Foreign Exchange Currency Pair Analysis: USD/JPY

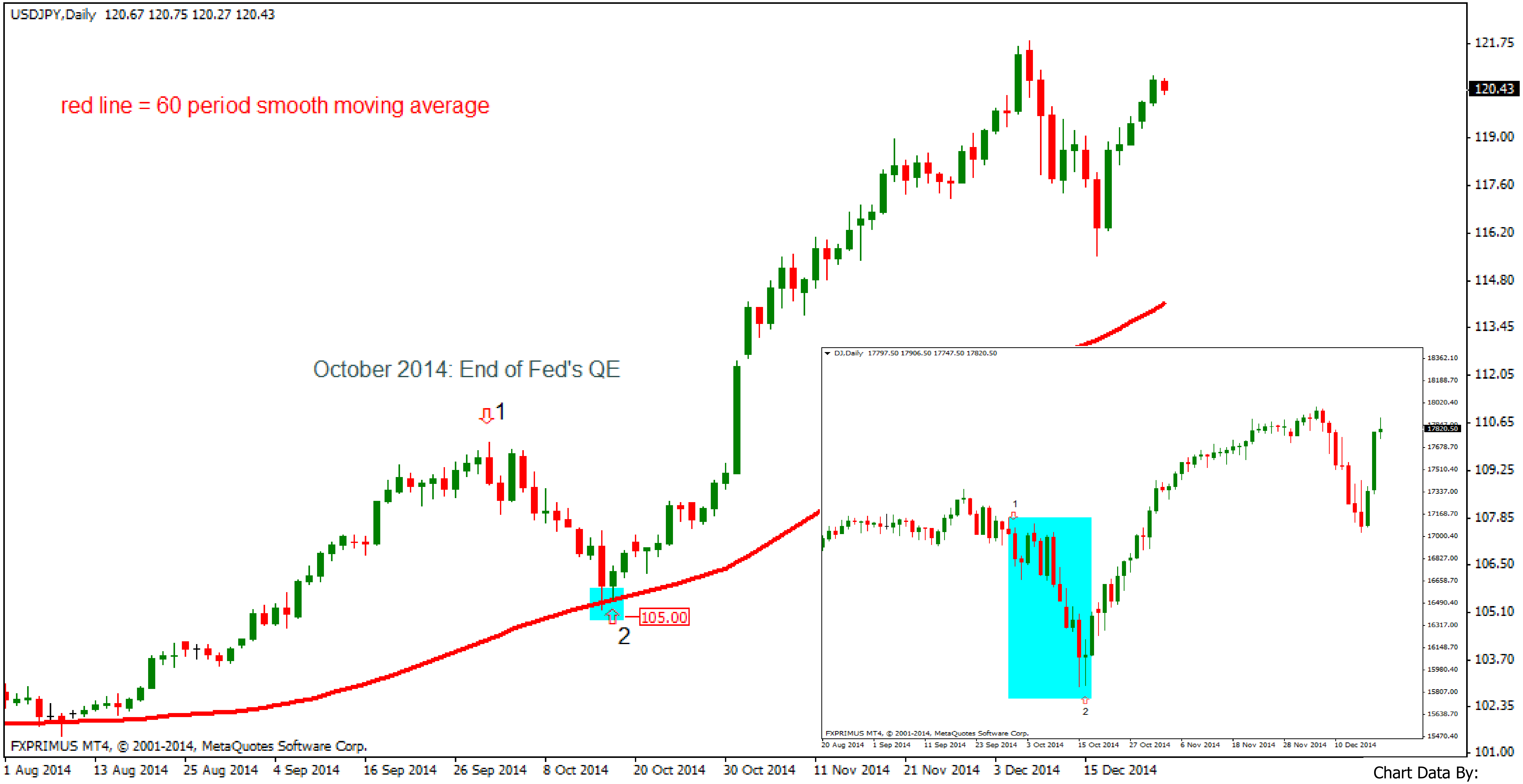

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Figure 1.1: A Case Study of the Crash in USD/JPY in the First Half of October 2014

