

UOB Investment Insights

FX Insights

8 April 2021

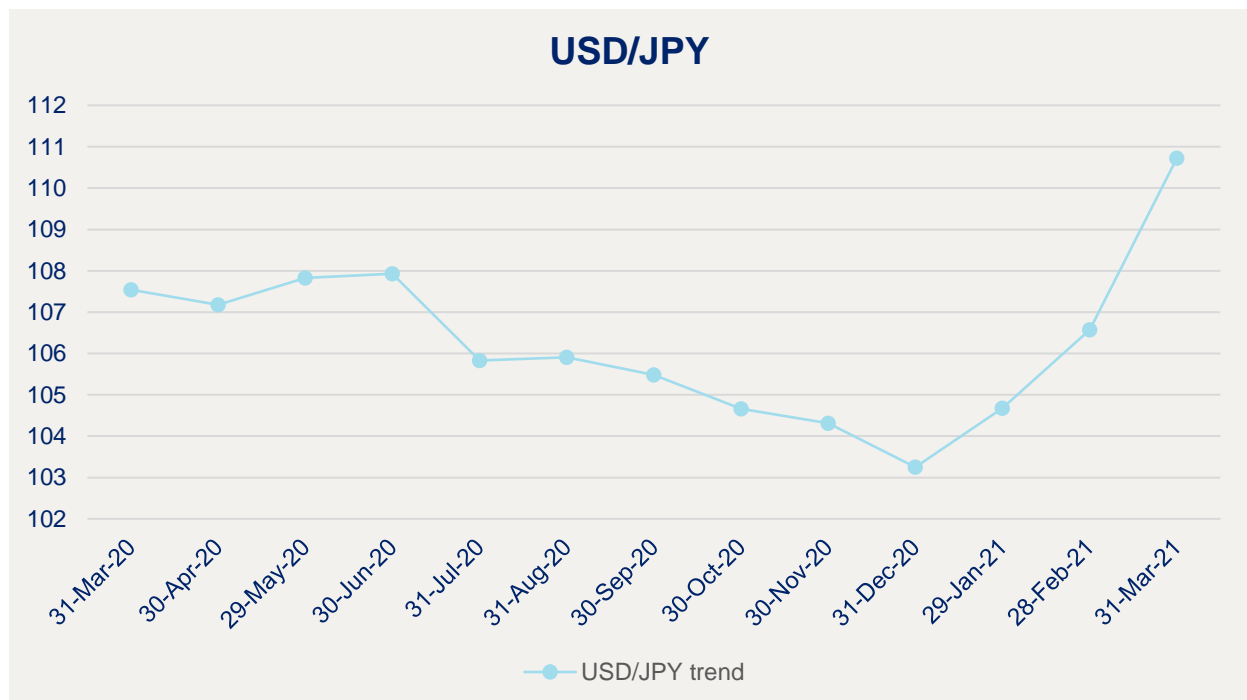
USD/JPY appears overbought, likely to normalise to lower levels

- USD/JPY saw a recent strong rise in response to higher Treasury yields
- USD strength appears to be running ahead of its fundamentals
- As such, USD/JPY looks toppish and may correct towards 107 by end of 2021

In the last couple of months, the biggest reaction to the recent spike in Treasury yields was seen in the Japanese Yen (JPY). The USD/JPY currency pair surged sharply from 105 to 110 between late February and late March 2021. This strong rally mirrored the sizable jump in the 10-Year US Treasury yield – from 1.34% to 1.74% in the same period – which was a result of a brighter global economic outlook.

With no clear shifts in monetary policy by both the United States (US) and Japan, this resurgence for USD/JPY appears to run ahead of the fundamentals. This is especially so when the Federal Reserve remains ultra-accommodative and is unlikely to hike rates until the risks posed by the pandemic have clearly passed. With US interest rates likely to hover near zero over the next two years, it will be challenging for the USD to hold on to its recent gains.

In line with our expectations of a modestly weaker USD this year, we foresee that USD/JPY will start to normalise lower alongside the reduced near-term volatility in bond markets. Our latest forecasts for USD/JPY are 109 in 2Q21, 108 in 3Q21, and 107 in both 4Q21 and 1Q22.



Source: Bloomberg. Data as at 31 March 2021.



RIGHT BY YOU

IMPORTANT NOTICE AND DISCLAIMERS:

The information contained in this publication is given on a general basis without obligation and is strictly for information purposes only. This publication is not intended to be, and should not be regarded as, an offer, recommendation, solicitation or advice to buy or sell any investment or insurance product and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose. Any description of investment or insurance products, if any, is qualified in its entirety by the terms and conditions of the investment or insurance product and if applicable, the prospectus or constituting document of the investment or insurance product. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. If in doubt, you should consult your own professional advisers about issues discussed herein.

The information contained in this publication, including any data, projections and underlying assumptions, are based on certain assumptions, management forecasts and analysis of known information and reflects prevailing conditions as of the date of the publication, all of which are subject to change at any time without notice. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, United Overseas Bank Limited ("UOB") and its employees make no representation or warranty of any kind, express, implied or statutory, and shall not be responsible or liable for its completeness or accuracy. As such, UOB and its employees accept no liability for any error, inaccuracy, omission or any consequence or any loss/damage howsoever suffered by any person, arising from any reliance by any person on the views expressed or information contained in this publication.

Any opinions, projections and other forward looking statements contained in this publication regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person. Investors may wish to seek advice from an independent financial advisor before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider whether the investment or insurance product in question is suitable for you.