Securities Analysts Journal

【 Vol.61, No6. June 2023 】

Feature Articles

This month's focus: The Yen and the Japanese Economy

Yen Exchange Rate and Structural Change in the Japanese Economy

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It is found that the yen has been on a depreciating trend since April 1995 in terms of real effective exchange rate, although it has appreciated and been overvalued in a couple of periods over this timeframe. Japan's trade surplus has decreased while its primary income surplus has grown, as has foreign direct investment, which is related to the current account surplus. However, the exchange rate has become a lesser factor in decision-making concerning foreign direct investment according to a questionnaire survey of Japanese companies. The ratio of real GDP in the non-traded goods sector compared with that in the traded goods sector has been decreasing during the period of yen depreciation. On the other hand, little of the structural change in the manufacturing industry in terms of real GDP by industry was explained by the depreciating yen trend. This paper describes an empirical finding that shows that the larger the asset size of a company's overseas bases, the larger the impact of changes in the exchange rate on the company's equity capital and equity capital to total assets ratio through changes in the foreign currency translation adjustment. It implies that a company with overseas bases holding larger assets is more likely to enjoy the benefits of yen depreciation through the foreign currency translation adjustment, although it does face a larger exchange rate risk.

Exchange Rate Exposure of Japanese Firms: Foreign Exchange Risk Management in Global Production Network

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This study empirically analyzes the degree of foreign exchange exposure of 495 Japanese machinery firms and examines whether firm characteristic variables affect the degree of estimated exposures using a fixed effect model. It is shown that Japanese firms in the general machinery industry as well as the electric machinery industry can better manage influences of exchange rate changes, while Japanese firms in the transport equipment industry are more vulnerable to such influences. This finding is expected to have important implications for considering how Japanese export firms could conduct better exchange rate risk management in response to large movements in the exchange rate.

The Yen and Japan's Net International Investment Position

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This paper argues that under a globalized world economy, the more open an economy is, the greater the difference between the current account balance and the trade balance.

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The idea that the Japanese economy is losing wealth just because it has more frequently had a trade deficit, as has recently been discussed in Japan, is false. Much has been said recently about the disadvantages of a weaker yen, but less has been said about the advantages of a weaker currency in terms of increased foreign net assets. Recent reforms in pension fund management have made financial assets denominated in foreign currencies more susceptible to exchange rate fluctuations, which in turn has had a greater impact on our lives.

Yen Movement and Investor Behavior: Impact of Uncertainty, Oil Prices, Sovereign Risk and Equity Prices

Yuki Masujima, CMA

Global events involving structural changes, such as the global financial crisis of 2008–09 or the Covid-19 pandemic and subsequent surge in oil prices that was accelerated by Russia's invasion of Ukraine, have prompted changes in the yen's exchange rate moves and the determinants for such moves that investors focus on. While safe-haven demand for the yen becomes common after a global financial crisis, the deterioration of Japan's trade balance driven by high commodity prices, an export slump caused by supply constraints and a widening gap between Federal Reserve policy and a Bank of Japan that's sticking to stimulus has focused attention on factors that have weakened the yen. In the post-pandemic period we may see a resurgence of fiscal crisis-type exchange rate volatility, where fiscal discipline affects exchange rates through Credit Default Swap fluctuations, as global interest rates rise due to the normalization of monetary policy.