

# GENERIC YEN-USD FUTURE

## Currency Future - JY2 COMB Curncy

# DMG

September 30th 2024

### Investment Thesis

Our team plans to enter a Currency Future on the Japanese Yen. We have a bearish outlook on the exchange rate of USD to Japanese Yen due to macroeconomic factors in both economics and institutional investment. We believe these factors will weaken the US dollar and strengthen the Yen thus allowing for value to be extracted over the term of this 6 month play.

### Thesis Highlights

#### ■ Economists and the Bank of Japan point towards potential rate hikes by year-end

In July of 2024 the Bank of Japan (BOJ) raised rates to the .025, the highest they have been in 8 years. The BOJ abandon the previous norm of -0.1 in favor of trying to curb inflation and potentially stabilize the Japanese economy. In a announcement the BOJ mentioned the potential to further hike rates if inflation has not fallen in line their expectations towards the goal of 2%. We therefore expect another rate hike by end-year as Japanese core cpi remains at 3.2% as of today which will strengthen the Yen in comparison to the USD.

#### ■ Carry traders continue to express interest in low interest Japanese debt

Reuters valuates the assets in carry trade to be \$350 billion using the narrowest definition. Falling in line with our expectations, if the BOJ were to hike rates at year-end it would cause a wave of margin calls on foreign holders and investors thus creating an influx of demand for Yen. When the BOJ hiked rates in July, the exchange rate of USD to Yen fell 3.73% from 149.98 to 144.39 in week. We see this as a potential catalyst for the plan than could help move exchange rate to our desired level.

#### ■ An unstable US economy could weaken the US dollar

The US economy is in a strange state with record credit card default, a weaker then hoped unemployment rate, larger then every government debt, and a growing trade deficient. Each of these factors can negatively affect the exchange rate of the USD. Additionally the Fed cut rates by 50 bps which has the possibility of once again increasing inflation and weakening the dollar.

### Thesis Risks

#### ■ Lower than hoped interest in the hoped interest in the March 2025 future

The economic and technical factors we took into consideration place March 2025 as the best price for the play. A risk associated with March 2025 is the fall of open interest in the future. We noted that open interest in a currency future for December 2024 was 199,692 yet the open interest in March 2025 is 840. This is a significant decrease in interest for investors that indicates a reluctance with we find disconcerting and potentially harmful to the play.

#### ■ Potential inaction from either the Fed or the BOJ could slow the volatility of the exchange

This future is predicated on the notion that there will be action from these banks as the economic situations of both the US and Japan should prompt rate cuts and hikes. A risk to this premise is the cautious nature of central banks and the possibility that they abstain from action until it is too late for the plan to benefit for the action

### Exchange Rate Outlook: Bearish

Target Contract Price \$.00769/1¥ (10.8%)  
Current Contract Price \$.00709/1¥

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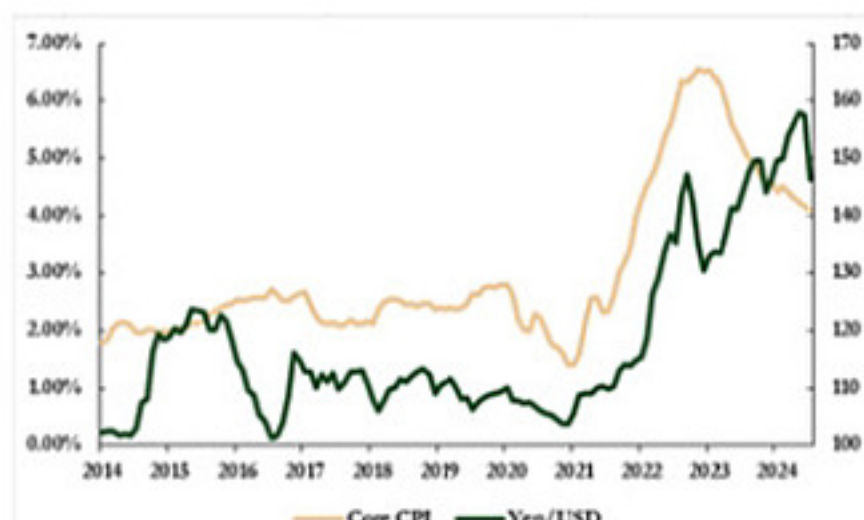
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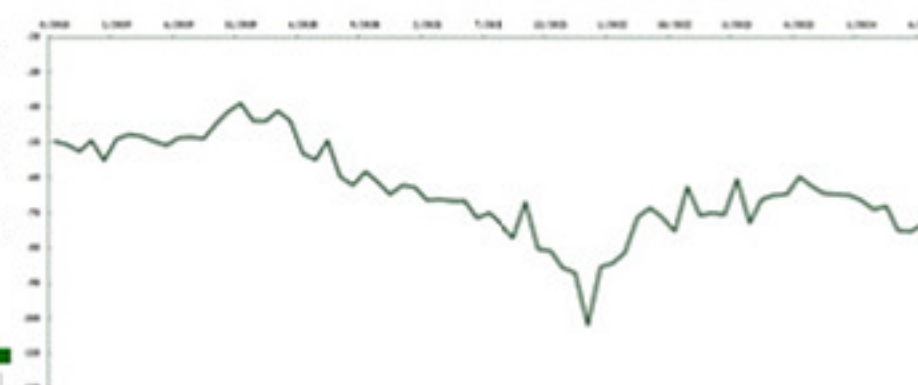
### Company Information

