

WORLD FOREX: Yen Rises As BOJ Easing Fails to Impress

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TOKYO (Dow Jones)--The markets took a dim view of a new monetary easing announced by the Bank of Japan Monday, pushing the yen above the key level of Y85 to the dollar and leaving traders to wonder if the move was all the central bank had in its arsenal.

Trading at around Y85.90, the dollar quickly fell to Y85.50 after the central bank's policy board held an emergency meeting and voted to extend a program of low-interest loans, while the euro fell nearly 50 sen to Y108.98.

The decline worsened later in the day after BOJ Gov. Masaaki Shirakawa gave a news conference explaining the bank's reasons behind its move. Although he said that the uncertainty over the economy was increasing, traders said he offered no hints of stronger action.

As of 0645 GMT, the dollar was at Y85.01, from Y85.35 in New York Friday. The euro traded at Y108.27, compared with Y108.72.

The policy board agreed to loosen monetary policy by adding another Y10 trillion in six-month funds into the market at an ultra-low rate of 0.1%, expanding on its current program of three-month loans. The extra funding is meant to lower interbank interest rates and thereby help stop, or at least slow, the recent heavy fund flow into the yen.

Traders said the uncharitable reaction to the extra money was due in part to the fact that such a move had been widely expected and that it had already taken the yen off its 15-year high of Y83.58 reached last week.

"I would use any weakness to buy (the yen)," said Tim Condon, FX strategist with ING Bank in Singapore. "These measures are not going to alter the situation of the yen's strength."

Others were even more direct, with one Tokyo analyst calling it "too ordinary."

Following the BOJ action, the government is now expected to do its part by announcing a new stimulus package Tuesday. The targeted spending program will likely draw on Y920 billion reserve fund from the current budget with a potential for another Y800 billion.

While relatively modest in relation to the size of Japan's economy, there is widespread opposition among lawmakers to anything larger that would require issuing new bonds and further expand the high level of outstanding debt.

Even as the BOJ measures were announced, however, they were met by an ever-skeptical market, which took the view that the measures were no more than what it had been expecting all along and therefore were already priced into the yen's current value.

Analysts have also cautioned that the market impact from any move by Japan was bound to be limited, noting that the other half to the currency equation is the weakness of the dollar. Federal Reserve Chairman Ben Bernanke pledged on Friday to provide more stimulus to the U.S. economy if needed.

"Markets are now being driven by Friday's moves rather than (the BOJ's emergency meeting)," said Shuichi Kanehira, senior dealer at Mizuho Corporate Bank. Any moves by the Fed would again narrow the yield differential between the U.S. and Japan and again attract investors into the yen looking to avoid dollar volatility.

Traders said that they are now looking to a meeting planned later in the day between Shirakawa and Japanese Prime Minister Naoto Kan for further clues on the next steps by authorities.

The unknown piece in the puzzle is whether a frustrated Japan will now turn to the next step of open intervention in the market.

Finance Minister Yoshihiko Noda said over the weekend he would take "decisive" steps to prevent a further sharp appreciation of the yen, a phrase previously used to signal that intervention could come soon.

Dai-ichi Life Research Institute chief economist Hideo Kumano said that "currency investors had expected too much from BOJ." He added that the new funding provision will have an impact on Japanese government bond rates. But he said if that fails the next step would be up to the MOF.

"If the yen keeps rising despite the BOJ's move today, I think it will be the MOF's turn to step into the market."

Looking at the BOJ's long-running efforts to end Japan's deflation, part of the reason for the rising yen, some economists said it might be time for a change.

"It's largely a charade," said Richard Jerram, chief economist at Macquarie Capital Securities Japan. He said that while independence is normally very important for a central bank, the BOJ has done too little to tackle Japan's problems. "You can argue that BOJ independence hasn't served Japan well over the past 12-15 years," he said.

The euro stood at \$1.2736 from \$1.2734 Friday in New York. The ICE Dollar Index, which tracks the dollar against a trade-weighted basket of currencies, was at 82.819 from 82.875.

Interbank Foreign Exchange Rates At 01:50 EDT / 0550 GMT

Dollar Rates	Latest	Previous 2150 GMT	%Chg	Daily High	Daily Low	%Chg 12/31
USD/JPY Yen	85.25-29	85.36-41	-0.13	85.92	85.25	-8.42
EUR/USD Euro	1.2730-34	1.2761-64	-0.24	1.2769	1.2728	-11.08
GBP/USD Sterling	1.5511-17	1.5526-29	-0.10	1.5560	1.5511	-4.03
USD/CHF Swiss Franc	1.0294-97	1.0273-85	+0.20	1.0310	1.0277	-0.58
USD/CAD Canadian Dlr	1.0497-02	1.0499-02	-0.02	1.0508	1.0478	-0.15
AUD/USD Australian Dlr	0.8976-79	0.9018-20	-0.47	0.9030	0.8973	-0.08
NZD/USD New Zealand Dlr	0.7093-03	0.7136-44	-0.60	0.7135	0.7094	-2.25
EUR/JPY Yen	108.56-59	108.85-90	-0.27	109.55	108.52	-18.54

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