

Strong yen special

(Publicity)

Time to profit from the strong yen

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With banks failing, hundreds of thousands of people losing their jobs and their homes, and even the Big Three automakers begging for a bailout, trust in the U.S. economy has all but evaporated, sending global financial markets into a free fall. The yen has shot up to ¥94 to the dollar while the Nikkei average has headed in the opposite direction and plunged below 8,000.

Yet in spite of all the talk about the worst financial crisis since the Great Depression, Japanese society appears surprisingly calm.

"It is true that the manufacturing sector such as the auto industry is suffering from falling exports. But you shouldn't focus too much on the downside. The strong yen contrib-

utes to imports. This is especially so for food, which is important because Japan only has a 40 percent self-sufficiency rate," said Greg Story, country head of Japan for the National Australian Bank (NAB).

Put simply, the "strong yen = depression" equation is insufficient to explain today's economic situation. "The yen is fluctuating, going up and down from one week to the next. But overall, it is a comparatively safe currency. It is true that Japan has to tackle fundamental issues such as the lack of movement in the credit market. It also has to check the overly cautious action of banks in lending as their exposure increases in housing and corporate loans. In addition, the Bank of Japan has to continue feeding cash into the market to keep it go-

ing. Having said that, the Japanese economy is in better shape than many others," he said.

On an individual level, the issue boils down to two points: First, "What do you put your money in?" and second, "Is it good to buy now or should you wait?" Story thinks that if you have spare cash on hand in yen, now is a good time to buy a term deposit, especially in the Australian or New Zealand dollar.

There are several convincing reasons for his recommendation. "The Australian currency has an AAA rating. The country has a sound political system, a fair legal system and a low crime rate. Its economic growth has been stable at around 4 percent to 5 percent, showing much higher rates over the years than the OECD average. It also offers

an interest rate of 4.25 percent, a much better rate than Japan. New Zealand is equally good, with its interest rate being raised from 3.5 percent to 4.5 percent only a few days ago," he explained.

With the real estate bubble pricked, land prices have gone down "and investment in Australian property is another good bet," he added. In fact, he said that land purchase application orders from affluent Japanese are flooding in in such great numbers that he is being swamped.

The strong yen also works in favor of luxury-brand lovers. On Nov. 29, Louis Vuitton slashed its prices by 7 percent in response to Ferragamo's 10 percent reduction on its major lines, and Cartier's decision to cut the prices of its accessories, jewelry and watches. Christian Dior followed suit Dec. 2, reducing its prices by an average of 8 percent.

In terms of daily commodities, supermarkets throughout Japan are trumpeting sales that promise to "return the profits earned from the high yen" to customers. This is a blessing for those in control of household spending as Japanese homes have been suffering from the economic crunch in so many other areas.

Another delightful treat offered to the people of Japan by the strong yen is foreign travel. "We're definitely feeling a tail wind here. The strong yen means less spending overseas for Japanese travelers compared to when the yen was weaker. I must say that now is a really good time to travel to a foreign country," said Yukie Kiyokuni of the Corporate Planning Department of travel agency H.I.S. "But if the yen grows too strong, Japanese travelers' appetite to spend may be spoiled. They might eventually tighten their purse strings again."

Not yet though, as the strong yen pushes travel especially to nearby destinations such as South Korea.

Some Japanese banks that offer foreign exchange services are finding it difficult to keep up with demand, with the South Korean won, and Australian and New Zealand dollars particularly hard to come by. People are becoming extremely sensitive to fluctuating exchange rates. On any day that the yen rises, you will find long lines forming at banks and foreign exchange counters as people try to get a little extra from the strong yen.

During the mid-1990s, the ultrastrong yen sapped export-oriented Japanese com-

panies of their competitive edge, and their stock prices crashed as the Japanese currency reached ¥79.75 to the dollar in 1995. Japan Inc. emerged from those strong-yen doldrums chastened, so perhaps it is only natural for Japanese corporations to be hypersensitive to the skyrocketing value of the yen today.

Yet the scenario should be different as Japan's major trading partners include the European Union and the fast-growing BRICs' economies, in addition to the U.S., Australia and so on. We also should assume that Japanese corporations have become more sophisticated and smarter, and have accumulated the financial resources to survive these hard times.

