Japan Rebuke to G-20 Nations May Signal Moves to Weaken Yen (1)
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(Updates yen pricing in fifth paragraph.)

By Eunkyung Seo and Masaki Kondo

Dec. 31 (Bloomberg) -- Japanese purchases of foreign bonds to weaken the yen may become more likely as the nation rejects trading partners' rights to criticize its currency policies.

"Foreign countries have no right to lecture us," Finance Minister Taro Aso told reporters at a briefing in Tokyo on Dec.
28. He said that the U.S. should have a stronger dollar and questioned whether major Group of 20 nations had stuck to pledges from 2009 to avoid competitive currency devaluations.

Japan's new Prime Minister Shinzo Abe may accept trade friction as a cost of spurring growth and countering deflation through a looser monetary policy and weaker yen. The currency is set to complete its biggest annual decline in seven years after Abe's Liberal Democratic Party secured a landslide victory in this month's lower-house election. During his campaign, Abe said foreign-bond purchases were a possible monetary tool.

"The LDP wants to boost stock prices before the upper- house election in July next year, and the easiest option for them is to weaken the currency," said Satoshi Okagawa, a senior global-markets analyst in Singapore at Sumitomo Mitsui Banking Corp., a unit of Japan's second-biggest bank by market value.
"The explicit policy to weaken the yen is likely to upset the U.S. and China."

The yen was at 86.08 per dollar as of 7:30 a.m. in London after touching 86.64 on Dec. 28, the weakest since August 2010.
It traded at 113.53 per euro.

Currency Promises

The currency has dropped more than 10 percent versus the greenback since the end of 2011, set to complete the biggest annual slump since 2005. At the same time, the yen remains about 30 percent higher than it was five years ago.

In his Dec. 28 comments, Aso, a former prime minister, said that Japan and other countries made "a promise not to resort to competitive currency devaluations" at a G-20 meeting in 2009.
"How many countries have kept the promise? The U.S. should have a stronger dollar. What about the euro?" he asked. "Foreign countries have no right to lecture us" as Japan is the only major economy to keep the pledge, Aso said.

The U.S. criticized Japan for undertaking unilateral sales of the yen in August and October last year, after Group of Seven economies earlier jointly intervened to weaken the currency in the aftermath of an earthquake and tsunami.

"Rather than reacting to domestic 'strong yen' concerns by intervening to try to influence the exchange rate, Japan should take fundamental and thoroughgoing steps to increase the dynamism of the domestic economy," the Treasury Department said in a report in December last year.

Shrinking Economy

The Liberal Democratic Party faces the task of reviving growth after the economy contracted for the past two quarters, meeting the textbook definition of a recession. The nation's industrial output tumbled more than forecast in November to the lowest level since the aftermath of last year's record quake.

At the same time, stock prices are climbing, with Toyota Motor Corp. at a more than two-year high, as a weaker yen and prospects for central-bank easing brighten the outlook for exporters. Such improvements may cause concern for some of Japan's Asian neighbors.

"South Korea is one of the countries most vulnerable to the weak yen policy as many export items are in direct competition, such as cars and electronic goods," said Lee Sang Jae, a Seoul-based economist at Hyundai Securities Co. "Japan will try whatever it can to stop the deflation and to weaken the yen for export growth."

Shirakawa's Caution

After a Dec. 28 call with U.S. Treasury Secretary Timothy F. Geithner, Aso said he had told Geithner that the yen was making some corrections from one-sided moves and Aso would keep monitoring changes in the currency.

Bank of Japan Governor Masaaki Shirakawa, whose five-year term ends in April, has rejected suggestions that the bank buy foreign bonds and called for respect for the BOJ's independence. Such a policy would amount to currency intervention, which is the responsibility of the finance minister, he says.

At the same time, the Nikkei newspaper on Dec. 29 cited Shirakawa as saying that central bank and government must work together to overcome deflation. Abe is pressing for the Bank of Japan to adopt a 2 percent inflation target, compared with a current goal of 1 percent. Consumer prices excluding fresh food fell 0.1 percent in November from a year earlier, showing the central bank is struggling to fulfil even the lesser ambition.

The LDP proposed in its campaign manifesto establishing a joint BOJ, Ministry of Finance and private sector fund to buy foreign bonds. Takatoshi Ito, a former finance ministry official and a possible contender to become central-bank governor, said in a Dec. 6 interview that the BOJ "can and should buy foreign bonds," adding that such a move is possible if the finance minister publicly declares support for it.

In a note this month, Australia and New Zealand Banking Group Ltd. said that foreign bond purchases are contrary to the legislation governing the BOJ. At the same time, it's possible that the government may cajole the central bank into putting money into a proposed private-public vehicle for investment in foreign asssets, the lender said.

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