

*Arranged for Global Interdependence Center,
2010 International Conference in Shanghai*

January 11th, 2010

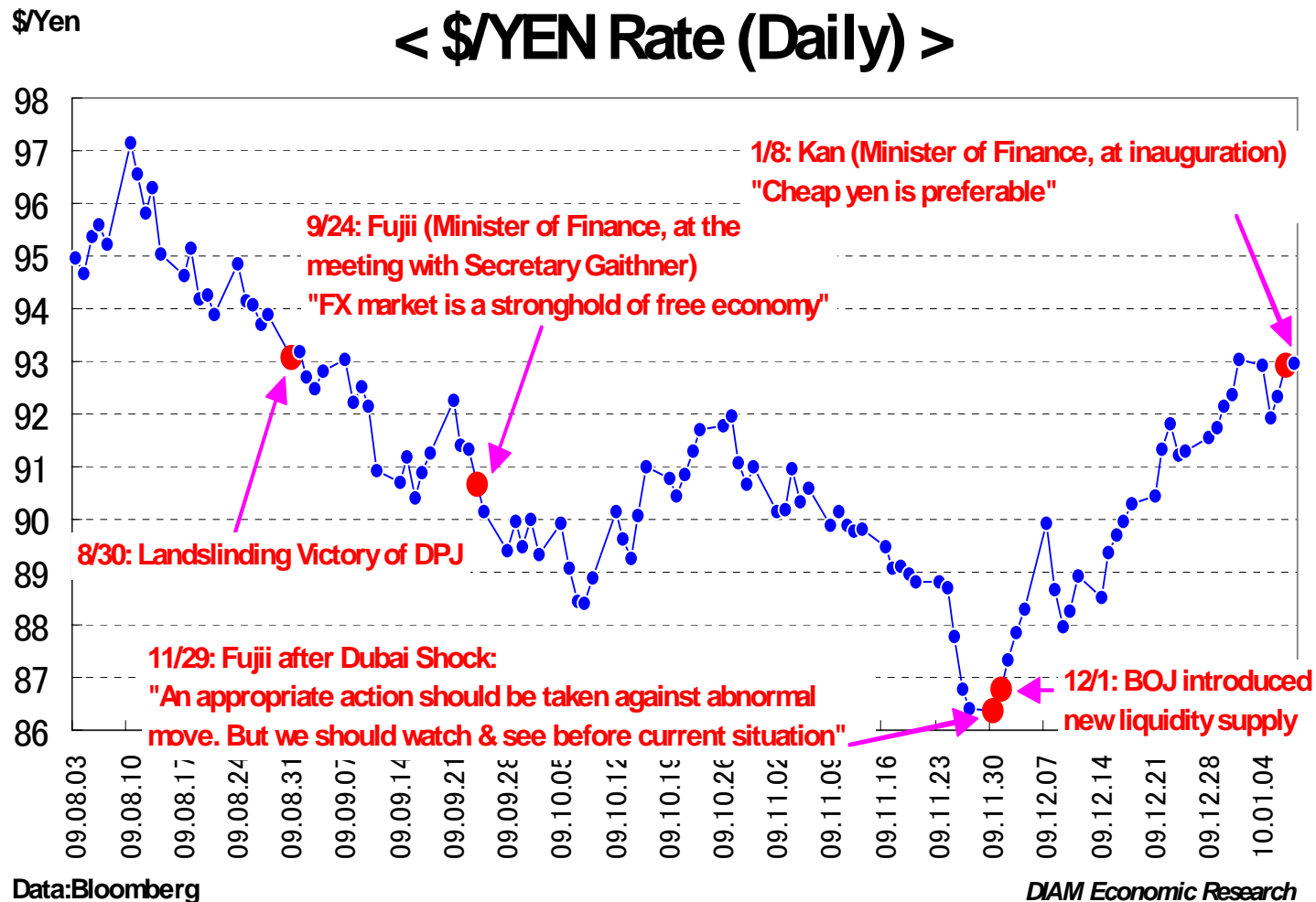
Outlook for the Yen

DIAM Co. Ltd
Chief Economist
Kozo Koide



Resent Move of YEN, A Lot of Bears of YEN

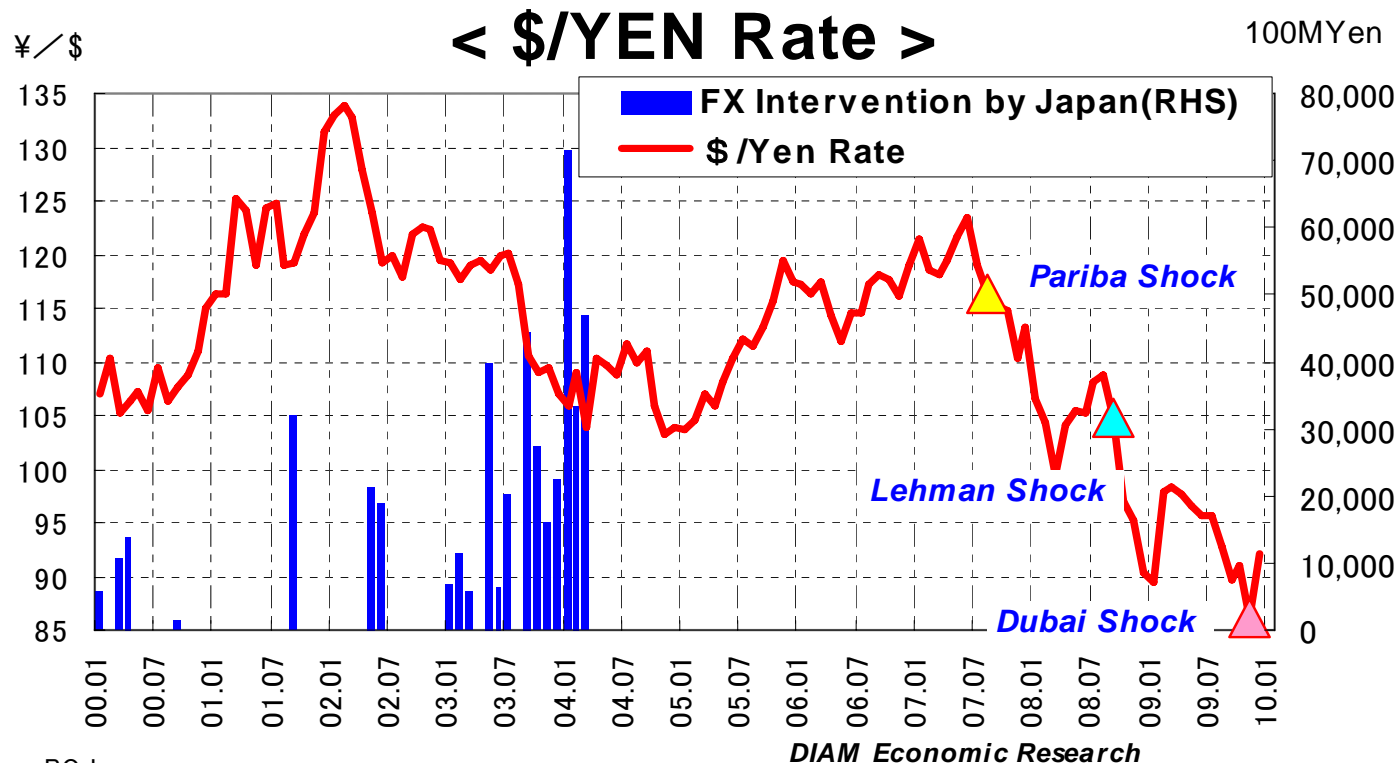
- ◆ YEN has been depreciating after BOJ's action on 12/1





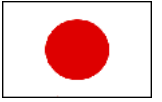
YEN Pendulum in the Last Decade

- ◆ YEN has been appreciated due to flight to 'quality'.
 - Financial crisis invited higher risk premium upon deficit countries' currency.
 - Interest rate differentials or external imbalance. Japan : Low interest rate but has large current surplus. Capital mobility matters.



