

Unusual factors behind the yen depreciation will fade, yet shift to its appreciation will be gradual

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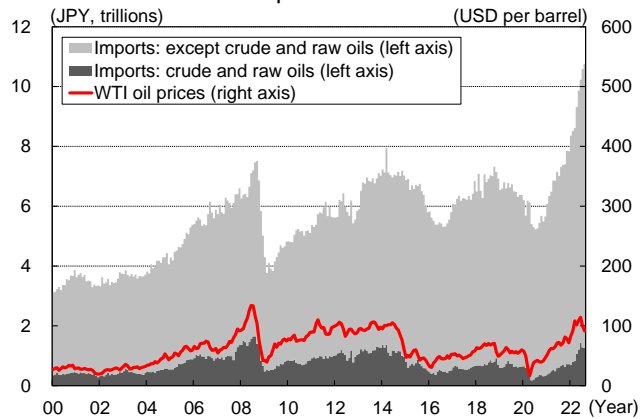
On 22nd September, Japan intervened in the exchange market to buy yen for the first time in 24 years. Nevertheless, the Japanese yen has remained weak at between JPY 140 and JPY 149 per USD. In addition to the divergence in monetary policy between the Bank of Japan and the Fed, there are other unusual factors causing the yen depreciation, such as an increase in the trade deficit from higher oil prices and a decline in inbound tourism demand due to the pandemic. Regarding the former of these, even though higher oil prices have caused a rise in the value of imports (Chart 1), there is already downward pressure on international commodity markets from concerns about a slowing of overseas economies. Oil prices are 15% lower than they were last quarter, which equates to an improvement in Japan's annual trade balance of around JPY 2.3 trillion (10% of the current trade deficit). In terms of the decline in inbound demand, there was a surplus of JPY 2.7 trillion in the travel trade balance in 2019, but this is around zero now due to restrictions on entering Japan. However, this is set to improve thanks to a rise in the number of foreign tourists as restrictions are eased and it is likely these unusual factors behind the weak yen will gradually diminish.

On the other hand, there are also structural factors that make a shift to upward pressure on the Japanese yen unlikely. First, it is doubtful that a weaker yen will lead to a rise in the volume of exports given that manufacturing production has been moved overseas. Since the global financial crisis, there was a rapid increase in the proportion of overseas capital expenditure by Japanese businesses, and domestic manufacturing capacity has fallen (Chart 2). As a result, demand for the yen in trade transactions has not increased with the rise in export volumes, and upward pressure on the yen is unlikely. In addition, nuclear power plants were shut down following the Great East Japan Earthquake and thermal power as a ratio of the power supply increased. This caused the trade balance to worsen as Japan increased the volume of its mineral fuel imports, which is another reason for the chronic depreciation of the yen.

Looking ahead, the Fed will continue to raise rates and the Bank of Japan will maintain its accommodative monetary policy for the time being. Meanwhile, although downward pressure on the yen will slowly ease as the unusual factors mentioned above fade, it is unlikely that there will be significant yen appreciation owing to Japan's structural factors. Currently, some businesses are returning their production bases to Japan and increasing their domestic production capacity in anticipation of lower production costs due to the weaker yen. In addition, the government has begun to review its energy policies, such as a re-start and construction of new nuclear power

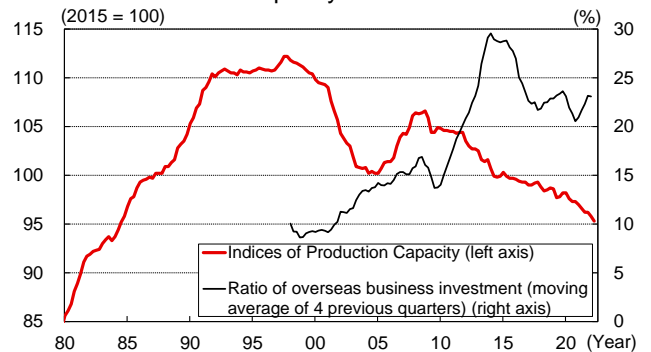
plants. It will be important to keep an eye on this situation and whether structural factors will ease as a result of these further developments.

