

CONTENTS

Feature Articles

This month's focus: **Background to Yen Depreciation and Implications for Corporates, Asset Management Industry, and Japan's Economy**

Overview *Yosuke Mitsusada, CMA* 2

Articles

Effects of Quantitative/Qualitative Monetary Easing on Yen-Dollar Exchange Rate
..... *Shin-ichi Fukuda* 6

Abenomics, a new unconventional economic policy regime, has been in place in Japan since late 2012. At the start, the yen-dollar exchange rate depreciated dramatically in the foreign exchange market—this paper seeks to determine the reason for such strong reaction. Unlike orthodox arguments, we focus on asymmetric behavior between local and foreign investors. By using high frequency intra-daily data, we show that various news shocks affected the exchange rate in Japan at nighttime even if they were revealed in Japan during the daytime. Noting that local investors tend to trade in the daytime, while foreign investors tend to trade at nighttime, implies that the dramatic market responses to the new regime happened in time zones when foreign investors were active.

Recent Increase in Simultaneous Correlation between Japanese Stock Prices and Exchange Rate *Shigeaki Fujiwara* 20

In recent years, a strong correlation between Japanese stock prices and the US dollar/yen rate has been observed, which is explained by global risk-on/risk-off behavior among investors. In particular, since stock prices started to rise in autumn 2012, the simultaneous correlation between them (i.e. increase in stock prices and depreciation of the yen) has intensified. One factor behind this is currency hedging for investment in Japanese stocks by foreign investors, whose presence has been increasing in Japan's stock markets. Moreover, there is a possibility that the correlation has been strengthened by high-frequency program trading, which is focusing on such behavior among foreign investors and is conducting simultaneous purchases/sales in stock and foreign exchange markets.

Valuation Effect of Weaker Yen on Japan's Economy *Sanae Ohno* 28

How the net foreign asset position of a country pursues an upward or downward trend depends on not only the current account balance but also valuation profits/losses on foreign assets and liabilities. While the impact of yen depreciation on exports to spur domestic economic activity has been highlighted, the impact of the weaker yen attributable to the valuation effect of the net foreign asset position might be more

dominant in Japan, which has very likely reached the stage of a “mature creditor”.

This paper provides an overview of the influence of yen depreciation under Abenomics, and emphasizes the impact of foreign exchange valuation effects as a stimulus for the domestic economy.

Long-term Movements in Real Exchange Rate in Japan: In Relation with Economic Structure *Yoichi Matsubayashi* 38

Since 1995, the real exchange rate of Japan’s currency has been depreciating and, as of 2015, the current value is almost the same as in 1973. There are several economic structures behind this transition, including 1) a trade structure revealed by the terms of trade, 2) a bipolar labor market structure, and 3) a faltering saving-investment structure in the public sector. In addition, these factors do not change in the short term and there is little likelihood that the trend of the real exchange rate will dramatically reverse.

However, if productivity in the trade sector rises both remarkably and persistently, then medium- and long-term movements in the real exchange rate may also change.

Prospects

Give Piketty a Read and Buy Some Mutual Funds *Naoki Kamiyama, CMA* 50

Economic and Industrial Analysis

Penetration of IFRS Adoption and Development of Japanese Accounting Standards *Yoshihiro Nomura, CMA* 56

Point of View *Yasunari Ueno* 64

Article

Should Loss-making Enterprises Change Managers? Relationship between Corporate Performance and CEO Turnover *Hajime Shimizu* 68

This paper empirically analyzes whether corporate performance improved when managers of loss-making enterprises were changed. The sample consists of 16,512 firm-year observations at public firms from 1998 through 2011. Analysis of the results suggests that, generally speaking, a change in managers at loss-making enterprises will not improve firm performance.

Book Reviews *Yoshinobu Yamada / Mihiro Naka* 78

SAAJ News 84