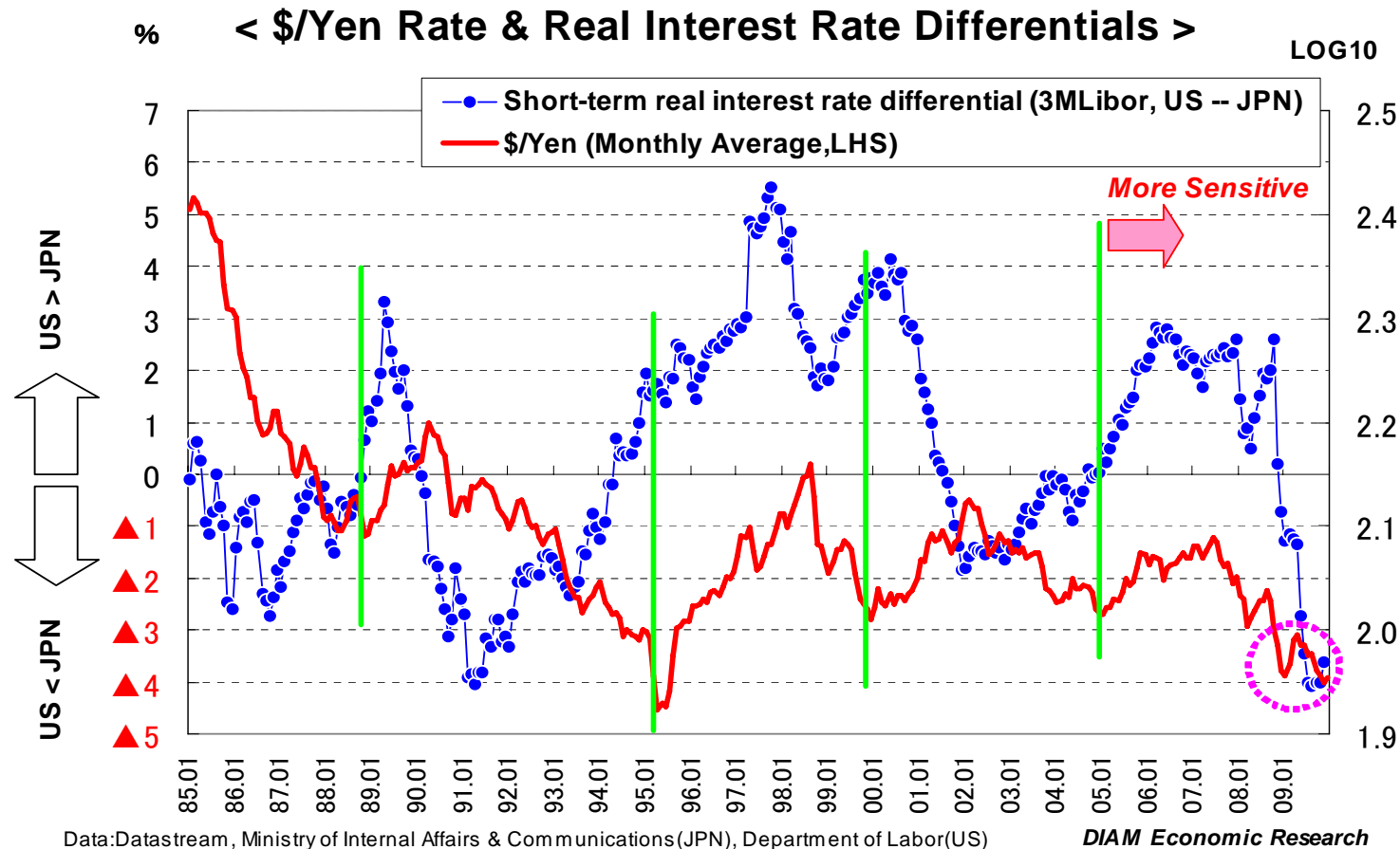
Source:BOJ

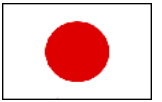
DIAM Economic Research



Real Interest Rate Differentials & \$/YEN

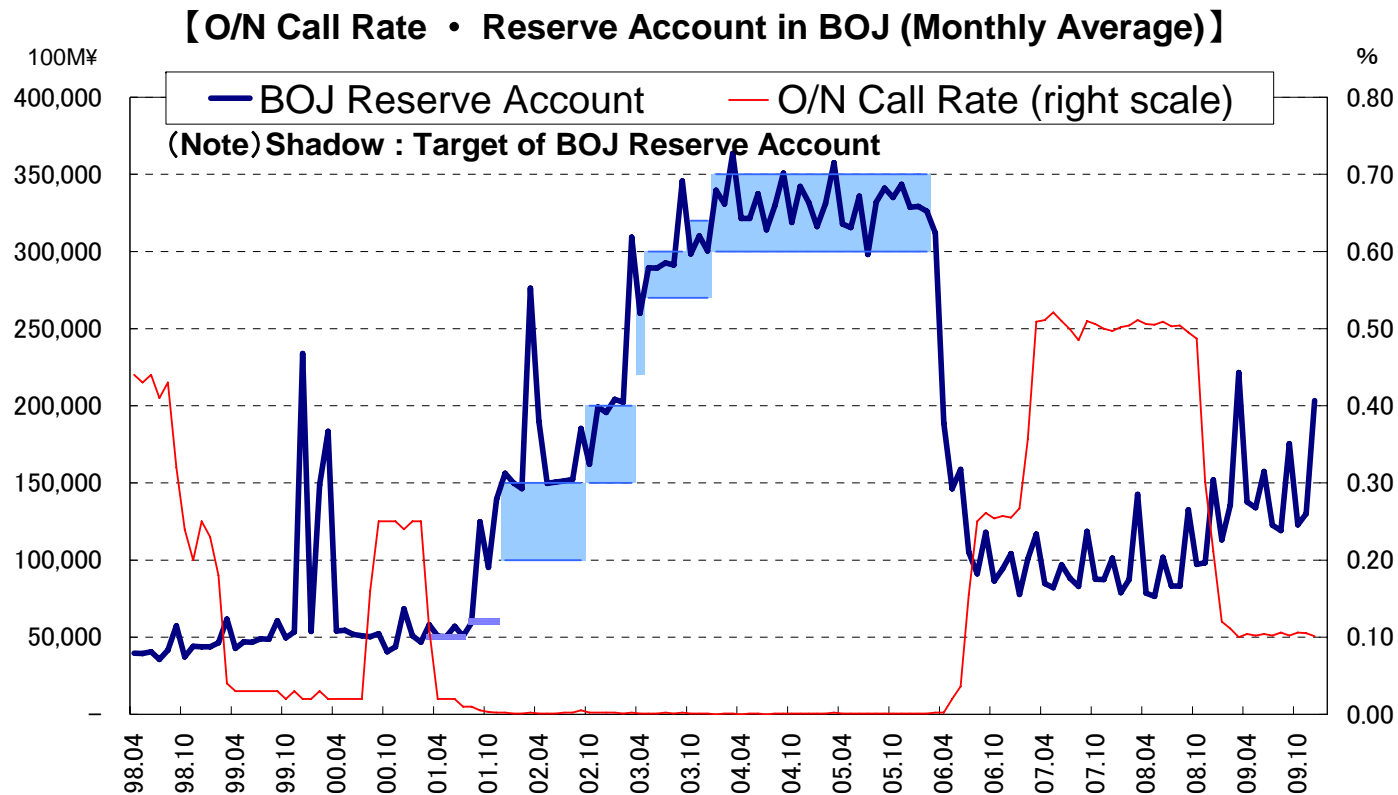
- ◆ Not instant sensitivity with \$/Yen exchange rate, though...
 - But it has become higher in about the last 5 years.





