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Yen Surges on Nikkei Report BOJ May Curtail Its Currency Sales

March 15 (Bloomberg) -- The yen rose to the strongest against the dollar in more than a week after Japan's Nikkei Financial Daily said the Bank of Japan may scale back sales of its currency to protect exporters.

Unnamed central bank officials told Nikkei they expect the BOJ to "walk away from large-scale" yen sales by the March 31 end of Japan's fiscal year. The central bank has tried to stem the yen's rise during the last year so that Japanese goods don't become too expensive for U.S. buyers.

"There's no reason for them to continue to buy" dollars, said Chris Melendez, president of Tempest Asset Management, a currency hedge fund in Irvine, California. By the end of March, "all of the exporters will already have booked their profits."

At 2:16 p.m. in New York the yen strengthened to 110.41 per dollar from 110.79 late Friday, and touched 109.18 after the Nikkei story. It pared the gains on traders' speculation the Bank of Japan sold yen for dollars as the yen surged. A Japanese finance ministry representative in New York declined to comment.

"They've been back in," said Grant Wilson, a yen trader in Pittsburgh at Mellon Financial Corp., which manages about \$612 billion. The central bank "ramped it all the way" back above 110 yen.

The BOJ, which acts for the finance ministry in the currency market, sold 10.5 trillion yen (\$94.4 billion) in the two months ended Feb. 25, more than half of the annual record amount spent last year, to keep the yen from gaining and hurting exports.

'Sensitive' Market

The Nikkei article "shows how sensitive the market is to the prospect of a change in BOJ policy," said Lauren Germain, a currency strategist at Bank of America Corp. in New York.

Against the euro, the dollar weakened to \$1.2252 from \$1.2215 per euro after the Spanish government's receipt of a videotape purportedly from al-Qaeda claiming responsibility for last week's Madrid bombings raised concern about more attacks on the U.S. and its allies.

Some of the dollar's losses were pared after the Treasury Department said foreigners purchased a net \$92 billion of U.S. bonds and stocks in January, the second-highest amount ever, suggesting the world's biggest economy remains an attractive place to invest.

Treasury securities erased an earlier gain on the Nikkei report that Japan would reduce its dollar purchases. Japan raised its Treasuries holdings by a net \$31.9 billion in January, today's Treasury data showed.

Treasury Data

Currency traders watch the Treasury figures as a gauge of the appetite among international investors for U.S. assets. The dollar dropped the most against the euro in more than 2 1/2 years on Nov. 18 when the Treasury said September's net increase in U.S. holdings tallied just \$4.3 billion.

Some analysts said the data eases concern the U.S. isn't attracting enough money to offset the shortfall in its current account, the broadest gauge of international trade. The U.S. needs to attract \$1.5 billion per day to finance that gap.

Today's data "should put to rest any lingering doubt about the ability of the U.S. to adequately finance its current account deficit at this time," said Michael Woolfolk, a currency strategist in New York at Bank of New York, the second-biggest custodian of investor assets.

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The dollar also recovered as a report from the Federal Reserve in Washington showed U.S. industrial production rose 0.7 percent in February, more than the median forecast of a gain of 0.4 percent in a Bloomberg News survey.

`` It was a relief to see that foreigners remain strong buyers of U.S. assets, especially for the ones who were concerned with the country's ability to fund its current account deficit," said Joseph Barnea, senior currency trader in New York at Bank Leumi USA, a unit of Israel's second-largest bank. `` It's a very positive report for the dollar."

New York Manufacturing

Limiting the dollar's recovery, a report from the Fed's New York branch showed the state's manufacturing in March expanded at the slowest rate since September. The bank's measure of manufacturing fell to 25.33 from February's 42.05, which was a record. The report's employment index fell to 9.7 from 16.5.

In earlier trading, the dollar also dropped after police in Pakistan found explosives in a car outside a U.S. consulate and later defused a detonator attached to the vehicle.

The Swiss franc advanced to 1.2771 per dollar from 1.2844. Seventy-five percent of 62 investors, traders and strategists polled by Bloomberg News on Friday advised buying or holding francs this week. The currency usually benefits in times of international crisis because of the country's political neutrality.

`` The only thing you can say in an environment of terrorist attacks is that Switzerland probably won't be a target," said Mary Davis, a currency strategist at Credit Suisse First Boston in London.

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