



anticipates a 'virtuous cycle among production, income and spending triggered by increases in public investment and exports.' At the risk of caricature, Hayami had been all about gritting one's teeth and holding out for the eventual benefits of (Schumpeterian) creative destruction, while Shirakawa was resigned to the structural drag from demographics. Kuroda has taken a leaf out of the Fed's much more activist playbook, raising the stakes (promising almost three times as much QE) and taking a lead in talking up the economy's reflationary prospects. Policy board members' core forecasts are that the economy will exceed its potential by a factor of 5-6 times this fiscal year (2.4-3.0% versus 'around 0.5%,') albeit with the caveat that this includes frontloaded demand ahead of the April '14 consumption tax hike!

Measures of progress will come over the summer, with investors able to gauge the reaction to: (i) Abe's grand deregulation and competition plan, to be unveiled mid-June; (ii) the Tokyo metropolitan and Upper House elections, in June and July respectively; plus (iii) final social security reform and fiscal reconstruction plans in August and September. Positive domestic sentiment could well exaggerate risk-seeking outflows just as the Fed discussion about tapering down asset purchases is progressing.

Déjà vu and then some

So how does the current backdrop stack up against previous periods of significant yen weakness? We examined seven episodes since the breakdown of Bretton Woods. They were characterized by trade shocks (mid- and late-70s, late-'80s, mid-'90s); valuation overshoots and intervention (mid-'90s); capital outflows, be they deregulation-, risk seeking- or 'sell-Japan'-driven (early and late-'80s, mid-'90s, early and mid-'00s). Clearly, today shares many of these features, with the added kicker of an unprecedented monetary backdrop. This is what raises the prospect of overshoot. But that's unlikely to be an issue in the next 3-6 months.

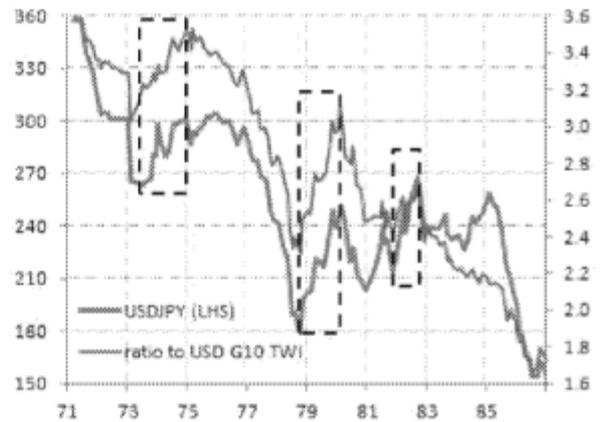
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Abe's delivery schedule

30/31 May	International seminar on Abenomics, Tokyo
mid June	Economic and Fiscal Policy and Economic Revitalization advisory bodies publish policy recommendations
23 Jun	Tokyo metropolitan elections
July	CEFP hearing on monetary policy and inflation
late July	Upper House election
August	Social security reform panel reports back
September	Fiscal reconstruction plan
October	Provisional deadline for TPP agreement

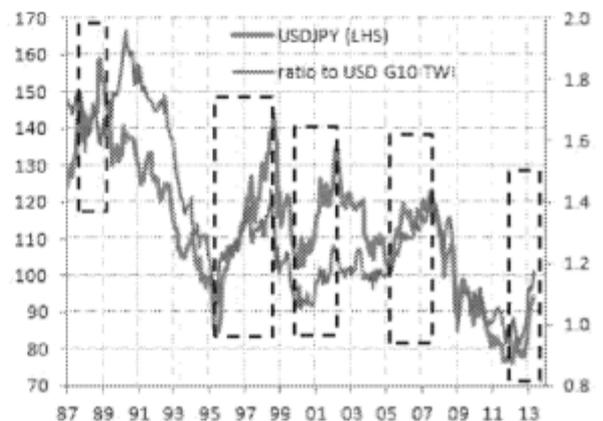
Source: Deutsche Bank

Periods of yen weakness in the 70's and early 80's



Source: Deutsche Bank

Periods of yen weakness since the late 80's



Source: Deutsche Bank