BOJ, Took a Step Ahead

- ◆ BOJ has introduced new liquidity supply on Dec. 1, '09.
 - The near-term direct effect against deflation is restricted.
 - But affected the expectation in the market about future policy.



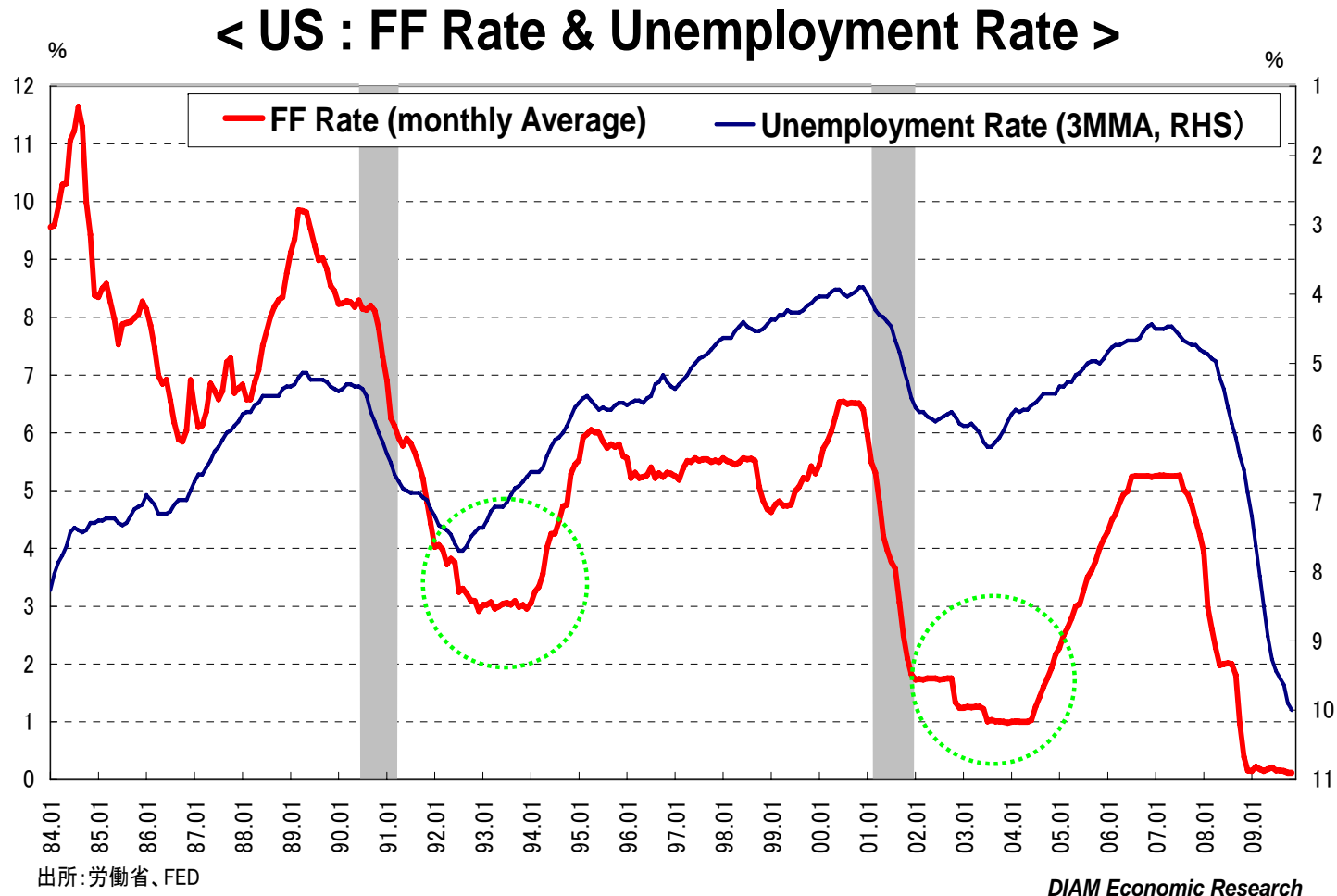
Source : BOJ

DIAM Economic Research



Instant Reaction to Unemployment Rate?

- ◆ Peak-out of unemployment rate is a sign for rate hike?

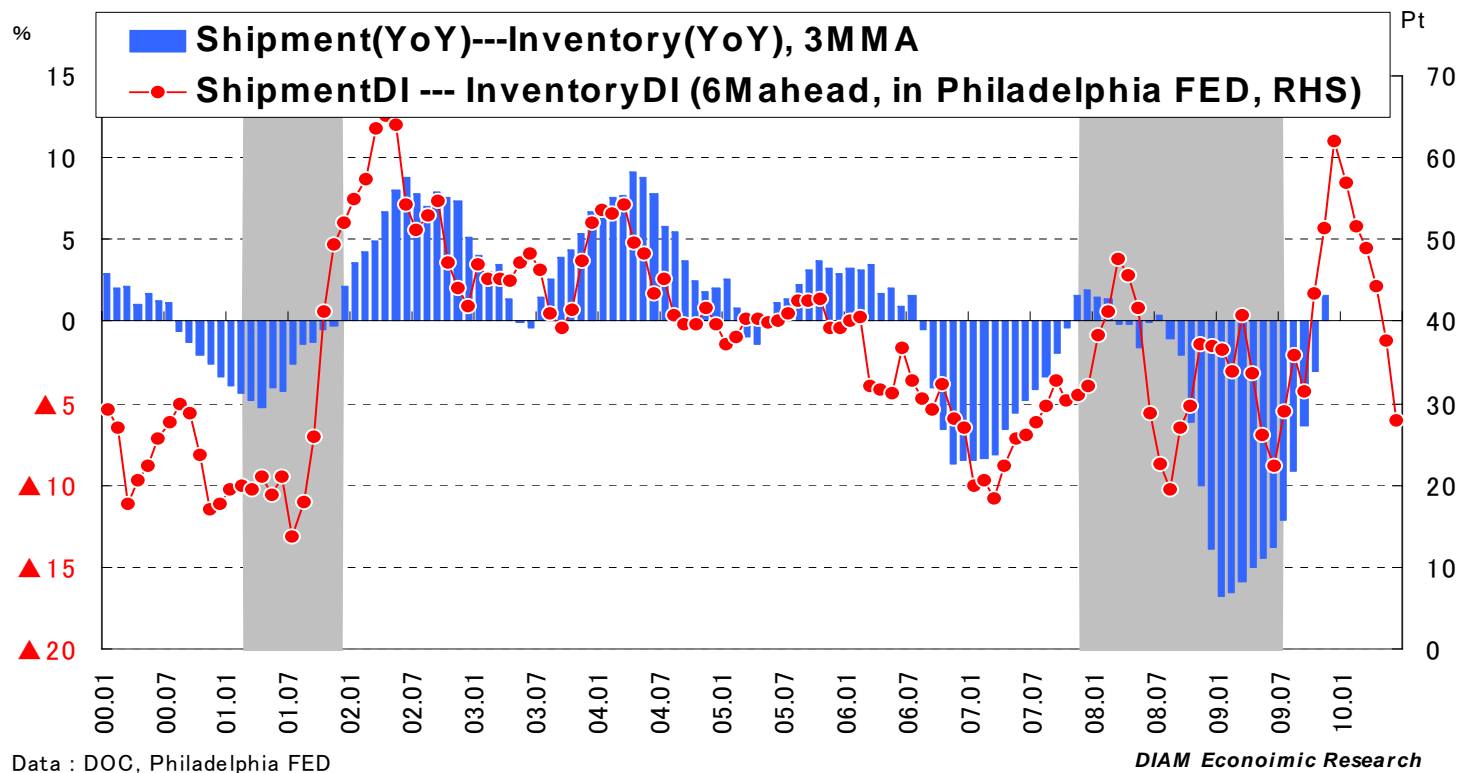


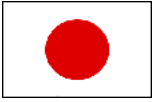


US, Taking a Breath in Sight ?

