

MUR ZAR  
€ £

¥ \$

**JPY / USD**

Product Information

## INTRODUCTION

The Japanese yen (JPY), the official currency of Japan, is the strongest and by far the most traded currency in the Asian market. According to the recent Bank of International Settlement (BIS) survey, the JPY is the most traded currency after United States Dollar and Euro. Japanese's economy is the third largest economy in the world and it is mainly orientated to world's industrial production and exports. Japan's main export goods include computers, electronic devices and cars. The major trade partners are USA and China, followed by South Korea, Taiwan, Hong Kong, Singapore, Thailand and Germany. The economic situation of its main commercial partner, the USA, tends to have a direct influence on the JPY.

Since the nineties, the Bank of Japan, the country's central bank, has kept interest rates low in order to promote economic growth. Low interest rates prompted investors to borrow money in Japan and invest it in other countries, which in practice are known as carry trade. This has helped to keep the value of Yen low compared to other major currencies. However, history has proved that this practice also makes the Yen extremely sensitive to the financial crisis across the globe. The renewed concerns that the recovery of global economy is losing traction fuelled the demand for safer assets.

Moreover, Japan was struck by a devastating earthquake resulting in a 10 metre high tsunami on March 11, 2011. The aftermath of natural calamity paralysed an already fragile Japanese economy significantly affecting the nuclear power plant in Fukushima region. The yen rose to a post-World War II high versus the dollar as risk of radiation leaks from crippled nuclear plants in Japan added to speculation that insurers and investors will redeem overseas assets to pay for damages. The yen strengthened against the US dollar and stood at ¥76.36 on March 17, 2011.

Chart-1 JPY/USD

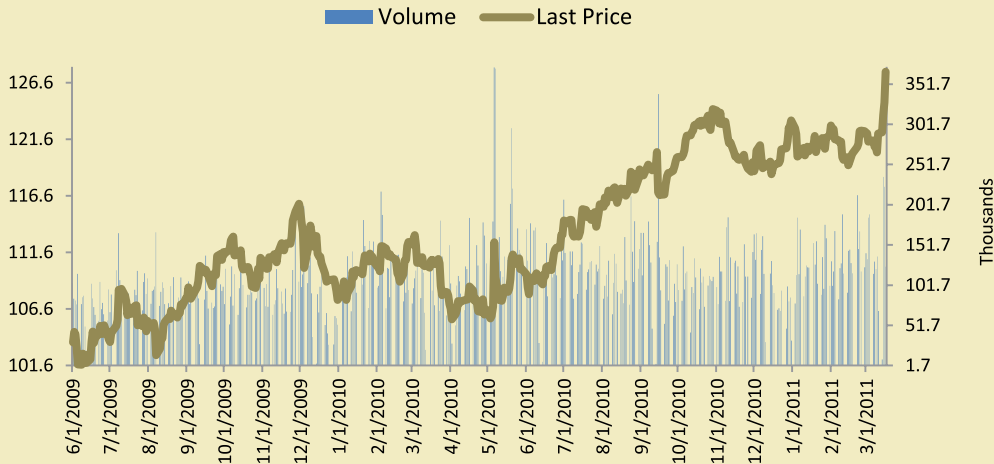
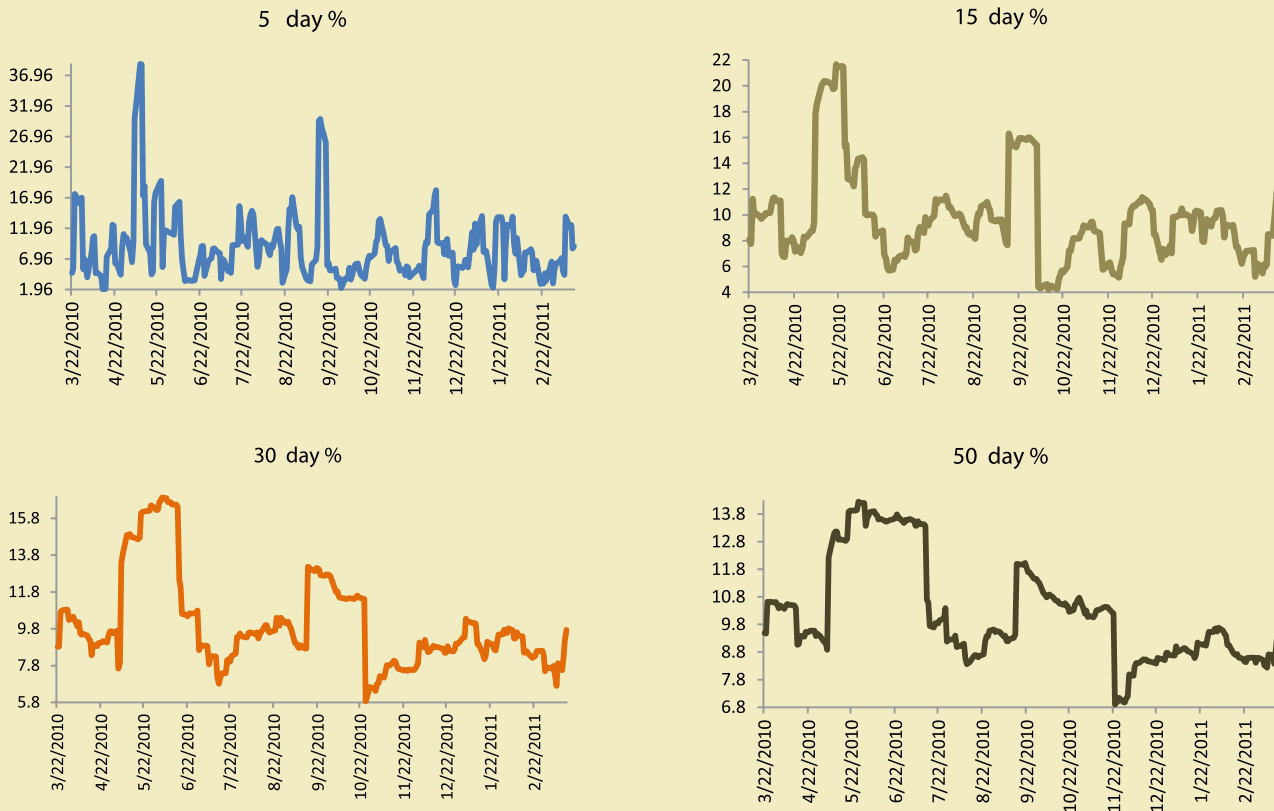


Chart-2 JPY/USD Volatility



Source: Bloomberg, GBOT Research

## SIGNIFICANT FACTORS AFFECTING THE VALUE OF THE JAPANESE YEN:

### A. Central Bank policy

The central Bank of Japan promotes a policy of keeping the yen weak against other currencies so as to boost exports and aid Japan's economic growth. Since the early 1990s, the Bank of Japan (BOJ) has kept its key rate very low; it has been around 0.1% in February 2011.

### B. Inflation

Japan had witnessed one of the lowest inflation rates since the end of 1990s (It was at -0.1% in February 2011). The Japanese economy went into a deflationary period since the year 1998. The low inflation has made the Japan's products more competitive which has helped the economy. Subsequently, this has raised the demand for the Yen.