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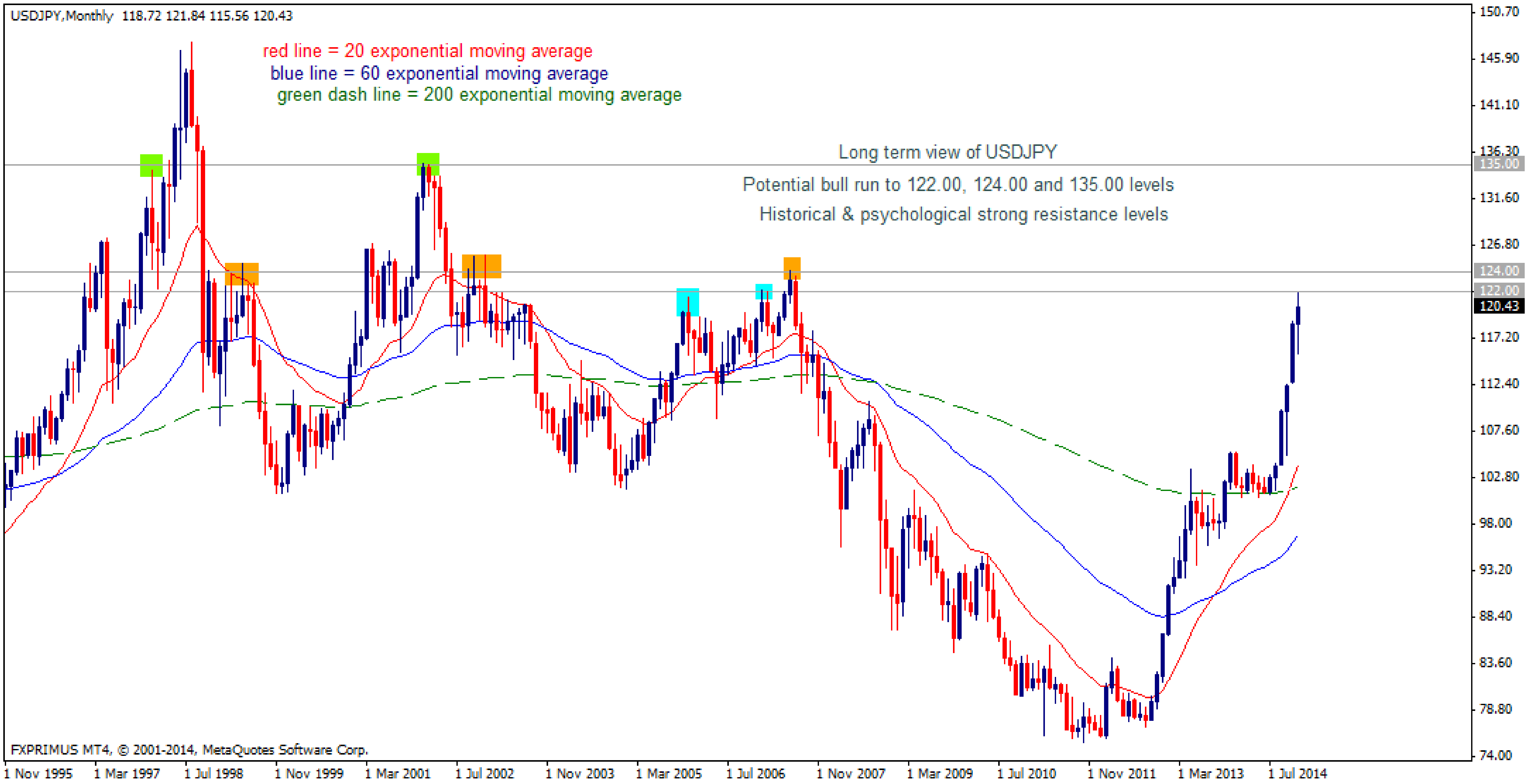