- ◆ The rate hikes implied in the markets in US are not so sure.
 - Possibly the demand-supply situation in US would be relaxed toward the middle of this year.

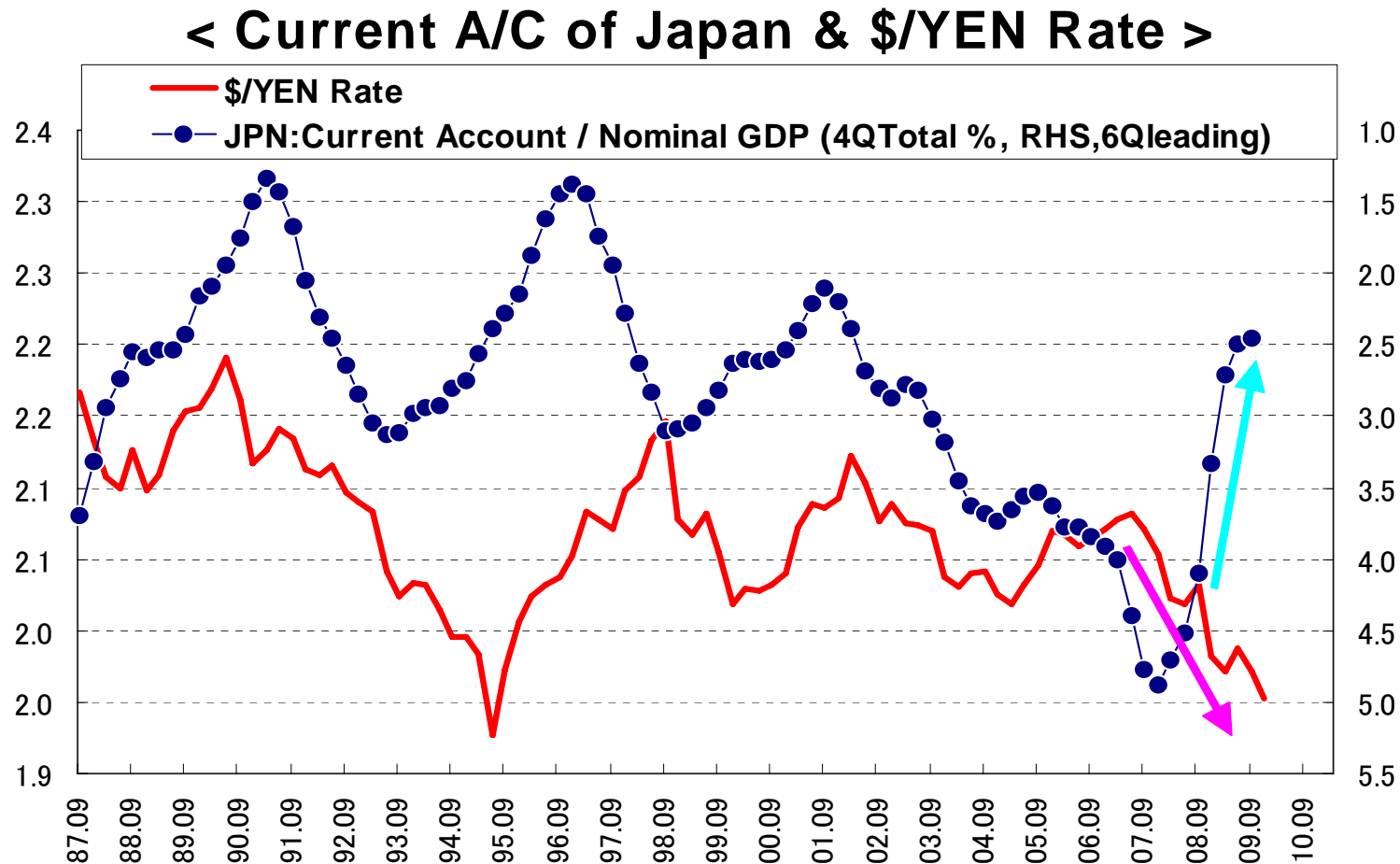
< US : Shipment (YoY) --- Inventory (YoY) >





