

FX

TRADER MAGAZINE

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REVIEW &
LOOK AHEAD

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PS AND QS

IMPROVE YOUR
TRADING
DECISIONS

FIXING BUGS
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USD/JPY broke a multi-year downtrend and popular 55 and 100 days moving averages



Bank of Japan governor joined the ranks of the monetary activists



Sell-side reaction, curiously dismissive of the move

A NEW TREND IN A TRENDLESS MARKET?

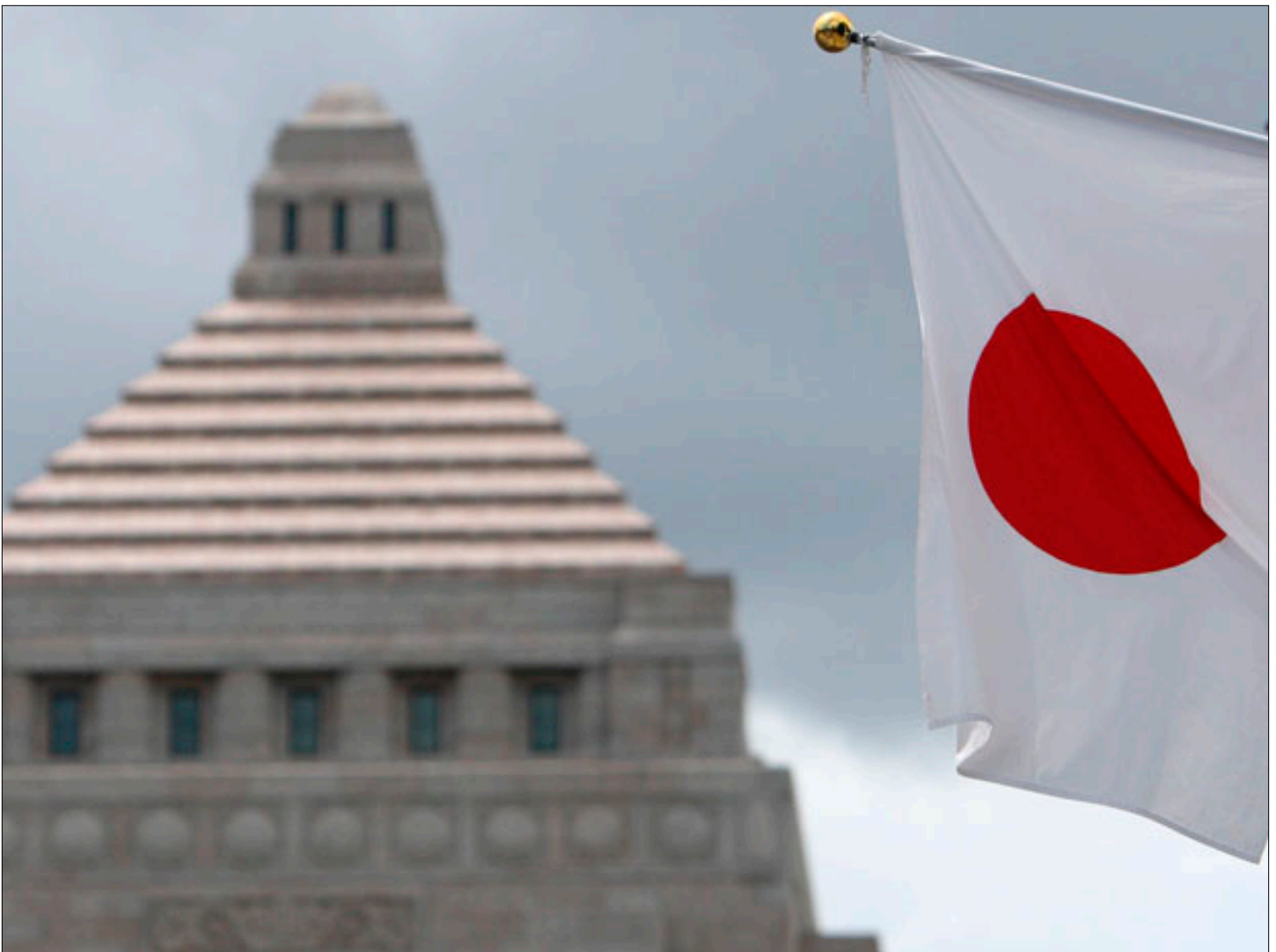




Chart 1: USD/JPY

After a 2011 where major currencies closed mostly unchanged from a year earlier, 2012 as well looks quite undecided in terms of potential trends in the FX arena. As we write research departments, strategists and managers are focusing on a significant over-performance of US economy, if compared with few months ago expectations. And, with interest rates moving north, everybody is trying to gauge if the dollar can get some support out of it, even in the face of rallying risky asset, usually a typical weaker greenback environment. On this one the jury is still out. Still, we cannot deny that a clear trend has already emerged so far. A trend that has been curiously dismissed from most of the very ones who have been, unsuccessfully, calling it in the last few years: a weaker Japanese Yen. After two years of constant appreciation

without a significant correction (and previously three more years of however unstoppable strengthening), this year the market suddenly turned gaining momentum from an increasing focus on the worsening trade balance and an unexpectedly dovish Bank of Japan. In a matter of weeks USD/JPY broke a multi-year downtrend and popular 55 and 100 days moving averages.

2011: The first trade deficit in 31 years

For decades Japan used an exports-orientated economic policy to build up global brand names such as Toyota, Sony and Canon and a manufacturing might that was the envy of the world. Since 1980, when the last trade deficit to memory was recorded, Japan has been able to rely on exports of goods, including its iconic autos, MP3

players, computer chips and in recent years games consoles, to produce one trade surplus after another.

But on January 25th Japan posted a ¥2.5 trillion (\$32 billion) trade deficit for 2011. Such a deficit in goods trade was the second-largest on record in the Finance Ministry's data, which go back to 1979, and compared with a ¥6.6 trillion surplus in 2010. Japan last logged a record ¥2.6 trillion trade deficit in 1980.

A slew of events played a major role in pushing Japan into trade deficit:

- the March earthquake and nuclear accident in Fukushima
- the European debt crisis which contributed to a more hesitant global growth
- the autumn flooding in Thailand,