

FX Outlook



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(By Asset Allocation Group)

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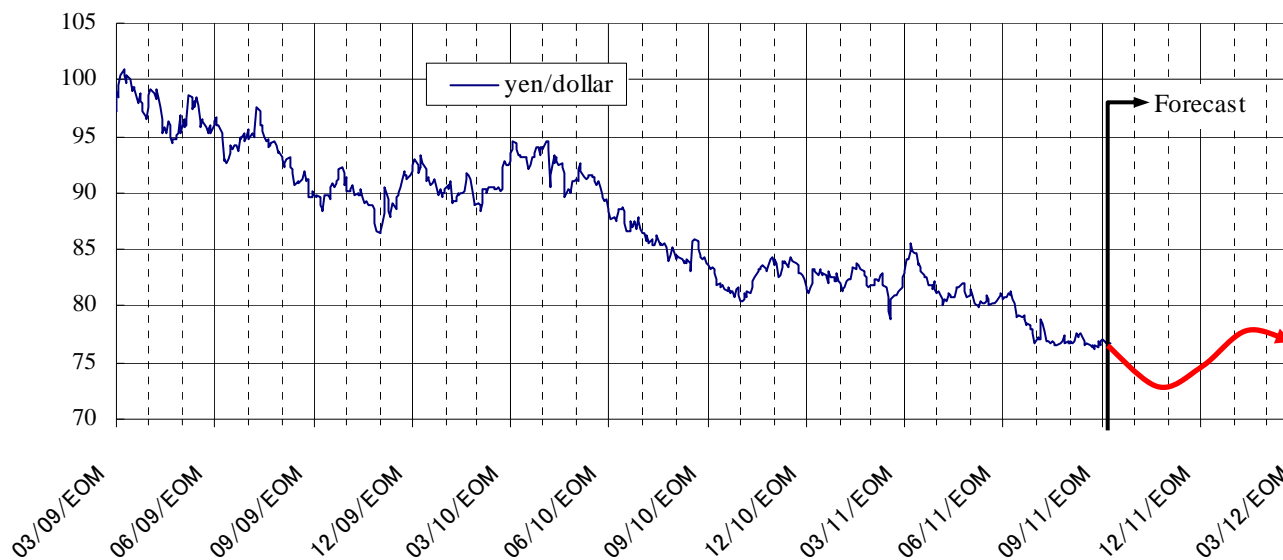
FX: Against a background of risk aversion and protracted US-Japan monetary easing, the dollar/yen rate will hold fast for the time being. Cross yen-led yen appreciation calls for caution.

- Continuing from enhancing its policy duration commitment in August, the FRB in September decided on measures including a \$400 billion Maturity Extension Program (twist operation) and reinvestment of agency and MBS redemption money in MBS. US long term interest rates have accelerated their decline since August due to concerns over economic slowdown and flight to lower-risk havens, and the yield curve has become flatter.
- The ECB reopened its securities market program in August, adjusted its growth outlook projections downward and set the inflation risk from upward to even in September, and decided upon measures including reopening of covered bond purchasing in October. In addition to heightened expectations for rate cuts, dollar demand has intensified amid a strengthening of risk aversion stances, and since September the euro has been on a downward trend.
- At the same time, considering the negative impact of the uncertain situation overseas, on August 4 the Bank of Japan announced an increase of about 10 trillion yen in funding for asset purchases, keeping pace with yen-selling intervention. The dollar recovered temporarily to the ¥80s range after yen-selling intervention, but as a readily preferred currency amid movements toward risk aversion, it then fell temporarily to below ¥76.
- The dollar/yen rate remains stuck in the upper ¥70s range. The rate appears to be remaining within a range centered on current levels for some time, amid expectations for protracted monetary easing in both the US and Japan. However, while a phase of cross yen-led temporary acceleration in yen appreciation is assumed during times when the degree of risk tolerance is declining, situations such as rapid yen appreciation will bring the possibility of large-scale yen-selling intervention by the central government and the Bank of Japan, and caution should be taken against the possibility of a temporary increase in volatility.
- Regarding the euro, reaching resolutions seem to involve complications due to the conflicting perspectives of countries over relief policies for major debtor nations, and a tense situation will likely continue for some time. However, amid the softening stance of the ECB's hawkish members, interest rate reductions are becoming factored in, and with euro selling having progressed to a considerable degree in speculative positions, the euro's low should be limited.

	Performance		Forecast		Forecast range
	03/2011 EOM	09/2011 EOM	12/2011 EOM	03/2012 EOM	FY2011 (10/2011-03/2012)
yen / dollar	82.88	77.08	75.00	77.50	70.00 ~ 80.00
dollar / euro	1.42	1.34	1.33	1.38	1.25 ~ 1.50

Source: Bloomberg data, DIAM forecasts

【FX Rates (yen/dollar)】



Source: Bloomberg data, DIAM forecasts

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