Chart 1: Imports and Oil Prices



Note: Seasonal adjustment of crude oil and raw oil values carried out by ERO
 Source: Ministry of Finance, Bloomberg,
 MUFG Bank Economic Research Office

Chart 2: Production Capacity and Overseas Investment



Note: 1. "Ratio of overseas business investment" = overseas subsidiaries' business investment ÷ (overseas subsidiaries' business investment + domestic business investment)
 2. Manufacturers included have capital of >JPY 100 million
 Source: Ministry of Economy, Trade and Industry, Ministry of Finance,
 MUFG Bank Economic Research Office

Translated by Elizabeth Foster

MAIN ECONOMIC AND FINANCIAL INDICATORS (JAPAN)

1. Main Economic Indicators

As of Sep.27, 2022

	Fiscal	Fiscal	2021	2022		2022				
	2020	2021	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG
Real GDP Growth Rate <% changes from previous period at SA annual rate>	-4.6	2.3	3.9 (0.5)	0.2 (0.6)	3.5 (1.6)	***	***	***	***	***
Industrial Production Index	-9.6	5.8	0.2 (0.9)	0.8 (-0.6)	-2.7 (-3.7)	-1.5 (-4.9)	-7.5 (-3.1)	9.2 (-2.8)	0.8 (-2.0)	
Production										
Shipments	-9.8	4.6	0.2 (0.0)	0.5 (-1.8)	-1.0 (-3.6)	-0.3 (-4.6)	-4.1 (-3.1)	5.0 (-2.9)	1.2 (-2.1)	
Inventory	-10.0	6.8	2.0 (4.9)	1.0 (6.8)	-1.3 (4.2)	-2.3 (4.1)	-0.9 (3.8)	1.9 (4.2)	0.6 (5.1)	
Inventory/Shipments Ratio (2015=100)	122.9	114.3	115.6 [114.6]	118.2 [109.7]	117.8 [109.1]	116.0 [108.3]	119.6 [109.6]	117.9 [109.4]	122.4 [111.1]	[113.2]
Index of Tertiary Industries Activity	-6.8	2.3	1.5 (0.8)	-1.0 (0.3)	2.5 (2.3)	1.3 (0.8)	1.2 (3.9)	-0.4 (2.2)	-0.6 (1.6)	
Domestic Corporate Goods Price Index	***	7.1	2.4 (8.6)	2.0 (9.3)	2.7 (9.5)	1.5 (9.8)	0.0 (9.2)	0.9 (9.4)	0.7 (9.0)	0.2 (9.0)
Consumer Price Index(SA, total, excl.fresh foods)	-0.4	0.1	0.2 (0.4)	0.5 (0.6)	1.0 (2.1)	0.2 (2.1)	0.1 (2.1)	0.2 (2.2)	0.5 (2.4)	0.4 (2.8)
Index of Capacity Utilization (2015=100)	87.3	93.5	94.7 [92.6]	93.2 [95.4]	89.7 [95.3]	92.7 [97.5]	84.2 [91.9]	92.3 [96.5]	94.5 [94.6]	[92.0]
Machinery Orders(Private Demand, Excl.Electric Power and Ship building)	-8.8	9.3	5.1 (6.4)	-3.6 (6.1)	8.1 (10.8)	10.8 (19.0)	-5.6 (7.4)	0.9 (6.5)	5.3 (12.8)	
Manufacturing	-8.5	26.7	3.1 (23.4)	0.8 (24.2)	9.1 (21.2)	10.3 (29.3)	-9.8 (14.6)	5.4 (19.4)	-5.4 (6.6)	
Non-manufacturing Excl.Electric Power & Ship building	-9.0	-3.4	6.8 (-6.4)	-8.1 (-7.1)	7.6 (1.8)	8.9 (10.3)	-4.1 (0.6)	0.0 (-4.1)	15.1 (19.3)	
Shipments of Capital Goods (Excl.Transport Equipment)	-6.6	12.8	-1.5 (9.5)	0.0 (4.4)	1.3 (-0.8)	1.9 (-2.5)	-4.2 (-1.9)	8.7 (1.5)	6.9 (8.0)	
Construction Orders	-0.3	1.5								
Private	-4.9	8.2								
Public	29.6	-14.2								
Public Works Contracts	2.3	-8.6								
Housing Starts 10,000 units at Annual Rate, SA	81.2 (-8.1)	86.6 (6.6)	85.5 (6.1)	87.3 (4.8)	85.2 (-1.4)	88.5 (2.4)	82.8 (-4.3)	84.5 (-2.2)	82.5 (-5.4)	
Total floor	(-9.3)	(7.3)	(8.0)	(3.2)	(-2.7)	(1.1)	(-4.9)	(-4.2)	(-7.4)	
Sales at Retailers	-2.8	1.8								
Real Consumption Expenditures of Households over 2 persons (SA)	-4.9	1.6	5.2 (-0.7)	-1.8 (1.8)	2.0 (0.3)	1.0 (-1.7)	-1.9 (-0.5)	1.5 (3.5)	-1.4 (3.4)	
Propensity to Consume (SA,%)	61.3	62.8	64.1 [65.8]	64.5 [64.8]	63.6 [61.8]	67.5 [65.9]	64.2 [63.2]	59.7 [56.8]	67.3 [63.3]	[59.7]
Overtime Hours Worked (All Industries, 5 employees or more)	-13.9	8.2	-0.9 (4.1)	2.4 (4.3)	5.0 (5.3)	4.1 (5.7)	-2.4 (5.2)	1.7 (5.0)	-0.3 (3.9)	
Total Cash Earnings (Regular Employees Only; All Industries, 5 employees or more)	-1.5	0.7								
Employment Index(Regular Employees Only;All Industries, 5 employees or more) (Change over the M/Q/Y)	36	33	60	-71	-60	-74	-63	-45	-46	
Ratio of Job Offers to Applicants (SA,Times)	1.10	1.16	1.17 [1.05]	1.21 [1.09]	1.25 [1.11]	1.23 [1.09]	1.24 [1.10]	1.27 [1.13]	1.29 [1.14]	[1.15]
Unemployment Rate (SA,%)	2.9	2.8	2.7	2.7	2.6	2.5	2.6	2.6	2.6	
Economy Watcher Survey (Judgment of the present condition D.I.%)	37.7	45.1	56.5 [44.1]	41.1 [40.7]	52.4 [41.1]	50.4 [39.0]	54.0 [37.8]	52.9 [46.5]	43.8 [48.0]	45.5 [34.9]
Bankruptcies (Number of cases)	7,163 (-17.0)	5,980 (-16.5)	1,539 (-12.1)	1,504 (-3.2)	1,556 (4.4)	486 (1.9)	524 (11.0)	546 (0.9)	494 (3.8)	492 (5.6)