Figure 1.2: Monthly Chart of USD/JPY

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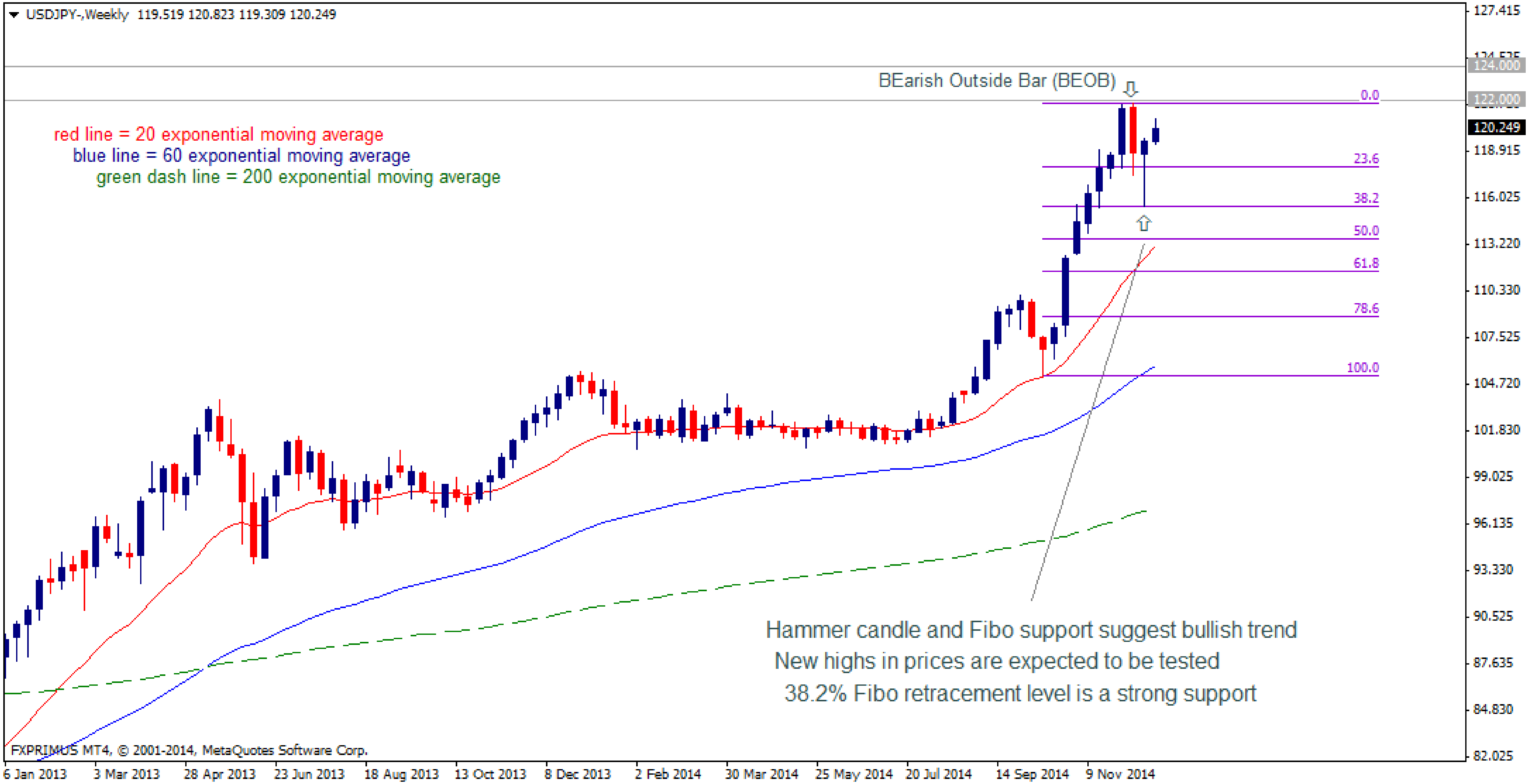

