

Daiwa's View

FICC Research Dept

April is a time when we see selling of the yen

- More pronounced with cross-yen pairs, rather than with USD/JPY

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Tug-of-war at around Y152

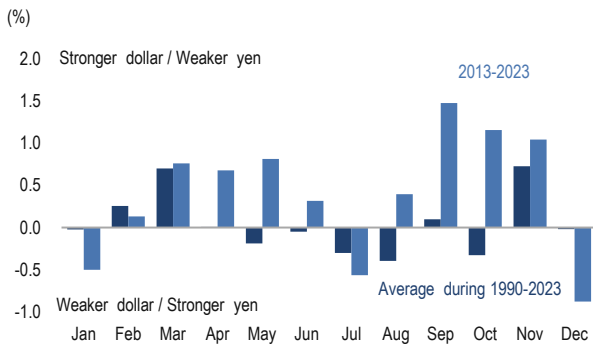
Since late March, the USD/JPY rate has been seesawing at the 151 level, in a tug-of-war between depreciation pressure on the yen due to higher US yields and caution about currency intervention by the government/BOJ. Although Vice Finance Minister Masato Kanda and Finance Minister Shunichi Suzuki have been repeating verbal intervention almost every day, [we get the impression that there has not been much of an increase in the sense of urgency regarding actual intervention](#). That said, with there being considerable concern about intervention at a level above Y152, if tonight's March US jobs report is stronger than expected, the USD/JPY rate may test Y152. So we should note this possibility, as well as whether currency intervention will occur should that happen.

If the authorities do not implement currency intervention after the USD/JPY rate rising well above Y152, there would be increased upside potential for the USD/JPY rate. However, last year as well, we saw the yen shift towards an appreciation trend several times, albeit temporarily, at the level of Y150 or Y152, where the market tends to become cautious about intervention. Although this was probably caused by selling by programed trading, we need to pay attention to the possibility that such flows may cause yen appreciation despite there being no intervention.

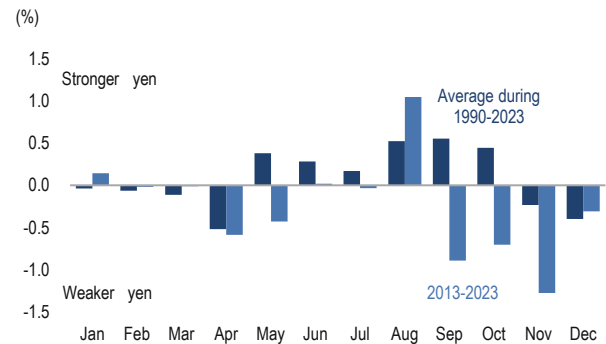
Anomaly of yen depreciation in April

The new fiscal year started this week. In the forex market, there is an anomaly in which the yen tends to weaken in April. This is said to be due to life insurers and other investors implementing overseas investments for the new fiscal year. Let us confirm the actual movements. Chart 1 shows the average for the rate of change in the USD/JPY rate in each month. Looking at the simple average during 1990-2023, we find that the rate of change in April was 0.01%. Therefore, we cannot say that there was a clear yen depreciation trend. In order to exclude the impact of extreme figures, we confirmed the number of times when the yen became weaker or stronger, and, in that case as well, during those 34 years, yen depreciation in April was observed 16 times, while yen appreciation was seen 18 times.

However, looking at the simple average during 2013-2023 after the start of Abenomics and extraordinary monetary easing, we can confirm a clear yen depreciation trend in April, with a rate of change of 0.68%. Looking at the number of times when the yen became weaker or stronger, yen depreciation in April was observed six times during those eleven years, while yen appreciation was seen five times. In particular, during the seven years after the introduction of negative interest rates and the yield curve control policy, yen depreciation in April was seen five times, with the yen weakening by 1.6% on average.

Chart 1: Rate of Monthly Change in USD/JPY Rate


Source: Bloomberg; compiled by Daiwa.

Chart 2: Rate of Monthly Change in JPY's Nominal Effective Exchange Rate


Source: BOJ; compiled by Daiwa.

Thus far, we have examined yen depreciation in April using the rate of monthly change in the USD/JPY rate. While this common view seems to apply in recent years in particular, we are not sure whether it is a rule of thumb that occurs with high probability.

However, looking at the rate of monthly change in the JPY's nominal effective exchange rate (NEER) in Chart 2, we can probably say that the anomaly of yen depreciation in April is a more reliable rule of thumb. Looking at the simple average during 1990-2023, we find that the rate of change in April was -0.52%. This indicates that the yen weakens the most in April throughout the year. Looking at the number of times when the yen became weaker or stronger, as well, yen depreciation in April was seen 24 times during the 34 years, while yen appreciation was seen ten times. As such, the yen clearly became weaker more frequently.

Even when limiting the period to 2013-2023, similar to the examination of the USD/JPY rate, we find that the yen depreciation trend in April was unchanged, at a change of rate of -0.59%, which is almost the same as the figure during 1990-2023. However, September and October posted a change in the trend from yen appreciation to yen depreciation. And, in November, the yen weakened the most throughout the year, at -1.28%. For eight consecutive years since 2016, September and October have been posting yen depreciation. And, November has been posting yen depreciation since 2010, except for 2022. Although the reason for these trends is not clear, in recent years they have been rules of thumb with very high probability.

As mentioned above, we cannot say that the anomaly of yen depreciation in April is completely reliable with respect to the USD/JPY rate. However, in terms of the JPY rate (NEER), we want to remain aware of the anomaly when attempting to produce reliable forecasts of the market. As it is said that stock prices tend to rise in April, selling of the yen, centering on cross-yen pairs, would be an attractive investment strategy.

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