(Notes)

Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable.

The figures in () indicate % changes from previous year.

[] show the comparable figure of the previous year.

2. Balance of Payments

As of Sep.27, 2022

	Fiscal	Fiscal	2021	2022			2022				
	2020	2021	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG	
Customs Clearance (Exports in Yen Terms)	-8.4	23.6	(15.7)	(14.5)	(15.9)	(12.5)	(15.8)	(19.3)	(19.0)	(22.1)	
Value	1.0	11.8	(14.2)	(15.5)	(19.6)	(17.7)	(20.0)	(21.1)	(21.3)	(23.5)	
Volumes	-9.3	10.5	(1.3)	(-0.8)	(-3.1)	(-4.4)	(-3.5)	(-1.5)	(-1.9)	(-1.2)	
Imports (In Yen terms)	-11.3	33.3	(37.4)	(34.7)	(41.0)	(28.4)	(49.0)	(46.2)	(47.2)	(49.9)	
Value	-8.2	28.4	(35.4)	(32.9)	(42.6)	(41.1)	(42.3)	(44.3)	(44.0)	(45.9)	
Volumes	-3.3	3.8	(1.4)	(1.3)	(-1.2)	(-9.0)	(4.7)	(1.3)	(2.3)	(2.8)	
Current Account (100 mil. yen)	162,673	126,515	17,461	30,085	4,972	5,011	1,284	-1,324	2,290		
Goods (100 mil. yen)	37,770	-16,187	-5,947	-19,152	-37,535	-6,884	-19,512	-11,140	-12,122		
Services (100 mil. yen)	-35,406	-48,433	-11,190	-11,164	-13,783	-9,653	-1,585	-2,545	-7,908		
Financial Account (100 mil. yen)	138,276	96,937	-4,748	35,632	-18,507	-8,340	-4,312	-5,855	-7,009		
Gold & Foreign Exchange Reserves (\$1mil.)	1,368,465	1,356,071	1,405,750	1,356,071	1,311,254	1,322,193	1,329,651	1,311,254	1,323,034	1,292,072	
Exchange Rate (¥/\$)	106.04	112.36	113.70	116.18	129.56	126.04	128.78	133.86	136.63	135.24	

