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Sent: Friday, October 30, 2015 3:53 PM
To: Jeffrey Epstein (jeevacation@gmail.com)
Cc: Barrett Team; Brad Wechsler
Subject: JPY

Jeffrey

I am not sure it goes to 110 but long JPY v short KRW still makes sense.

Paul

Global Rates & FX Research

BoJ changed reaction function, not preemptive any more: BoJ to hold until Nov.2016 & USD/JPY may break 110

<Monetary Policy>

- * The BoJ did not ease today, even though the Bank revised down GDP and inflation outlook and pushed out the timeline of achieving 2% inflation target.
- * The details of Outlook Report and Kuroda's comments at the press conference were rather downbeat. The BoJ's policy does not appear preemptive any more.
- * We now believe that the BoJ will ease in November 2016, when the BoJ is expected to push out the time line again, although earlier easing is possible.
- * Kuroda remained confident that there the BoJ has plenty of tools for additional easing, including an increase in JGB purchases.

<Foreign Exchange>

- * We continue to see that USD/JPY has already hit the peak of this year and the pair is likely to see a down ward trend toward next year.

* Given that we pushed back forecast of the timing of additional easing by the BoJ to November 2016, we revised down our forecast of USD/JPY across forecast period: to 113 from 115 in 3Q16.

* We think there is a risk that the USD/JPY breaks 110 before the BoJ eases their monetary policy again on November 1st 2016.

* The important factors for our view are: the significant improvement in current account surplus, the higher funding cost of JPY, Japanese authorities' preference and possible unwinds of large foreign asset investments by Japanese.

<JGB>

* We continue to expect that the upside of JGB yields to be limited, regardless of the BoJ's inaction; the most of domestic investors did not expect additional easing, additional easing expectations should remain given our forecast of lower USD/JPY, and calendar-base JGB issuance will be reduced.

* We instead change the view about the expected path of JGB yield curve; while we continue to expect flattening, the move would be gradual.

<Equity>

* Although about a half of the market had expected the BoJ to ease further, the initial reaction was surprisingly tame. With the BoJ out of the way, the focus will likely be on relative values going forward. With the government reportedly eyeing ¥3 trillion supplementary budgets, the themes are likely centered around supplementary-budget-related and earnings-related sectors and stocks.

* Long-term prospect is less certain given we expect JPY to appreciate going forward.

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