Current A/C Surplus & \$/YEN Rate

- ◆ Higher Yen regardless of contraction of current surplus

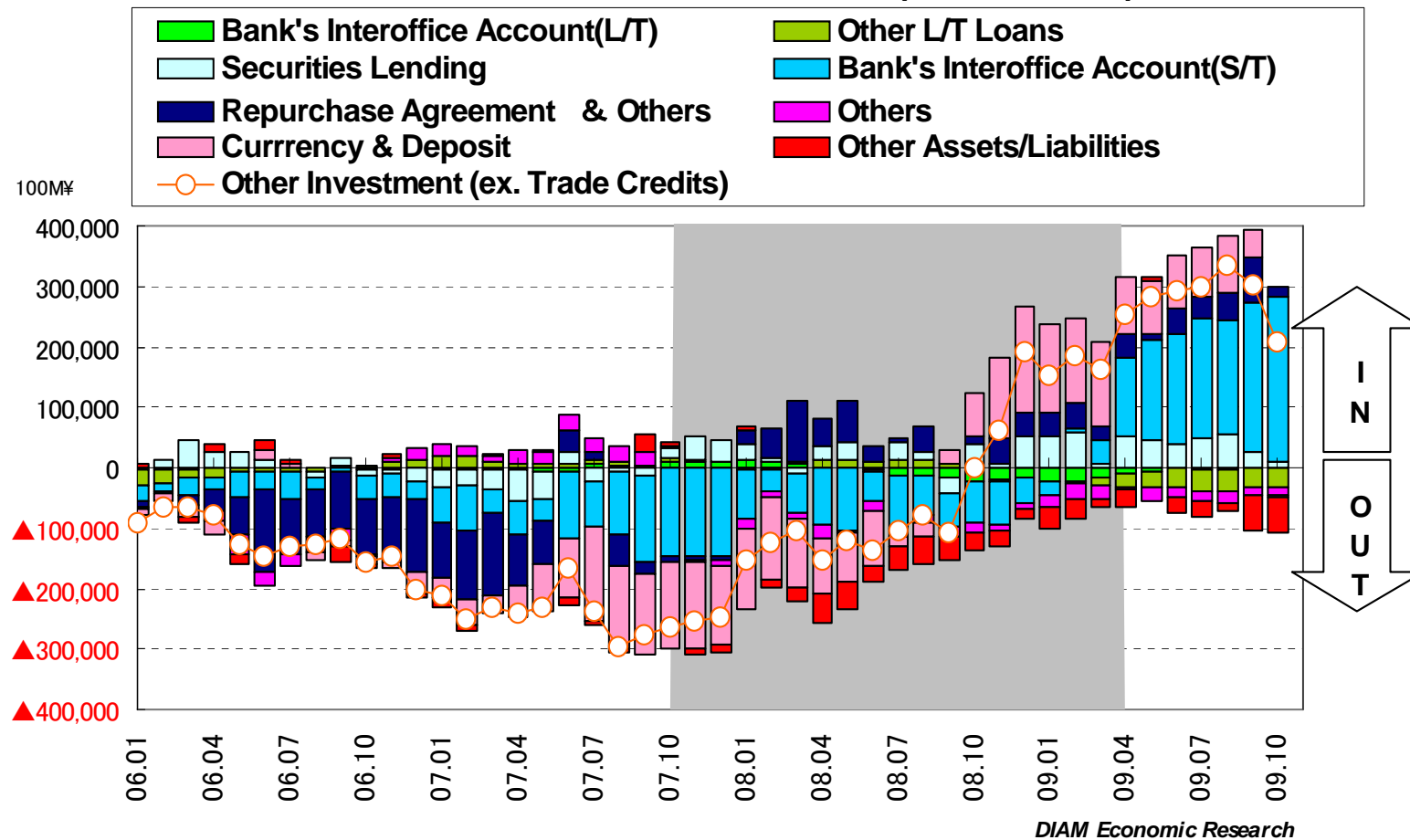


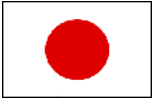


Unwinding of YEN Carry has been Going On

◆ A lot has been flowing back through interoffice A/C

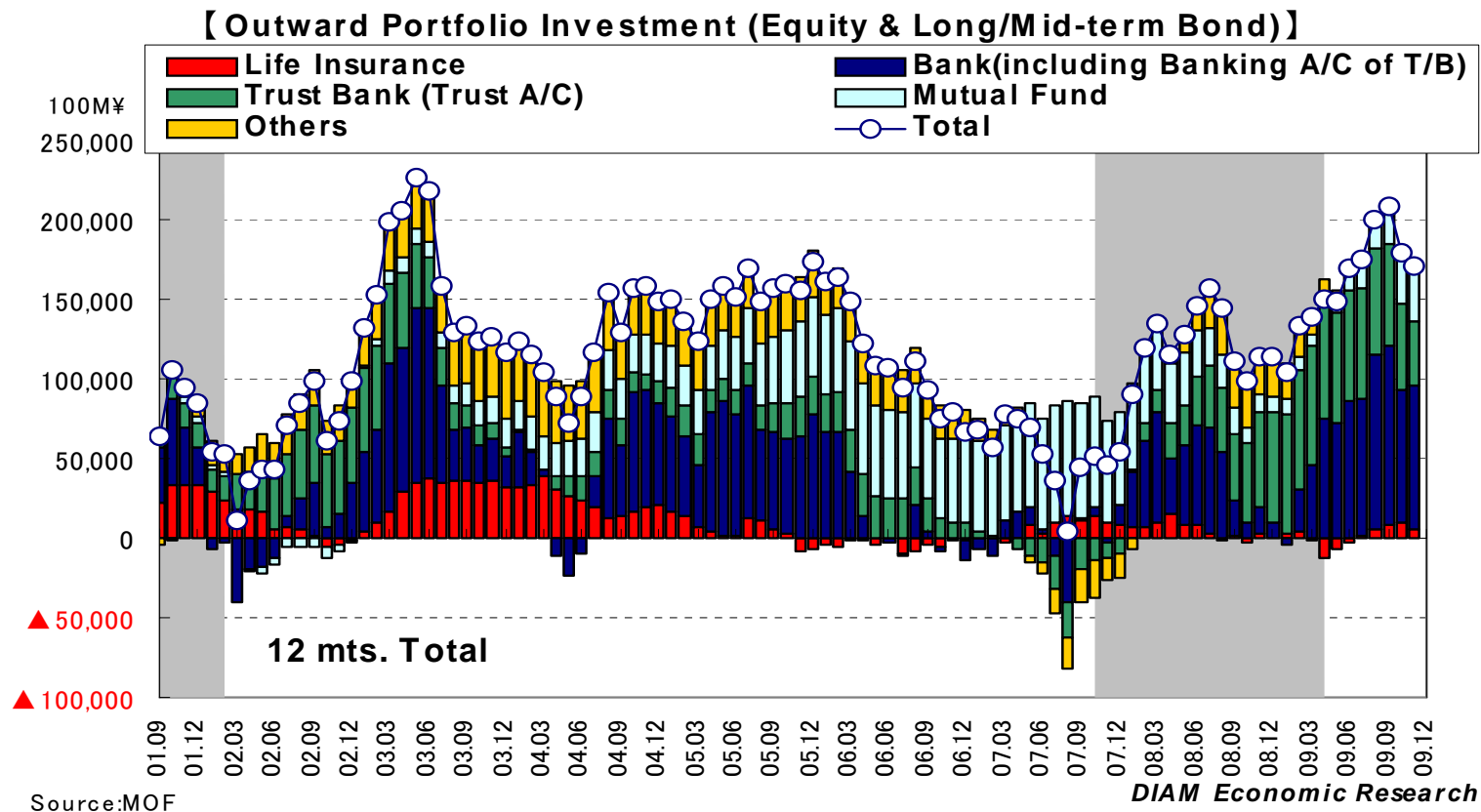
【Other Investment ex.Trade Credits (12mts. Total)】





Japanese, not Taking Much Outright FX Risk

- ◆ Bank & pension are using more hedging operation
- ◆ Growing mutual fund take more FX risk
 - But the majority is going to emerging &/or high interest rate zone.





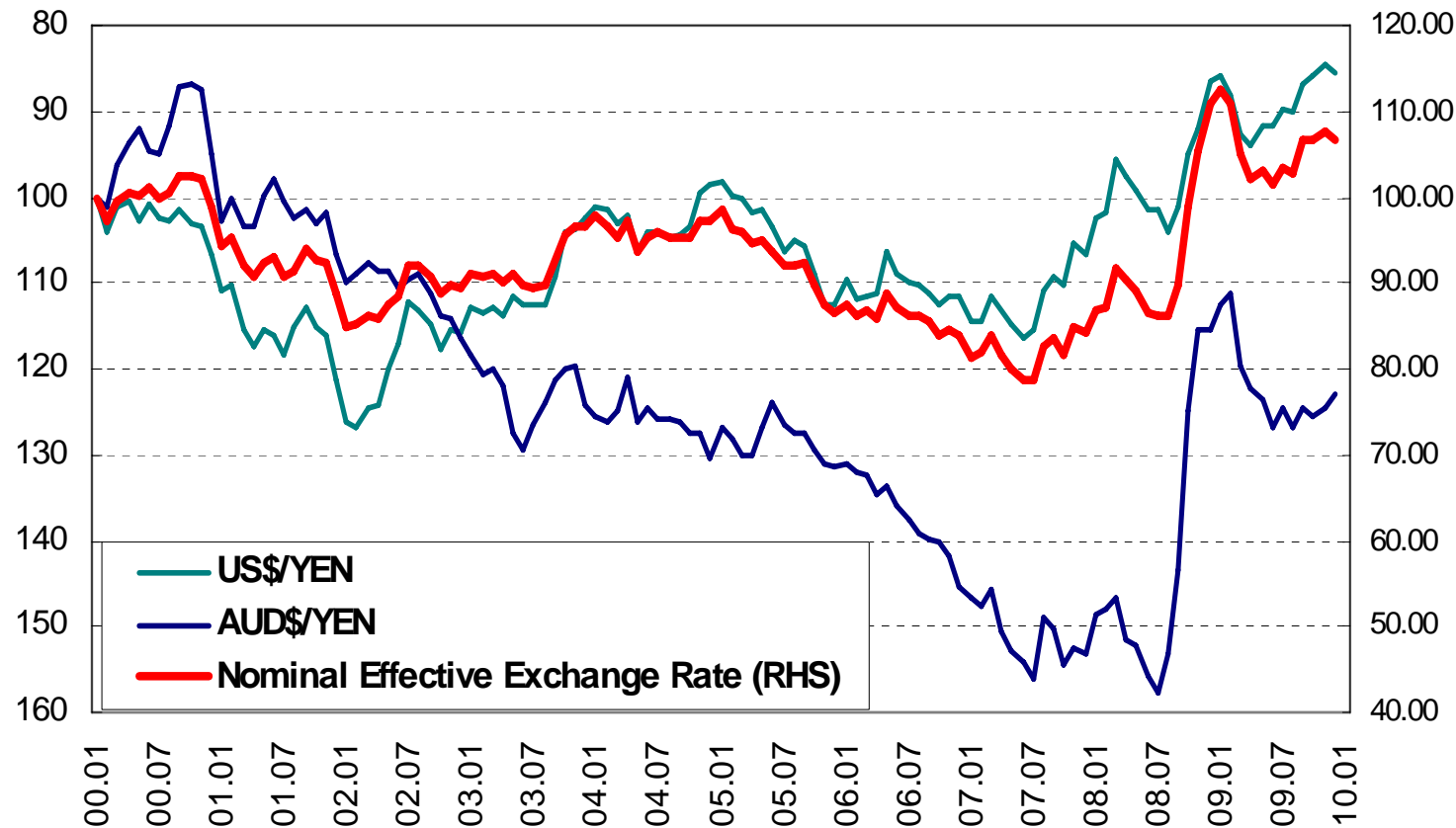
US\$/YEN, & Effective Exchange Rate

- ◆ YEN, not so appreciated against 'other' currencies.