3. Financial Market Indicators

	Fiscal	Fiscal	2021	2022			2022						
	2020	2021	4Q	1Q	2Q	APR	MAY	JUN	JUL	AUG			
Uncollateralized Overnight Call Rates	-0.031	-0.024	-0.031	-0.015	-0.023	-0.012	-0.018	-0.038	-0.012	-0.018			
			[-0.026]	[-0.017]	[-0.019]	[-0.012]	[-0.017]	[-0.029]	[-0.036]	[-0.034]			
Euro Yen TIBOR (3 Months)	-0.054	-0.063	-0.064	-0.049	-0.031	-0.049	-0.049	0.005	-0.031	-0.020			
			[-0.055]	[-0.058]	[-0.067]	[-0.065]	[-0.065]	[-0.072]	[-0.072]	[-0.072]			
Newly Issued Japanese Government Bonds Yields (10 Years)	0.120	0.210	0.070	0.210	0.225	0.215	0.235	0.225	0.180	0.220			
			[0.020]	[0.120]	[0.050]	[0.090]	[0.080]	[0.050]	[0.015]	[0.020]			
Average Contracted Interest Rates on Loans and Discounts(City Banks) (% changes from previous period)	0.686	0.681	0.684	0.681	0.682	0.687	0.686	0.682	0.685				
			(-0.002)	(-0.003)	(0.001)	(0.006)	(-0.001)	(-0.004)	(0.003)				
The Nikkei Stock Average (TSE 225 Issues)	29,179	27,821	28,792	27,821	26,393	26,848	27,280	26,393	27,802	28,092			
			[27,444]	[29,179]	[28,792]	[28,813]	[28,860]	[28,792]	[27,284]	[28,090]			
M2(Average)	(8.1)	(5.0)	(4.0)	(3.5)	(3.3)	(3.4)	(3.1)	(3.3)	(3.4)	(3.4)			
Broadly-defined Liquidity(Average)	(4.9)	(5.2)	(4.8)	(4.3)	(3.8)	(4.1)	(3.6)	(3.7)	(3.9)	(4.0)			
Principal Figures of Financial Institutions													
Loans and Discount (Average)	Banks & Shinkin	Banks & Shinkin	(5.9)	(1.2)	(0.7)	(0.4)	(0.9)	(0.9)	(0.7)	(1.2)	(1.7)	(1.9)	
		Banks	Banks	(5.8)	(1.0)	(0.6)	(0.4)	(1.1)	(1.0)	(0.9)	(1.5)	(2.0)	(2.2)
			City Banks etc.	(6.9)	(-0.7)	(-1.0)	(-1.1)	(0.2)	(0.0)	(-0.2)	(0.7)	(1.6)	(1.9)
			Regional Banks	(4.5)	(2.8)	(2.5)	(2.3)	(2.2)	(2.5)	(1.9)	(2.2)	(2.4)	(2.6)
			Regional Banks II	(6.1)	(0.7)	(-0.3)	(-0.5)	(0.9)	(-0.9)	(1.6)	(2.0)	(2.1)	(2.1)
	Shinkin	(6.7)	(2.7)	(1.0)	(0.5)	(-0.2)	(-0.1)	(-0.4)	(-0.2)	(-0.0)	(0.1)		
Deposits and CDs (Average)	Total(3 Business Condition)	(8.5)	(5.1)	(4.3)	(3.4)	(2.9)	(3.2)	(2.7)	(2.8)	(3.1)	(3.1)		
	City Banks	(9.9)	(5.3)	(4.6)	(3.4)	(2.8)	(3.2)	(2.4)	(2.6)	(3.1)	(3.2)		
	Regional Banks	(7.0)	(5.8)	(4.9)	(4.4)	(3.6)	(4.2)	(3.2)	(3.2)	(3.2)	(3.1)		
	Regional Banks II	(6.7)	(1.2)	(-0.3)	(-0.9)	(0.8)	(-0.8)	(1.6)	(1.7)	(2.1)	(2.0)		

(Notes)

Newly Issued Japanese Government Bonds Yields and Interest rates are averages. The Nikkei Stock Average is as of month-end. Unless otherwise indicated, tabulated figures and those in parentheses show % changes from previous quarter/month as applicable. The figures in () indicate % changes from previous year. [] show the comparable figure of the previous year.

(Sources)

Cabinet Office, National Accounts, Machinery Orders; METI, Indices of Tertiary Industry Activity, Industrial Production, Current Survey of Commerce; MOF, Trade Statistics, Balance of Payments; MPMHAPT, Consumer Price Index, Family Income and Expenditure Survey, Labour Force Survey; MHLW, Monthly Labour Survey; Ministry of Land, Infrastructure, and Transport, Economic Construction Statistics; BOJ, Corporate Price Index, Financial and Economic Statistics Monthly, etc.

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