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High yen will hamper recovery effort



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THE yen has for decades moved in big swings against the US dollar and other currencies.

This week Alan Clement, a member of the Australian Technical Analysts Association, looks at the yen's movement by plotting its futures contract against a basket of currencies.

When the index figure is high, the yen's value is strong against the currency basket.

Early in the 1990s the yen plunged to about 70 on the futures chart. Then it began an upward journey to reach a peak of 119.5 in 1995. Then it collapsed to a low in 1998 of 69.5.

From there it developed a consolidation pattern that coiled the price into a tightening range for 10 years

YEN FUTURES



(between the two red lines on the chart).

Then, in 2008, it broke out to the upside, creating a quickly rising trend line.

Applying technical analysis to that period, Mr Clement says: "The height of the consolidation pattern projected forward from the breakout point gave us a target of 124.5, which was reached in October last year after the yen broke through the resistance of its 1995 high."

Following the tragic trifecta of earthquake, tsunami and nuclear crisis in Japan in March, the yen moved upwards, reaching its highest level against the US dollar since the Second World War.

This worried the Bank of Japan and international monetary regulators, so the G7 intervened to push down the value of the yen to help stabilise the economy.

Mr Clement again uses his technical tools to look at

what is likely to happen to the yen from here.

"Since reaching the projected target [124.5] it has been consolidating above the 1995 high, despite recent action by the G7 to push it lower," Mr Clement says.

"The yen remains in a technical uptrend. So the chart would remain bullish unless we see a break below this trendline. [The steep red line on the chart].

"What we might expect, after such a powerful move up in a relatively short space of time, is a period of consolidation at these new elevated levels, which on this time frame could take many years.

"If the yen does remain up around these higher levels, it will make the recovery effort in Japan more challenging, with the manufacturing industries it relies on struggling to export their goods at higher prices."