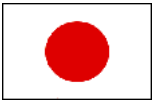
Source: BoJ, Bloomberg

< Yen Exchange Rate >

Jan. 1999 = 100

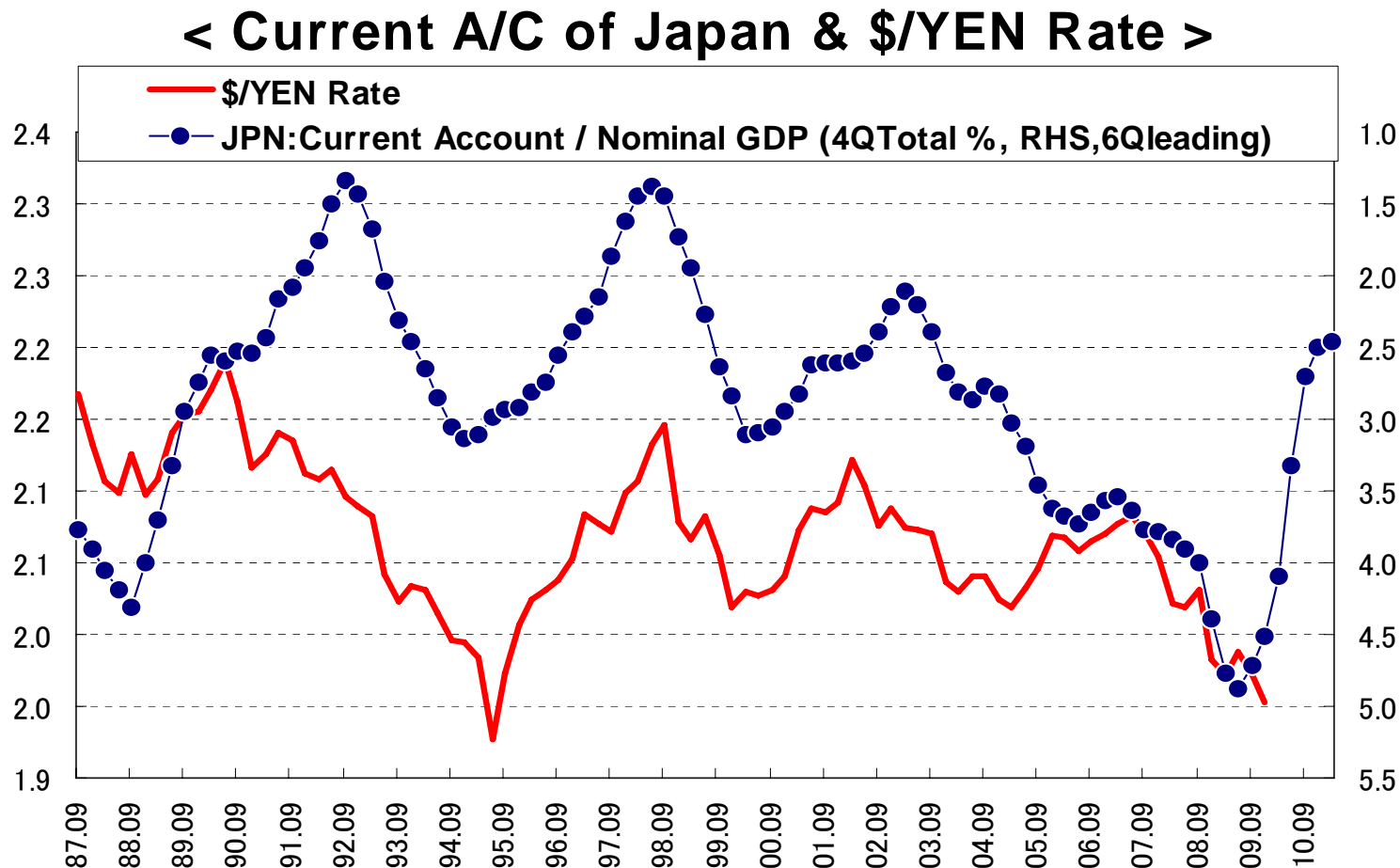


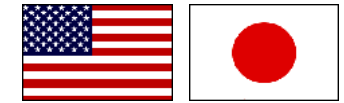
DIAM Economic Research



Current A/C Surplus & \$/YEN Rate

- ◆ If we assume a time lag for 6Qs before moving rate...

