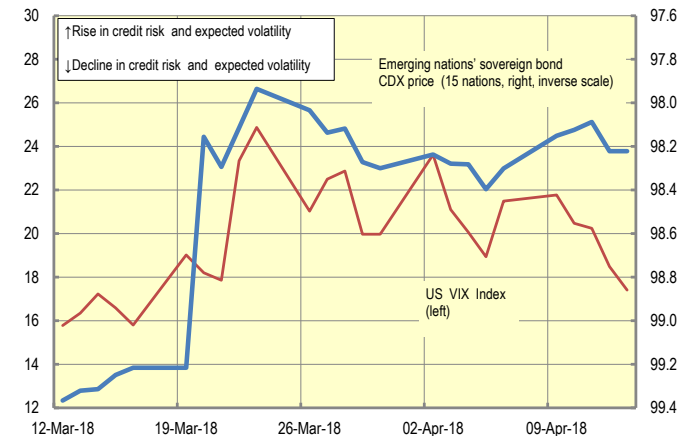
**Reduced geopolitical risks could contribute to weaker yen**

**Possible yen depreciation as geopolitical risks involving Syria ease**

Armed forces from the US, France, and England conducted military strikes against Syria limited to facilities producing chemical weapons. However, geopolitical risks actually eased somewhat, which could contribute to a weaker yen. Trump explained to the US public that the attack—an appropriate response needed to prevent Syria from using chemical weapons—was successful. The US Defense Secretary also said the attack would be a one-time event provided Syria does not use chemical weapons again. Russia, which backs Syrian president Bashar Assad and has fought dissidents opposed to the Assad regime, had warned of a “serious response” if the US attacked Syria. However, the secure hotline between Washington and the Kremlin was used to communicate planned actions in Syria and, as a result, Russia seems less likely take any retaliatory actions.

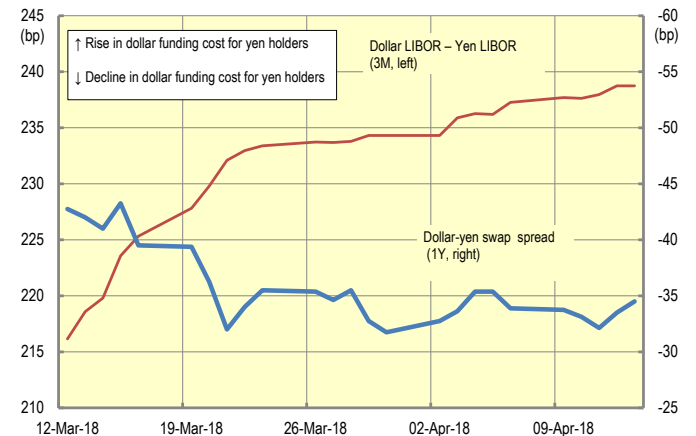
Upward pressure on the yen will likely ease as conditions in Syria should settle down now that this apparent “political theater” has ended. That said, if the crude oil price continues strengthening due to supply concerns, rising interest rates on expectations for higher inflation could weigh on equities. In this case, the potential for yen appreciation amid a risk-off mood would likely warrant our attention.

**Chart: US VIX Index and Emerging Market CDS**



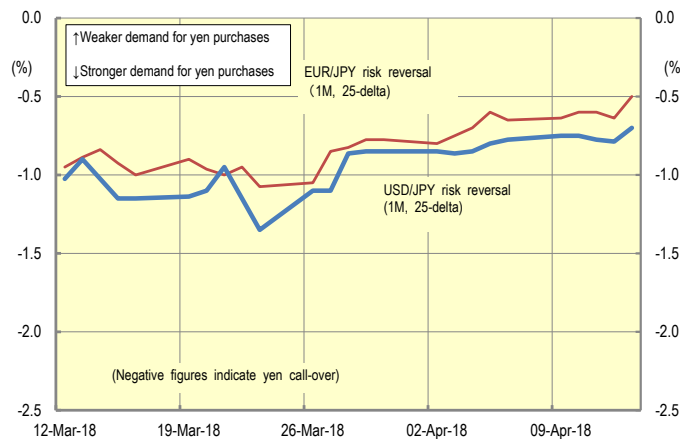
Source: Thomson Reuters; compiled by Daiwa Securities.

**Chart: LIBOR Gap and Currency Swap Spread**



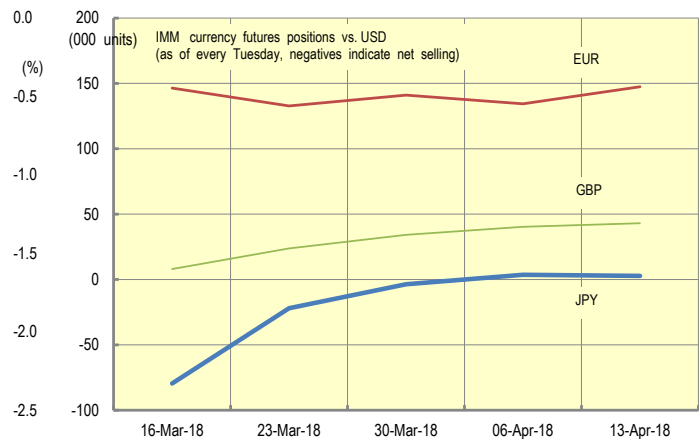
Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Risk Reversal on Currency Options



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Net Position of Currency Futures



Source: Thomson Reuters; compiled by Daiwa Securities.