Security	Futures
Underlying Asset	Japanese Yen to USD
Contract Value	\$88,625
Contract Size	12,500, 000
Tick Value	\$6.25

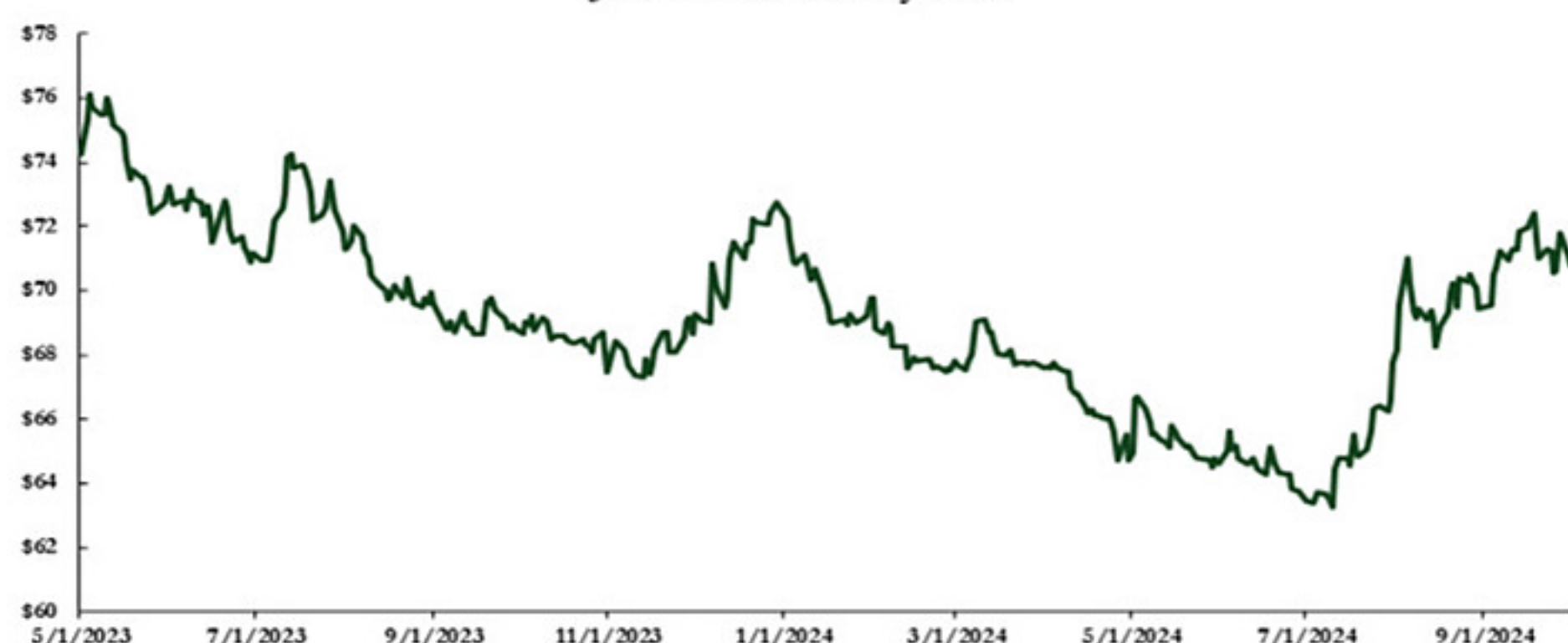
### Core CPI vs. Yen to USD Exchange



### US Trade Balance (\$Billions)



### JY2 COMB Curncy Price



### Relevant Information

FED Funds Rate	4.75%
Japanese Interest Rate	0.25%
Core Inflation Rate	3.2%
Trade Balance YoY % chg.	-21.95%
Japanese Trade Balance YoY % chg.	26.04%
Japanese Unemployment	2.5%
Open Interest	840 Contracts