

RECOMMENDATION – BUY USD /JPY

Investment case:

- When the other major central banks begin to make ready to tighten their monetary policies, and the yield spreads widen, we expect mounting pressure against the yen.
- Moreover, it looks as if the deflation spectre is staying, and this means that Japanese interest-rate hikes will not be on the agenda until the second half of 2011, at the earliest.
- The dollar will strengthen against JPY because the upturn will come earlier to the US, higher yield rises in the US.
- The strategy horizon is one year.

Potential/strategy:

We recommend investors to buy a long (1 year) USD/JPY call option, since any loss would be limited to the option premium, and since the option time value falls only moderately at the beginning of the option's term. The option costs about 6 figures (JPY 6m per USD 1m). The spot reference is 89.68, and the strike is 89.15 (see Chart 3 on page 2).

Risks:

- The diversification of reserves continues, and the issue of the US debt burden may hamper the dollar appreciation.
- A surge of risk aversion may lead to a strengthening of JPY against USD and may have the effect that the yield spread is a less decisive factor.
- The US economy slows down, which may cause postponement of interest-rate hikes and thus a weakening of USD.

For additional background analysis we refer to the latest edition of FX – Spot On at <http://www.jyskebank.dk/jb.asp?id=306651>

Chart 1 – USD/JPY



Source: Bloomberg

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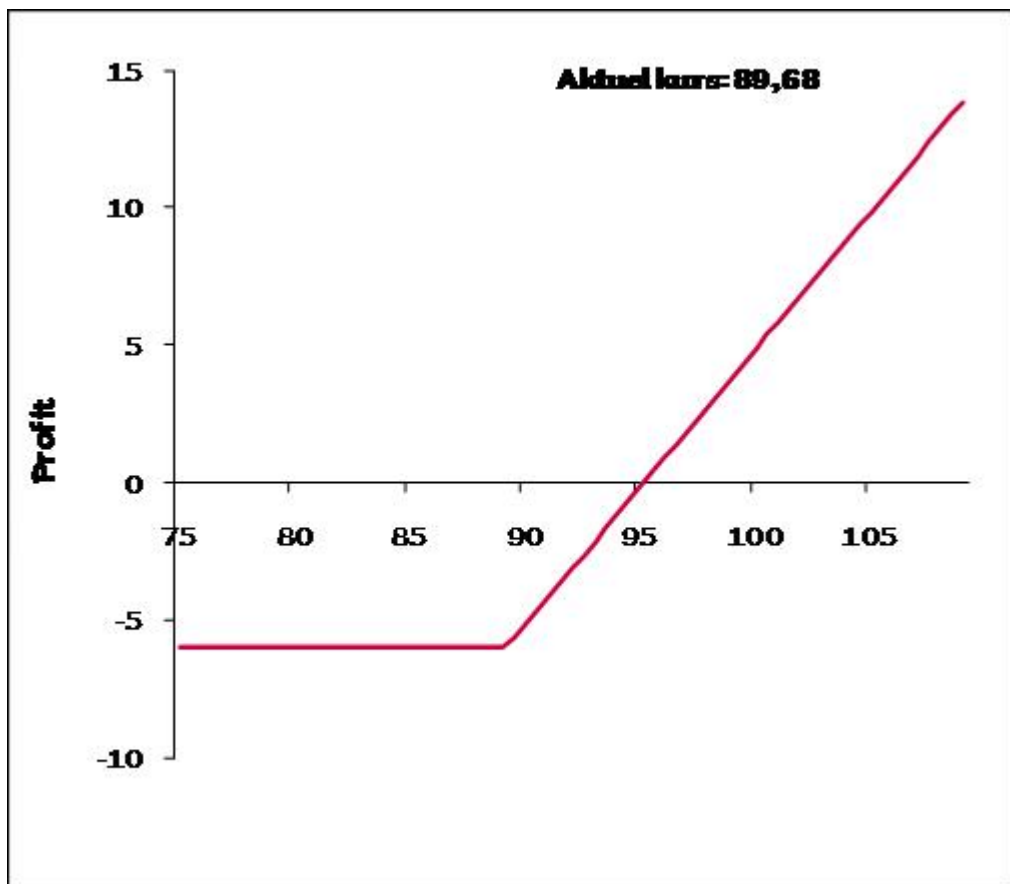
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Chart 2 – Past performance USD/JPY 5 years



Source: Bloomberg

Chart 3 – Profit/loss diagramme for bought USD/JPY 1-year call option



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