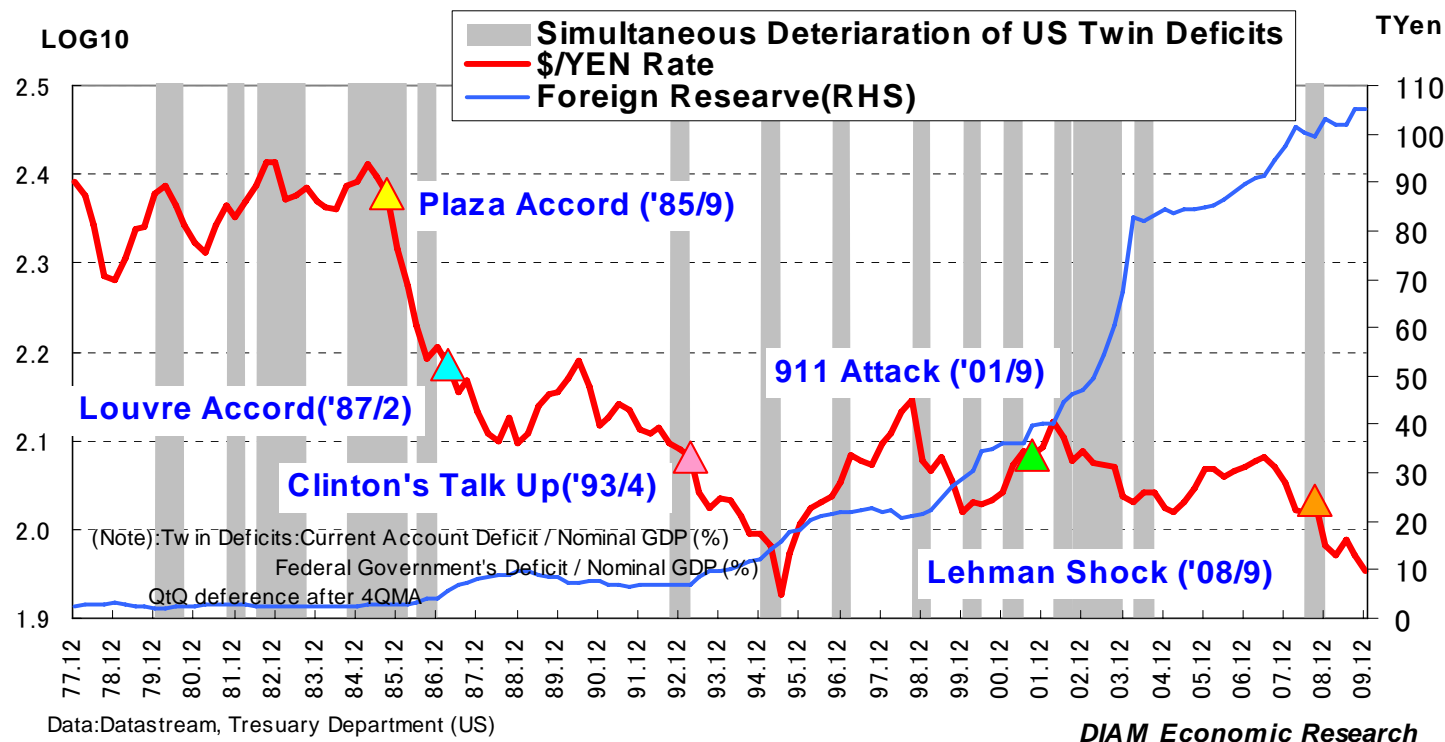


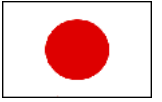


Twin Deficits of US, & \$/YEN

- ◆ Simultaneous deterioration cast shadow upon \$ denominated assets
 - If US current a/c would deteriorate with the legacy of huge fiscal spending, ...
 - CHINA: anchor against or catalyst for high yen?

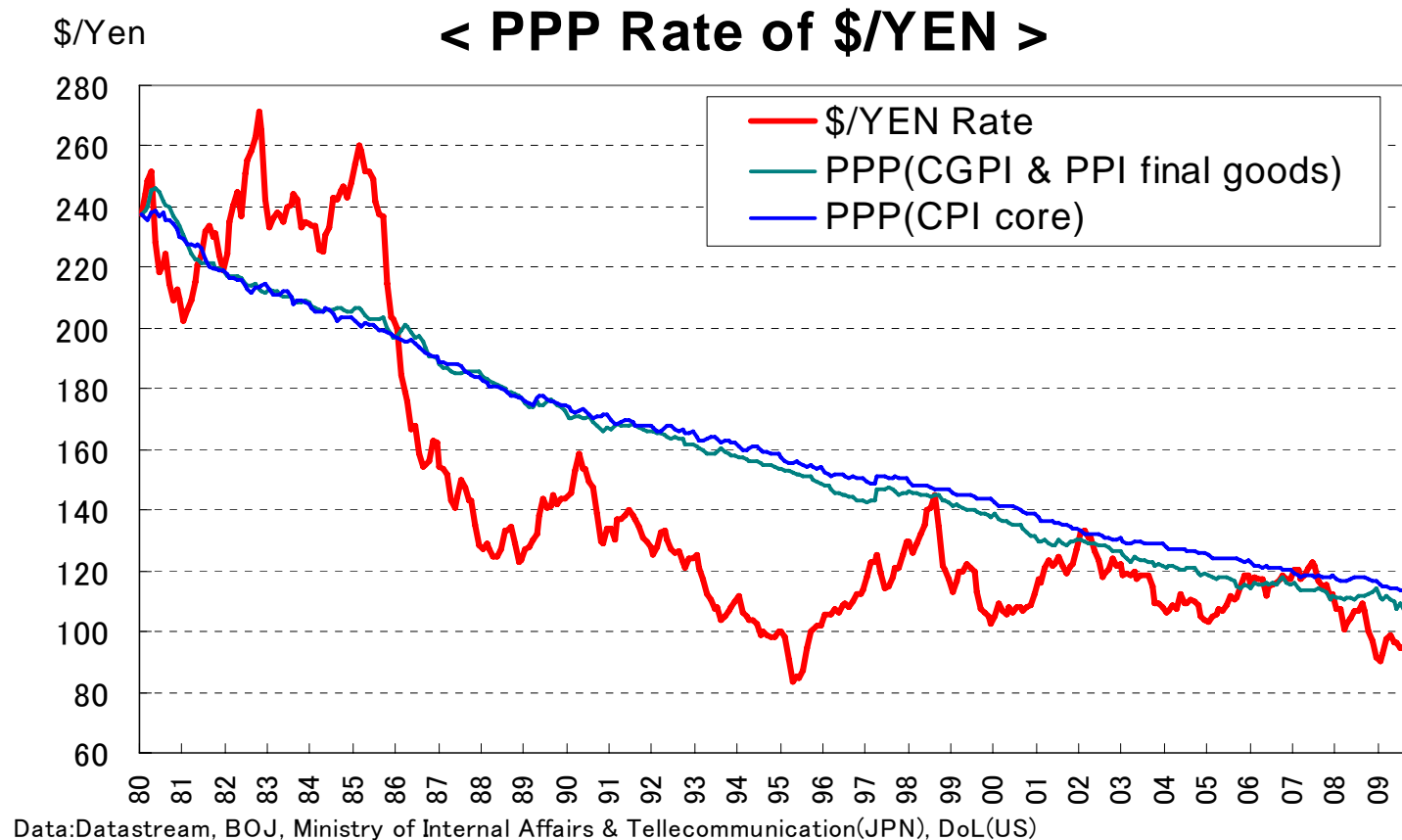
< \$/YEN Rate & Foreign Reserve >





Cristal Ball, with Many Colors

- ◆ Current level is higher than 'fundamental' value, but...
 - 59, 70, 98, 105, 113



Bull, Pushed to the Edge of a Cliff

JPY ↑ 92.12 +.18 HSFX 92.11/92.13 HSFX Curncy**GPC**
 At 17:57 Op 91.95 Hi 92.25 Lo 91.26 Prev 91.94 Value 1/ 8/10
 JPY CMPT CURRENCY 非表示 GPC - ロック足チャート p. 1/2
 期間 02/29/88 - 01/06/10 上段 ロック足チャート 移動平均 通貨 JPY
 周期 月 下段 なし 移動平均 15 ソース CMPT 円イベント

