Yen Strengthens as BOJ Meets; Europe Futures Rise, Oil Declines

By Richard Frost and Monami Yui - Jan 21, 2013

The yen rebounded from its lowest level since June 2010 against the dollar as the Bank of Japan began a two-day policy meeting. Gold climbed, oil declined while European index futures rose.

The yen strengthened 0.6 percent to 89.59 per dollar at 7:07 a.m. in London, while the Nikkei 225 Stock Average slumped 1.5 percent. Euro Stoxx 50 Index futures added 0.2 percent and contracts on the Standard & Poor's 500 Index futures were little changed. The FTSE Bursa Malaysia KLCI Index tumbled 2.5 percent amid speculation the government will call for early elections. Crude retreated from a four-month high in New York, while gold added 0.3 percent.

Japan’s currency has weakened 12 percent versus the greenback in the past three months on speculation the BOJ, under pressure from new Prime Minister Shinzo Abe, will increase monetary stimulus to lift the economy out of its third recession in five years. European finance ministers meet in Brussels today to discuss tackling the debt crisis, while U.S. markets are closed for a public holiday.

“The pressure to temporarily correct excessive weakness in the yen is likely to increase,” said Junichi Ishikawa, an analyst at IG Markets Securities Ltd. in Tokyo.

The yen rose versus all of its 16 major counterparts. The currency earlier touched 90.25 against the dollar, the weakest level since June 2010. It gained 0.5 percent to 119.34 per euro. All 23 economists in a Bloomberg survey expect the central bank to expand asset purchases when the meeting concludes, with a median estimate for a 10 trillion yen ($111 billion) increase.

Yen Weakness

The Bank of Japan will need to slow monetary easing if the effects on prices and the yen go too far, said Koichi Hamada, who's advising Prime Minister on choosing a new central bank chief. Policy makers are “working hard to raise prices and influence the yen,” Hamada told reporters. “If it goes too far, it should be stopped,” he said after appearing with Economy Minister Akira Amari on an NHK television show.

Some 561 stocks fell and 385 gained on the MSCI Asia Pacific Index (MXAP), which lost 0.3 percent. The Hang Seng Index was little changed. Malaysia’s KLCI measure headed for its biggest loss since September 2011.
Speculation that the government will call for national elections as early as March helped trigger the selloff, said Alan Richardson, a Singapore-based fund manager at Samsung Asset Management Co. who helps oversee about $82 billion for Samsung Asset Management. “There is uncertainty whether the ruling coalition would be able to at least maintain the existing majority they have.”

**Vanke Rallies**

Mazda Motor Corp. fell 1.4 percent in Tokyo, while Sharp Corp. slid 3.8 percent. A stronger yen cuts exporters’ earnings. Sumitomo Chemical Co. and Mitsui Chemicals, Inc. declined after Bank of America Corp. cut their rating.

China Vanke Co. (000002), the country’s biggest publicly traded developer by market value, surged by the 10 percent daily limit in Shenzhen after announcing a plan to move trading of its foreign-currency denominated shares to Hong Kong.

The S&P 500 closed on Jan. 18 at its highest level in five years. The Chicago Board Options Exchange Volatility Index (VIX), or VIX fell to the lowest level since April 2007. The benchmark gauge for U.S. stock options has lost 45 percent since Dec. 28.

U.S. corporate earnings for 2013 should climb to a record $110.10 a share, up 8 percent from 2012, according to more than 11,000 analyst estimates compiled by Bloomberg. Of the 67 companies that have posted results for the last three months, 48 have reported better-than-estimated profits, data compiled by Bloomberg show.

Gold advanced 0.4 percent to $1,690.15 an ounce. Silver gained 0.2 percent to $31.915 an ounce. The metal is up for a sixth day, the longest rally since January 2012. Crude lost 0.5 percent to $95.08 a barrel.

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