

## Positioning For Medium Term JPY Appreciation, Sell EUR/JPY

The current environment is characterized by range trading in FX as economic fundamentals show little signs of improvement and continued deterioration has already been priced into the market. Equities continue to be under downside pressure but major indices appear firmly supported at key levels with the DJIA still hovering around the 8000 levels, the S&P500 at above the 800 levels and the Nikkei 225 also hovering around the 8000 levels.

Ahead of key central bank decisions on Thurs when we get the BoE rate decision at 20:00 Singapore local time and the ECB at 20:45 Singapore local time as well as the NFP number on Friday, expect FX to be rangey. Volatilities have also been coming off somewhat since the start of the year as FX settles into comfortable ranges.

**Beyond this week, we expect FX to continue to trade in ranges but with downside risks to the USD/JPY and most of the key majors**, including the GBP and the EUR. **We are firm believers that risk aversion would continue to linger** in the market especially after recent upside price action on the majors failed to move the JPY away from the close to 90 levels, which suggest that equity markets would need to have a sustainable rally in order to see JPY move convincingly into the 90s levels again. **We expect the ranges to shift gradually towards the downside in an orderly manner, barring any wild card policy surprise.** While positive shocks from fiscal rescue packages could drive equity markets higher in the short term, we think fundamentally, any rescue package will need time to work through the market and for a real recovery, banks will to be in a position to lend again.

**We expect USDJPY to remain at sub-90 levels in this environment with downside risks more likely than upside and look for USDJPY to test the 85 levels, possibly stretching as far as 80** if momentum allows in the medium term. **For positioning in JPY, we favor the EURJPY cross**, as we think the other side of the cross, namely the EUR, has significant downside risk. With the ECB still behind the curve compared to other central banks and euro area growth showing signs of marked deterioration while inflation comes off, we think the ECB is poised to ease further. The EUR is damned if the ECB does not ease, with EUR upside capped by the global environment and damned if the ECB eases as EUR interest rates moving lower. In addition, EUR weakness is also a function of USD strength which we expect to continue for now till we see a reversal sometime in H2. **We call for EUR/JPY at 116.59 now to move towards 110 then to 105, firmly supported at the key 100 level.**