

A Day in the Life of the Bank of Japan's Foreign Exchange Dealers

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Foreign exchange dealers are, in general, very early birds, and dealers at the Bank of Japan are no exception. We start work before 7:00 a.m. JST when morning trading in the Sydney market in Australia, which starts two hours earlier, peaks out. Our first job is to get ready for the morning market reports meeting by gathering, sorting, and analyzing information. We first check the previous day's developments in the New York and European foreign exchange markets, and then make our own forecasts for the day by listing up bull and bear factors as well as by exchanging views with market participants.

Information we gather ranges over various areas such as economic indicators, statements by high officials, political events, holidays, and rumours circulating in the market. All kinds of media are utilized, including paper media (newspapers, fax news services, magazines), on-line media (computer on-line services, e-mail communication), and voice (telephone conversations). As the volume of information is tremendous, and there is both useful and useless information, we have to screen it and formulate our own view.

There is no time for rest even after the morning meeting. Recently, the improvement in on-line communication media has made it easy for anyone to obtain global information on a real-time basis, dramatically increasing the efficiency of information gathering. However, as the whole market reacts simultaneously even to trivial news, we have to be alert at all times. It is often the case that foreign exchange rates fluctuate abruptly due to unexpected factors. This means that the market has to be analyzed from the standpoints of various areas such as macroeconomic analysis, time-series analysis (which requires sophisticated econometric methods), historical studies, political analysis, and even astrology. Thus, we have to keep on obtaining and analyzing information throughout the day.

Although electronic media have become so popular and useful that we are not able to live without them, conversations over the phone with market participants are still vital for monitoring the markets. Market participants' views occasionally differ significantly and it is often the case that subtle changes in their sentiment gradually grow to a strong trend in exchange rates. Frequent contacts with market participants are the most effective way to remain sensitive to market developments. Communication with market participants is also an important channel for providing them with accurate information on the Bank's monetary policy stance and on the statements of the Bank's officials and thus helps to prevent market reaction arising from misunderstanding.

We look most active when we are conducting intervention. The Bank of Japan, as the agent of the Minister of Finance, conducts foreign exchange transactions (i.e., intervention) in order to stabilize the yen's value. This is stipulated in laws such as the "Foreign Exchange Fund Special Account Law" and the "Bank of Japan Law." Specifically, the Foreign Exchange Division is the operational unit of intervention. When a large fluctuation in the yen is expected to have significant negative effects on the economy, the hot line connected to the Ministry of Finance rings. Several dealers and back-up staff members are quickly on standby, and the tension builds up in the dealing room. When intervention is decided, the room is thrown into an uproar as the dealers and the chief dealer shout their orders and directions.

After 5:00 p.m. JST, the majority of trading shifts to the European market, and usually, the Bank's representative offices in Europe and the United States take over the task of monitoring. It is not until then that we are released from the high tension that started in the early morning. However, when the exchange rates show too much volatility, we cannot close our business even after the Tokyo market closes. It is not uncommon that we continue monitoring during European and U.S. trading time by contacting dealers in overseas markets and people in charge of monitoring foreign exchange markets at foreign central banks. When the Bank of Japan requests foreign central banks to conduct interventions on behalf of the Bank, senior officials of the Bank play the roles of liaison and broker between the Minister of Finance and the foreign central banks. When this happens, work often continues till dawn.