

USD/JPY rate forecast till 2016 year end

- For USD/JPY rate, short term focus will be on whether it will break through 103 yen resistance line appeared in *Ichimoku Chart* used for technical analysis method.
- It seems BOJ's new monetary policy has failed to raise inflationary expectation and urge JPY depreciation of foreign exchange market. Need to watch out for strengthening JPY before the US presidential election.
- USD/JPY rate is expected to be 105 yen by the end of 2016 if the US presidential election ends without any trouble followed by US rate hike in December.

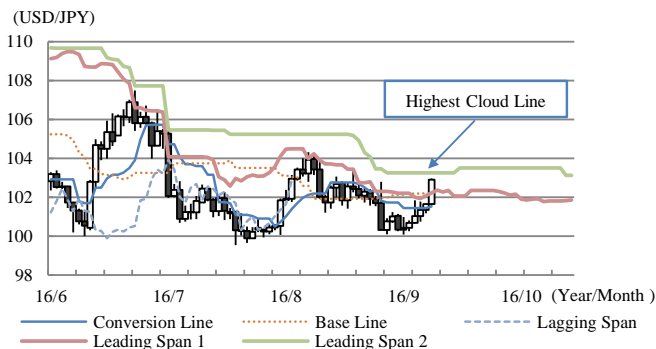
For USD/JPY rate, short term focus will be on whether it will break through 103 yen resistance line appeared in *Ichimoku Chart* used for technical analysis method

After USD/JPY rate was stable at 100 yen level against USD in September, it gradually turned around towards weaker yen against USD and continued to do so even entering October. As JPY turned weaker against USD from 27th September 2016, it seems that the foreign exchange market discounted Hillary Clinton's lead over Donald Trump after the first presidential debate for the moment which led to setback of risk-off sentiment. Rise of US long-term bond yield also seems to be the reason of weaker yen against USD.

Taking a look at *Ichimoku Chart* which is often used for technical analysis, *Highest Cloud Line was at around 103.25 yen level until 10th October 2016 and has stayed at around 103.51 yen level till now (Chart 1). As USD/JPY rate has often seen USD to turn weak hitting Highest Cloud Line since the beginning of this year, focus will be on whether weaker yen against USD can continue by breaking through 103.25 yen or 103.51 yen this time.

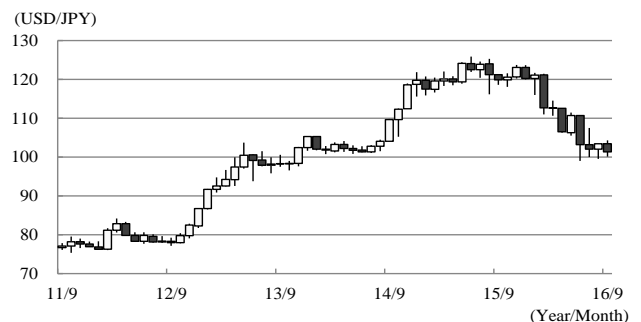
* Highest Cloud Line is calculated by adding highest and lowest exchange rates divided by 2 for the past 52days and then move the date forward for 26 days.

“Chart 1: USD/JPY Rate *Ichimoku Chart*”



(Note) Data period is from 30th June 2016 to 4th October 2016.
Leading Span 1 and 2 are both from 30th June 2016 to 8th November 2016.
(Source) SMAM, based on Bloomberg L.P. data.

“Chart 2 : Long Term USD/JPY Rates Trend”



(Note) Data period is from September 2011 to September 2016.
(Source) SMAM, based on Bloomberg L.P. data.

It seems BOJ's new monetary policy has failed to raise inflationary expectation and urge JPY depreciation of foreign exchange market. Need to watch out for strengthening JPY before the US presidential election

Meanwhile, BOJ announced "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control" as its new monetary policy framework to enhance accommodative stance on 21st September 2016. After this announcement, JPY temporarily weakened against USD and turned around to strengthen against USD soon after. As far as this reaction is concerned, foreign exchange market seems to have concluded that BOJ's new monetary policy framework will not be able to raise inflation.

Similar to equity market, the US presidential election on 8th November 2016 is a key event towards the end of year 2016 for foreign exchange market. If Donald Trump leads, JPY will be bought because of risk-off sentiment and if Hilary Clinton leads, foreign exchange market will be stable. Risk of USD/JPY rate breaking through 100 yen towards stronger yen against USD will not be evaded completely, as extremely uncertain market environment is anticipated until the US presidential election.

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Meanwhile, in US, congress will legislate policies. Therefore, it is quite unlikely that extremely unique policy can pass congress even if Donald Trump becomes president of the United States. If foreign exchange market starts to discount this kind of view, risk of JPY appreciation due to risk aversion caused by the US presidential election will gradually diminish. In addition, we believe that excessive concern over political conditions of Europe and economical conditions of China is not necessary.

Uncertainty over US politics and economy will subside in a significant manner if the US presidential election ends without any trouble followed by US Federal Open Market Committee (FOMC) raising policy rate in December. If that's the case, USD/JPY rate will react more towards weaker yen against USD as investors' sentiment will improve towards the end of 2016. However, we forecast USD/JPY rate of around 105 at the end of 2016, as US financial authority indicated moderate rate rise which will limit pace of USD/JPY rate hike.

*** Please note that this report is a translation of Japanese report written on 5th October, 2016.**

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