Figure 1.3: Weekly Chart of USD/JPY

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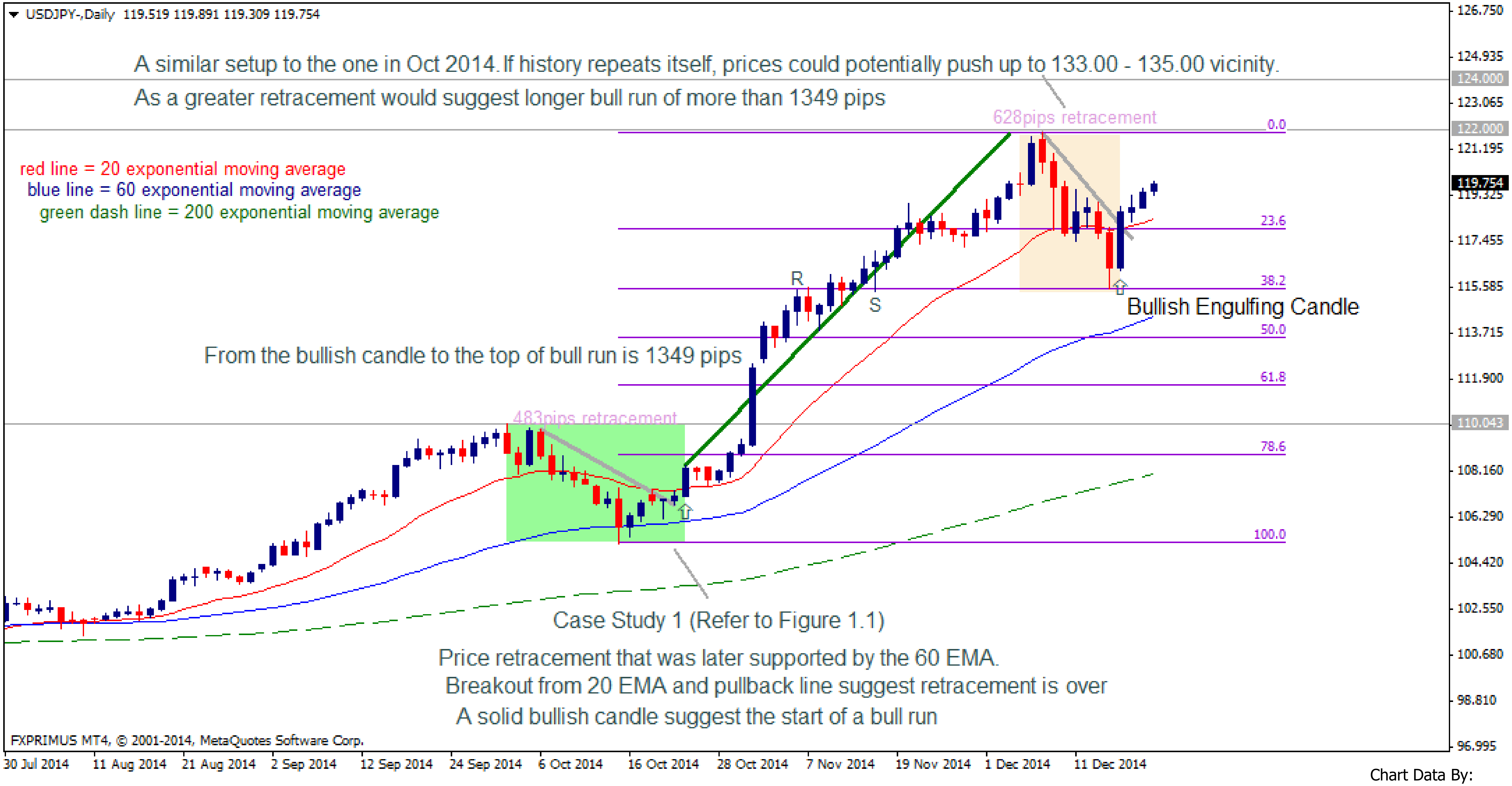

Figure 1.4: Daily Chart of USD/JPY

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Case Study of USD/JPY (End of Fed's QE)

<Figure 1.1> Due to the end of the Fed's Quantitative Easing *(QE)* program in October, USD/JPY experienced a sell-down on the 01/10/2014. The sell-down lasted from the 1st red arrow to the 2nd red arrow, during the period from 01/10/2014 to 16/10/2014 (a total of 16 days). As the uncertainty increased and confidence wavered, US indices, like the S&P 500 and Dow Jones *(DJ)* Industrial *(smaller graph)*, also experienced sell-downs. The USD also experienced a sell-down across most currency pairs. In particular, investors fled from the USD to the JPY, which is considered the Asian safe haven currency.

Figure 1.1 depicts the sell-down in USD/JPY.With no negative impact experienced from the end of QE, the fall in prices ceased on the 16/10/2014. It is important to note that at the point when the price stopped falling, it is also nicely supported by the 60 period Smooth Moving Average *(SMA)(Red in colour)* and was near the major "psychological whole number 105.00" support level.

Technical Analysis (A Multi-time Frame Analysis)

Monthly

<Figure 1.2> In the long term, the bullish trend is still valid, as indicated by the bullish candlestick pattern and the prices being above the 20, 60 & 200 Exponential Moving Averages *(EMAs)*. The EMAs are also trending upwards, an indication of a bullish trend. In the near-term, 2 significant price resistance levels *(122.00 and 124.00)* are expected to be tested and broken. If price breaks beyond 124.00, the next potential testing of price would be 135.00, which is a strong resistance level. However, if the price levels are not broken, a strong price retracement is expected to occur.