### US may call for Japan to bolster its currency

### Speculation US could pressure Japan to pump up yen

The US Treasury Department released its Semiannual Report on International Economic and Exchange Rate Policies. This report indicated that Japan's real effective exchange rate has declined to roughly 25% below its 20-year average. While not labeled a "currency manipulator," Japan remains on the US Treasury's "monitoring list" of major trading partners that merit close attention to their currency practices. South Korea, another country on this list, will not be subject to higher tariffs on its steel and aluminum imported into the US. Still, the US is now pressuring South Korea to prohibit competitive won devaluation and exchange rate manipulation. There is the possibility that the US could likewise apply pressure on Japan to more tightly control yen depreciation after the Treasury report highlighted yen weakness. Japanese Prime Minister Shinzo Abe will visit the US this week (from 17 Apr). A higher USD/JPY looks possible if the US president calls on Japan to correct trade imbalances, resulting in heightened expectations for steps from Japan to reduce US-bound exports (goods, services) and increase imports from the US. However, if Japan fails to present effective measures, speculation about increased US pressure on Japan to bolster the yen could easily grow.

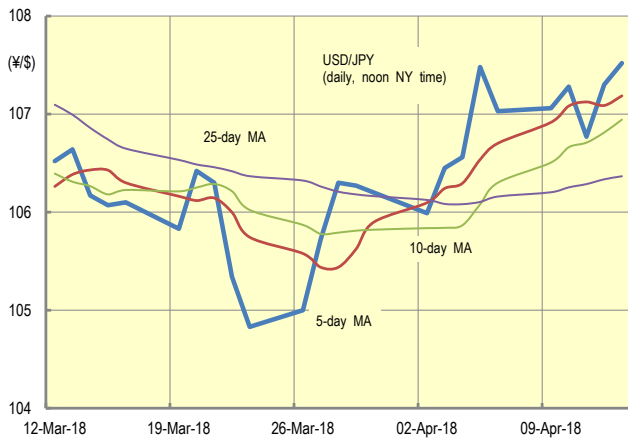
### Yen may rise against dollar on weaker-than-expected US economic indicators

Recently there has been a growing number of weaker-than-expected US economic indicators, including last week's University of Michigan Consumer Sentiment Index. This trend seems likely to continue for US economic indicators due out this week, such as March retail sales and the New York Fed's April manufacturing survey. However, as higher inflation expectations on stronger oil prices is one reason for rising long-term US interest rates, we are probably more likely to see yen appreciation on a risk-off mood than dollar weakness on lower US interest rates.

### Noteworthy currency: EUR

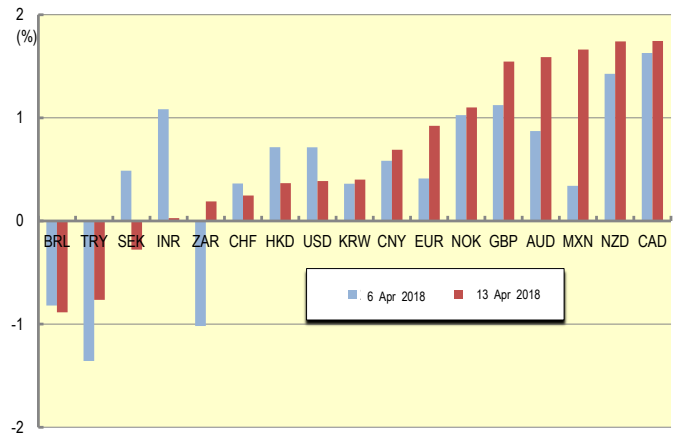
Germany's April ZEW Economic Sentiment Index is due out on 17 April. The market expects the reading to turn negative (-1.0) from +5.1 in March. The assessment of the current situation is also expected to decrease to 88.0 from 90.7 in March. Eurozone economic trends remain solid, but the weakening of recent economic indicators has stood out and increased concern about the ZEW Economic Sentiment Index turning negative has weighed on the euro. If this indicator in fact turns negative, the euro would likely weaken against both the dollar and yen. Indeed, there is a good chance of the euro falling below EUR/USD1.23 and EUR/JPY132.

Chart: USD/JPY and Moving Average



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Weekly Currency Performance (vs. yen)



Source: Thomson Reuters; compiled by Daiwa Securities.

Chart: Weekly Schedule for Major Economic Indicators/events

- 16-Apr ● Mar US retail sales  
Apr NY Fed's Empire State Manufacturing Index
- 17-Apr ● Prime Minister Abe's visit to US (until 20th)  
Jan-Mar China GDP, China retail sales  
Apr German ZEW Indicator of Economic Sentiment  
Mar US housing starts  
Mar US industrial production, capacity utilization rate
- 18-Apr Mar US industrial production, capacity utilization rate
- 19-Apr ○ Beige Book (Fed)  
Mar Australia jobs report  
Apr Philadelphia Fed's Business Outlook Survey Index
- 20-Apr ● G20 Finance Ministers and Central Bank Governors meeting (Washington D.C.)
- 21-Apr IMFC (Washington D.C.)

Source: Compiled by Daiwa Securities.

Notes: Dates based on JST. ○ indicates monetary policy-related and ● denotes political events.

Chart: Weekly Forex Forecasts, Noteworthy Currencies/factors

	9-13 Apr 2018 (actual)		16-20 Apr 2018 (forecasts)	
	Range	Weekend	Range	Weekend
USD/JPY	106.6-107.8	107.3	106.0-108.0	107.0
EUR/JPY	131.1-132.9	132.3	130.5-133.5	131.6
EUR/USD	1.226-1.240	1.233	1.220-1.240	1.230

EUR	If outlook for German economy worsens, euro may weaken
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Source: Compiled by Daiwa Securities.

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#### [Standard & Poor's]

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The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

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#### [Fitch]

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- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
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- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

\*\* The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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