

4) Sentiment: The consensus forecast tends to converge around current market levels and recent momentum. As a result of the market deadlock around 102 that continued for several months, average medium term forecasts were down to around 105 by the end of July. Once the USD/JPY regains 105, the consensus forecast for the next 3-12 months would easily rise beyond 110.

5) Speculation: Overseas speculators had been decreasing JPY-shorts until recently, meaning there is ample leeway for JPY selling to help the JPY depreciation trend resume. Even if they start taking profits, the USD/JPY uptrend should be supported by Japanese investors buying on dips. Speculators should find repeatedly entering JPY-shorts to be an effective strategy.

6) Abenomics: If the US economy were weak, then yen depreciation and rising stocks could not be called Abenomics' policies, and Abenomics would be a disappointment. However, if a strong US economy facilitates a rising USD/JPY and outperformance by Japanese stocks, then Abenomics should somewhat reinforce sentiment for JPY depreciation and rising stocks. Prime Minister Abe will shuffle his cabinet in September, and appears resolved to continue implementing a revamped Abenomics.

7) BoJ's quantitative and qualitative monetary easing: If the JPY depreciates and stocks rise then we do not think the BoJ will have to implement additional easing. However, it will not likely reach its 2% inflation goal, even as we approach the initial two year target period. The quantitative and qualitative monetary easing policy being prolonged beyond the second year would mean continuing support for JPY depreciation.

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