

USD/JPY (JPY=X)

Japanese Yen Weakening to Fight against the Technical Recession

Yen gets ready for the upswing. Within the month, Japan faces double negative pressure from both the domestic and international economies. Respond to the fourth quarter GDP drop and the global coronavirus negative effects, the yen is expected to go upward, breaking the price of 111 ¥/\$.

Key points:

- Target stable inflation of 2% but has the potential to shift within a month or soon:** Bank of Japan has published a statement of monetary policy for the fiscal year 2020 in the first month, continuing the QQE (quantitative and qualitative monetary easing) strategy to target the 2% stable inflation rate.¹ Under the relative purchasing power parity forecasting theory, keeping the 2% inflation makes the yen relatively strong and stable currency, compared to the annual inflation rate of 2.5% in the United States of America.² The potential to shift away from 2% comes from the pressure of GDP drop and probable economic recession in the country. An increase in the targeted inflation rate will further weaken the yen and reduce the real purchasing power. Keep an eye out of the latest news announcement.
- GDP drop in the fourth quarter and potential coronavirus outbreak negative impact as warning signs for the yen weakening and economic recession in Japan:** The most recent GDP report shows that the GDP shrinks for 6.3% in the fourth quarter of 2019 in Japan³, after an increase of consumption tax to 10% and a severe summer typhoon disaster. It is the second-largest GDP drop in Japan since 2014. The upcoming coronavirus impact will further devastate the economy of Japan, especially the tourism industry from China and the various industries exporting supply chains. Analysts forecast that the GDP will probable further drop by about 0-3% for the first quarter in 2020.⁴ The Central bank (Bank of Japan) will act quickly to help the domestic economy, playing the losing role. Bank of Japan will continue to work on foreign

JPY=X

Market: currencies

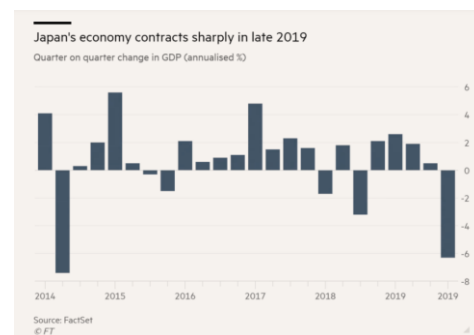
Price target: 110.990 ↑

Price previous: 109.858

Previous Close	109.858	Day's Range	109.63 - 109.948
Open	109.857	52 Week Range	104.8710 - 112.2260
Bid	109.83	Ask	109.88



Japan's GDP quarterly change %



¹ Statement on Monetary Policy, January 21, 2020, Bank of Japan

² United States Inflation Rate 1914-2020, Retrieved from <https://tradingeconomics.com/united-states/inflation-cpi>

³ Japan on course for technical recession, economists warn, Retrieved from Financial Times <https://www.ft.com/content/561ac780-5119-11ea-8841-482eed0038b1>

⁴ Ibeth Rivero, Bank of Japan Considering to Stop Pursuing 2% Target, Retrieved from Forex News <https://www.dailyforex.com/forex-news/2020/02/bank-of-japan-considering-to-stop-pursuing-2-percent-target/133472>

currencies, buying the foreign reserves to weaken the yen. A big movement to the USDJYP curve is expected. A large amount of the yen will outflow from Japan so hold dollars against the yen is recommended.

- **The investment climate is not much a concern in the long term:** Although there is a negative estimate of Japan's economic growth, the temporary downside will not last for long periods. The economy is expected to rebound after the end of the coronavirus and the opening of the Tokyo Olympics. As to now, the investment climate in Japan is stable. From the 2019 Japan's Balance of Payments, the financial account has increased by 20%, mostly comes from the direct investment.⁵ The interest rates are also stable. The short term interest rate is targeted at -0.1% and long term interest rate is kept at around 0%.⁶ Short term yen weakening is inevitable; for the long term, wait for the temporary downside to end.
- **Recommendation:** Expected the upward of JYP index and yen weakening. In the short term, take a short position and hold the dollar against the yen. In the long term, still a sign for waiting.

⁵ Balance of Payments Statistics, 2019 C.Y. (Preliminary), Bank of Japan

⁶ Statement on Monetary Policy, January 21, 2020, Bank of Japan