Dumped on the seat of their pants by what some pundits consider was an economic sucker punch, Americans have got to their feet and are facing up to their problems, swiftly reviewing and reassessing their entire financial system. That's a healthy attitude. But the magnitude of the problem is such that no coun-



Ups and downs: People walk past a Tokyo brokerage's indicator board showing foreign currency exchange rates against the yen Dec. 2. AP

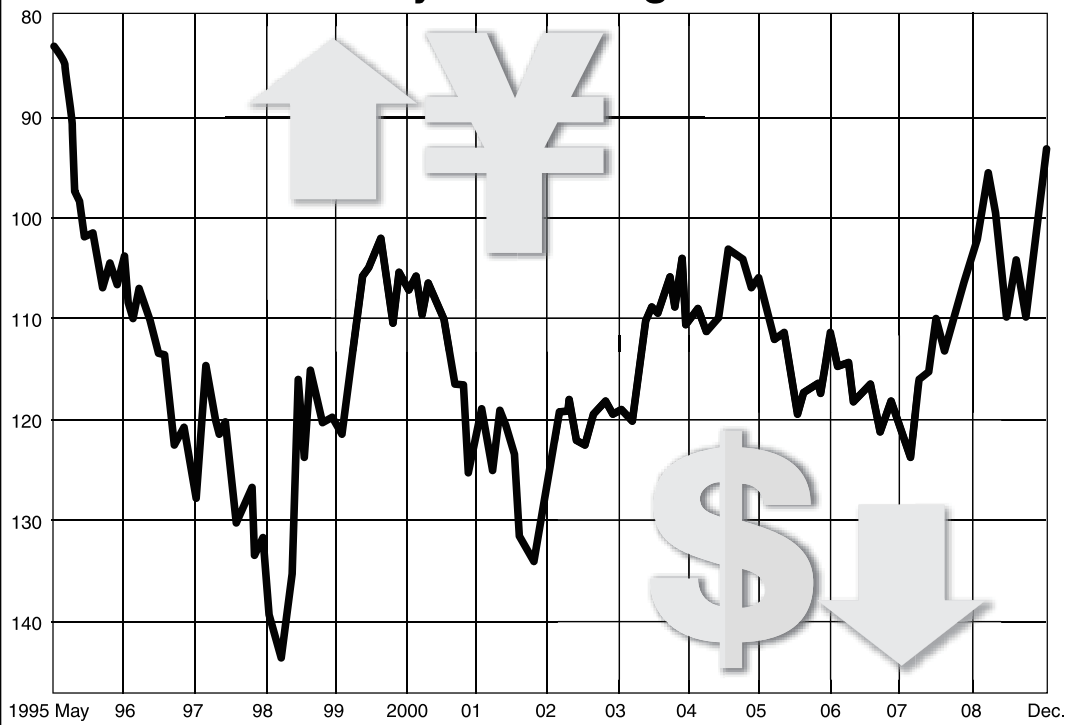
try has been left unscathed. Japan is no exception. But as we can see, the strong yen may be a blessing in disguise. "Buy overseas financial products or real estate now, and keep them for when the world economy settles," advises Story.

As he says, time is another crucial factor that should be considered since the high yen

prices won't last forever. This means that for now, the smartest action would be to take full advantage of the strong yen. Apart from some quick spending that wouldn't break any bank, people should be patient

and closely watch market changes to sense when the time is right to switch from buying to selling. This is after all the golden rule of investment, and it applies even today.

Transition of dollar-yen exchange rate



Change of currency exchange rates in yen

Against	U.S. Dollar	EU Euro	British Pound	Australian Dollar	Korean Won	Hong Kong Dollar
Jan. 1, 2008	111.65	162.94	221.79	97.84	0.1167	14.23
Dec. 1, 2008	93.2	117.51	138.74	59.67	0.062	12.28
Percentage of increase	1.20	1.39	1.60	1.64	1.88	1.16

Percentage of increase of Japanese yen value (comparison of Jan. 1 and Dec. 1, 2008)



Luxury bargains: An online shop conducts an "endaka kangen (returning profits of the strong yen)" sale of imported goods (above); weekend shoppers head for a Louis Vuitton store, which cut its prices by 7 percent last month (right). One after another high-end brands are cutting prices in response to the strong yen. YOSHIKI MIURA (ABOVE) YOKO KITA (RIGHT)



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