

Dollar Falls Sharply Against the Yen

Slide Follows Election Win For Japan's Ruling Party, But Outlook Is Uncertain

By *Tom Barkley*
Dow Jones NewsWires

NEW YORK -- The dollar fell sharply against the yen but regained some ground against European currencies following Friday's broad-based selloff of the U.S. currency.

The yen was the main mover of the day, climbing to its strongest level in 10 months against the euro and retesting last month's three-year highs against the dollar.

The strength in the Japanese currency follows the Japanese parliamentary elections over the weekend, in which Prime Minister Junichiro Koizumi's ruling Liberal Democratic Party maintained a slim majority by merging with a coalition party.

However, the implications of the vote on the prospects for economic reform in Japan, as well as for the value of the yen, were the subject of debate among currency analysts.

Jin Saito, vice president of Washington-based advisory service G7 Group, said media reports portraying the outcome as a disappointment for the LDP are mistaken. Predicting that the LDP's majority in the 480-seat lower house could rise to 250 through mergers, Mr. Saito called the election a "clear dominant victory" for the ruling party.

With the dollar unable to garner much lasting strength from the recent string of strong data surprises out of the U.S. -- including a 7.2% surge in third-quarter gross domestic product and Friday's employment report showing 126,000 additional jobs in October -- the LDP's victory gives investors "an excuse to buy more yen," said Mr. Saito.

The yen's rise began overnight against the euro, and several traders said selling of the common currency could have been driven in part by a large amount of euro-denominated government debt maturities and coupon payments. Japanese investors, thought to be holding a sizable amount of the debt, could be expected to repatriate some of that money.

The euro hit its lowest level since January, at ¥124.16. The dollar bounced off ¥107.86, just above the three-year low of ¥107.81 reached on Oct. 29.

The dollar recovered back above ¥108 in afternoon trading, and some traders noted bids from Japanese banks in activity that could have been covert intervention by Japanese authorities. Such speculation continued as the U.S. currency briefly jumped above ¥109 in early Asian trading Tuesday. Monday, however, the traders said investors may also have been covering short dollar positions ahead of Veterans Day holiday in the U.S. While bond markets will be closed in the U.S. Tuesday, stock markets will remain open.

The Bank of Japan, acting on behalf of the Ministry of Finance, has a long history of intervening in foreign-exchange markets to slow the yen's appreciation. The ministry reported Monday that it had sold a record high ¥7.551 trillion in the currency market in the third quarter, the third straight quarterly increase. Japan's foreign-exchange interventions in the first nine months of this year totaled ¥14.55 trillion, topping 1999's record ¥7.64 trillion.

Late Monday afternoon in New York, the dollar was trading at ¥108.53, down from ¥109.30 late Friday in New York. The euro was at ¥124.71, down from ¥126.13 late Friday. It was also at \$1.1493, below \$1.1535 Friday.

Against the Swiss franc, the dollar was higher at 1.3689 francs from 1.3618 francs, while sterling was a little weaker at \$1.6714 versus \$1.6744 Friday.

Elsewhere, the dollar fell to its lowest levels in six years against the Australian and New Zealand currencies on expectations that rising interest-rate differentials would continue to support the so-called commodity currencies.

The Australian dollar was trading at 71.54 U.S. cents, up from 70.91 U.S. cents late Friday. The New Zealand dollar was at 62.17 U.S. cents, from 61.76 U.S. cents at Friday's close.

--Adriana Arai in London contributed to this article.

Write to Tom Barkley at tom.barkley@dowjones.com