WEEKLY

<Figure 1.3> A slight pullback occurred on 07/12/2014,which was confirmed by a strong Bearish Outside Bar*(BEOB)* formation; however, the next candle closed as a hammer which invalidated the price retracement and suggested that the bullish trend is still intact. The formation of the weekly hammer candle could be seen as a change of sentiment from selling to buying, where the selling strength could not push the price any lower, and was replaced by strong buying strength. A supportive indication of a continual bull trend is that the low of the completed hammer candle is also nicely supported by a significant 38.2% Fibonacci retracement level, drawn from the most recent bull-run. The hammer candle and 38.2% Fibonacci retracement level are factors that act as price support. Should price be supported, there is a high possibility for price to push higher and test the 122.00 resistance level, which it failed to break in the previous few candles. If price breaks 122.00 level, the next price level to be tested would be 124.00, and follow by 125.00. The 125.00 price level is an important level to observe; the nature of the number which is both a multiple of 5 & a round number represents a strong psychological price resistance level.

DAILY

<Figure 1.4> Based on the daily chart, recent price action shows that the price rejection on the 38.2% also coincided with a minor support area of 115.50. A strong price rejection provides a high possibility of further upward movement in the price trend.

Between the period 08/12/2014 to 16/12/2014 *(pale pink highlighted box)*, a significant sell-down of USD/JPY was seen- due to a decision that the Peoples Bank of China *(PBOC)* made to accept only higher quality collaterals for loans, which rendered collateral worth around 500 billion yuan unsuitable for use in loan applications. This affected many refinancing activities for investing and trading, and resulted in increased volatility in the market. The higher volatility caused the yen carry trade to be less desirable, which caused the weakening of USD/JPY, as traders bought JPY to unwind their yen carry trades.

The pullback lasted for only 8 days until it reached the 115.50 significant support area where price rejection occurred. The price retraced above the 20 period EMA and formed a strong Bullish Engulfing candle on 17/12/2014; the engulfing candle also broke the grey pullback line, and the sum of all these factors indicates strong bullish momentum. A re-test of the 122.00 price level is expected to occur next.

Additional Information on Japan

Most economic data from Japan were negative and signals to more money printing from the BOJ to support the ailing economy. This would cause the JPY to depreciate further against other currencies. Since 26 December 2012, the time when Abe's government first took office and implemented Abenomics, USD/JPY has rallied approximately 3515 pips. Given what Taro Aso said about the Abenomics, there would be a high possibility that USDJPY would rally at least for another 3515 pips and that would be a target of USD/JPY at around 154.00 price level.

However, it is important to note that 154.00 price level is a long term view of USD/JPY price target and might not be achievable due to global uncertainties present at the moment.

Conclusion of USD/JPY

In conclusion, both the Fundamental and Technical Analysis are suggesting that USDJPY would continue to rally higher.

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Fundamental Analysis

Monetary policies pursued by Fed and BoJ are clearly divergence in nature from one another.

USD/JPY			
Federal Reserve (USD)		**Bank of Japan (JPY)**	
Commentaries	**Sentiment**	**Commentaries**	**Sentiment**
The Federal Reserve ended their quantitative easing program back in October 2014	Bullish	Bank of Japan continues to ease with their quantitative and qualitative easing program to boost their monetary base at an annual rate of 80 trillion yen *($671 billion)*	Bearish
The most recent FOMC minutes and press conference on 17 December suggests that the FED is going to hike rates earlier than expected.	Bullish	In Japan, there is no news on any rate hike.	Bearish
Janet Yellen said the Fed will likely not hike for a "couple" of meetings where she further explained that a "couple" actually meant 2 meetings. Therefore, the rate hike could happen sooner than the mid 2015 expectations. There is also a possibility of a rate hike as early as the 3rd meeting happening on 28th-29th April, 2015. Yellen also mentioned that almost all participants see rate increase in 2015.	Bullish	Recent GDP data showed that the world's third-biggest economy, Japan, had slipped into a recession after a sales-tax increase in April choked consumer demand and growth. This suggests that BOJ will be doing more to stimulate the economy out of recession.	Bearish
		On the price front, the year-on-year rate of increase in the consumer price index *(CPI, all items less fresh food)*, is around 1 percent. (excluding the direct effects of the consumption tax hike) BOJ stated in their monetary policy statement that they will continue with the Quantitative & Qualitative Easing *(QQE)*, and aim to achieve the price stability target of 2 percent.	Bearish
		Japan's Deputy Prime Minister and Finance Minister Taro also commented separately that Abenomics "is still half-finished, so we need to carry it out to the end."	Bearish

Table 1.1: Fundamental Analysis on USD/JPY

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