Yen breaches 144 mark vs $, Japan central bank steps in

Intervention is a 1st since 1998, helped stem 20% decline in the currency

BLOOMBERG
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Japan intervened to support the yen for the first time since 1998, seeking to stem a 20 per cent decline against the dollar this year amid a widening policy divergence with the US.

The yen rose as much as 2.3 per cent against the dollar, pulling back sharply from the lows of the day when it had breached a key psychological level of 144, as top currency official Masato Kanda said the government was taking "bold action."

The intervention, coming after the Bank of Japan insisted it will hold its negative-rate policy even as the Federal Reserve hikes aggressively, indicates how a pain threshold had been reached as hedge funds kept adding to short bets on the yen. The question now is whether the unilateral action will work.

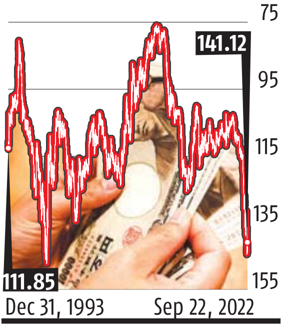
"At best, their action can help to slow the pace of yen depreciation," said Christopher Wong, a currency strategist at Oversea-Chinese Banking Corp. "The move alone is not likely to alter the underlying trend unless the dollar, US Treasury yields turn lower or the BOJ tweaks its monetary policy."

Currency intervention is an extraordinary move for a country that's long been criticized by trading partners for tolerating or even encouraging a weak currency to benefit its exporters. The last time Japan strengthened the yen with direct intervention was during the Asian financial crisis in 1998, when the exchange rate reached around 146 and threatened a fragile economy.

It had also intervened at levels around 130 to weaken the currency in 2011.

TUMBLES IN TRADE

Yen vs $ (inverted scale)



The yen rose 1.7 per cent to 141.71 against the dollar at 5:54 p.m. Tokyo. Kanda had called the moves against the currency sudden and one-sided as he announced the intervention.

Japanese authorities have been stepping up verbal warnings in recent weeks, and the Bank of Japan conducted so-called rate check in the foreign-exchange market last move to warn of speculative bets.

On Thursday, BOJ Governor Haruhiko Kuroda and his fellow board members kept the BOJ's yield curve control program and its asset purchases unchanged Thursday as had been widely expected. The central bank chief later said in a briefing that there may be no need to change forward guidance for two or three years, and there's no prospect for a near-term hike.

The yen is the worst performer among Group-of-10 currencies. Japanese companies and households have become increasingly vocal about the negative effects of the weaker currency, as input and energy costs soar. A further slide will put pressure on the consensus between a central bank determined to stoke inflation and a government desperate to avoid a cost-of-living crisis.