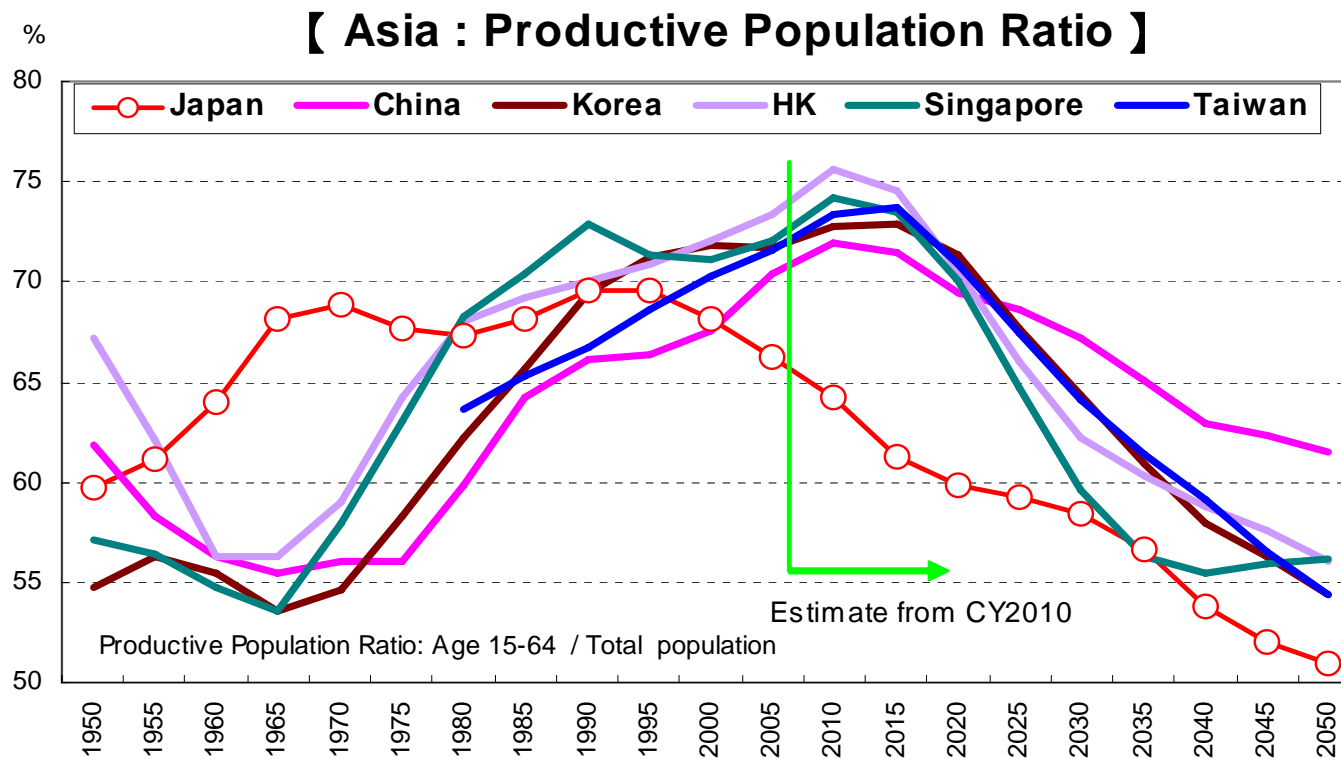


Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P.
 SN 527762 6733-740-1 06-Jan-2010 17:57:19



Demography : Front Runner in Asia

- ◆ All Asian countries are doomed to face rapid aging.
 - The refraction points in other Asian will not so far away.
 - Going down with much faster speed in some countries.



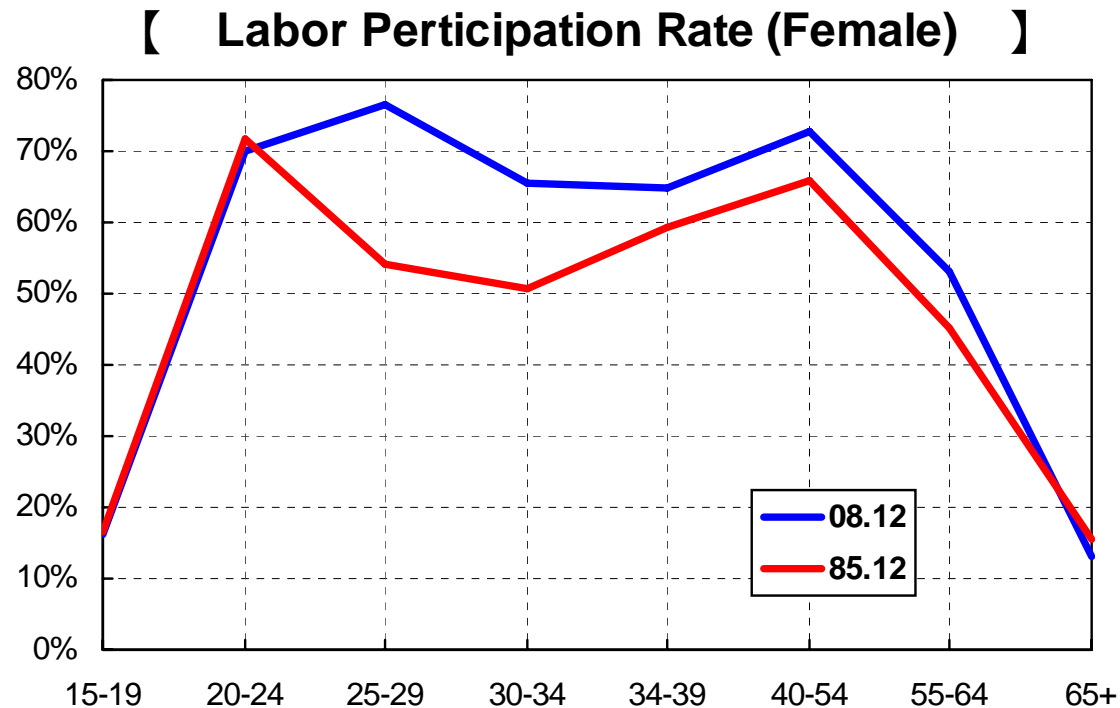
Source: UN, National Statistic Bureau (Republic of China)

DIAM Economic Research



Higher Female Labor Participation

- ◆ Labor participation rate of female has becoming higher
 - Centered in late 20's, 30's
 - Higher labor participation of women → Higher opportunity cost to have children



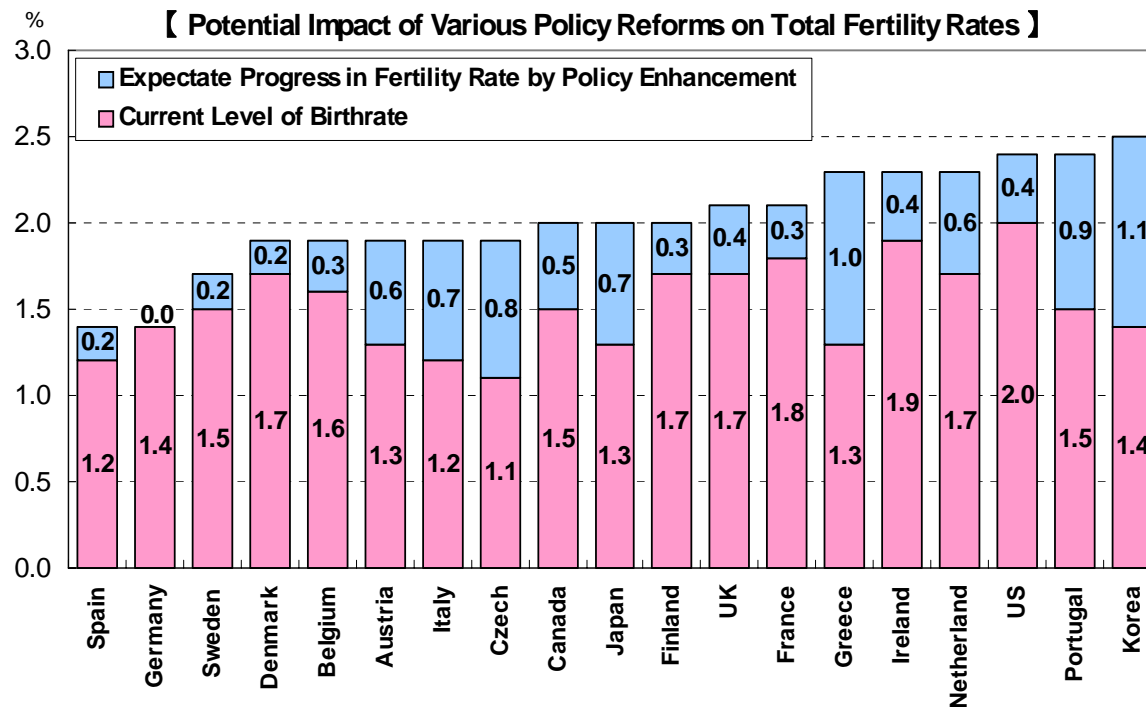
Source : Ministry of Internal Affairs & Communications,
National Research Institution of Social Welfare

DIAM Economic Research



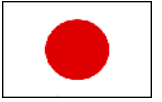
Still We Have Hope

- ◆ The neck is day-care system & spending for education
 - OECD estimate the fertility rate would be risen to 2.0 provided that public support for day-care and spending for education
 - Japanese women still do want babies. (Not like German)



Source: OECD

DIAM Economic Research



Higher Productivity : Emission Control

- ◆ Japan boast of its highest energy efficiency.
 - Additional cut is unfair, impossible OR good chance for innovation
 - » Solar energy : Highest cutting edge with low growth due to a lack of initiative
 - » Nuclear power : 3 companies out of 4 which can build & operate advanced generator are Japanese

