Foreign Exchange by Richard Katz

Whither the yen?

The same banks which sent the yen down in October and November bid it back up in early December. Where it goes now depends on Tokyo's response to the yen bloc proposal.

The most important fact about the wild fluctuations of the yen over the past weeks is that the same foreign banks that engineered the yen's dive in October and November sent it back up in early December. This includes the fabled 10-point rise on Dec. 10. Early reports said that Japanese trading companies pushed the yen up through massive selling of dollar export contracts for yen. But when the Bank of Japan counted up the deals at the end of the day it showed that the foreign institutions again predominated in the $1.128 billion turnover. Moreover, Japanese bankers point out that Tokyo was simply following the lead of London and New York. The following two days the foreign banks predominated, reversing the Dec. 10 rise, but at a rate higher than the Nov. 30 nadir of 249.

Behind the perhaps temporary reversal of foreign pressure on the yen lay key events tied to the politics of oil and U.S. President Carter's pressure on Japan to accept internationalization of the yen.

The National Iranian Oil Company (NIOC) sent a letter to a consortium of six Japanese trading companies and refineries inviting them to discuss new long-term oil contracts. Japanese sources say NIOC is discussing raising Japan's contract from the present 450,000 barrels per day to as much as 900,000. This is even more than the 700,000 Japan received while the Shah was in power.

Iran had earlier let Japan know that unless it bought the celebrated 20 million barrels at $40 per barrel following the U.S. cutoff of Iranian oil imports, then it could not hope to get long-term contracts.

Behind these purchases and U.S. Secretary of State Cyrus Vance's denunciation of Japan this week in Paris lay an even more interesting story: Japan had taken the spot oil and resold a significant portion of it to Europe—at a loss of up to $8 per barrel! In the process, Japanese banks became agents of dollar payment to Iran for themselves and the Europeans, bypassing the American banks and Vance's freeze on Iran's assets. In turn, Iran deposited a significant portion of dollars in Japan. NIOC's reward of oil to Japan for this sent the yen up and Vance's pressure on Japan to stop buying oil sent it down again.

The question remains whether Royal Dutch Shell and British Petroleum—who helped catapult the Ayatollah Khomeini to power in Iran last winter—have been using their own good offices to make things easier with the Ayatollah for Japan.

If they have, what is Japan doing in return?

London as well as Washington are pushing to replace the dollar with an international system of regional currency blocs including a yen bloc for Asia. One indication that Japan might tone down its resistance to it was Ohira's announcement of a series of yen-dominated loans to China.

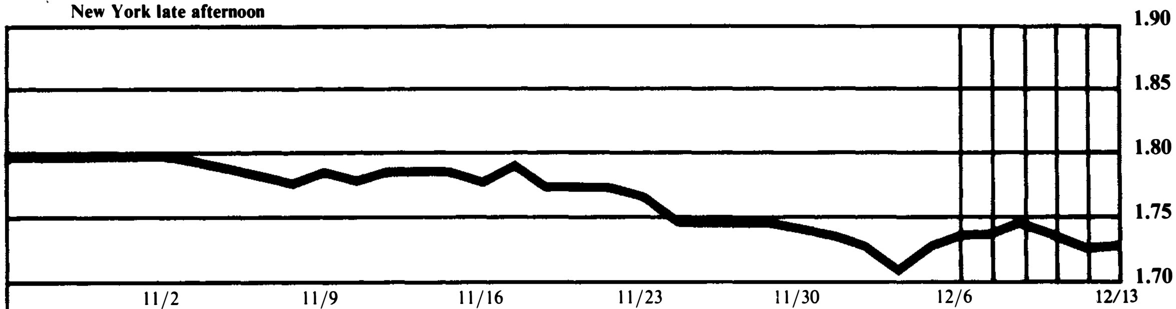
Furthermore, reports reached Tokyo banks two weeks ago that Saudi Arabia had bought $200 million worth of Japanese government bonds and that Kuwait, which had already made significant private purchases of securities, had approached Nomura Securities about additional offerings. On the basis of the Saudi report, Mitsubishi Trading Company bought yen massively in London Dec. 6, according to Japanese sources.

More evidence began accumulating that internationalization of the yen was proceeding. Late November, it was announced that Euroyen—yen held outside Japan in either Japanese or non-Japanese banks—had tripled since June to $10 billion. Most of that increase had been very recent and the total amount equals half of Japan's foreign exchange reserves. The final evidence was new Bank of Japan Governor Haruo Maekawa's reputation as a supporter of a yen trading bloc.

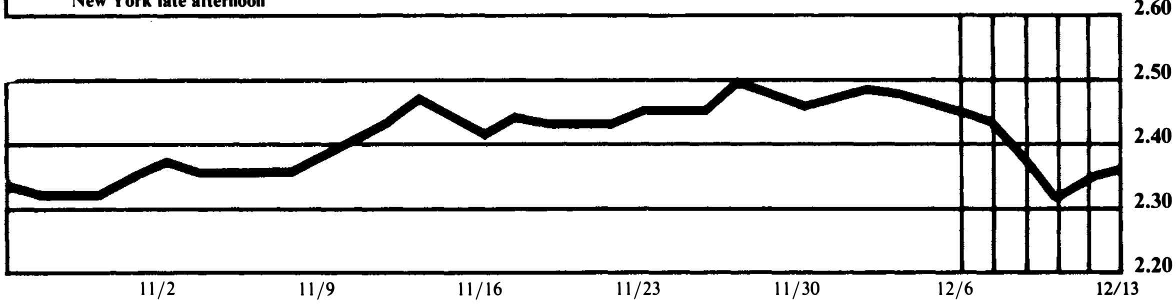
Japanese bankers point out when the yen rose in recent years, trade denominated in yen also rose to almost 30 percent of exports but only 5 percent of imports. During the yen's fall during 1979, the pace of growth in yen-denominated trade slowed.

Yet Japanese resistance to internationalization of the yen is still strong. And while some American and British bankers "see the yen rising" and they will help it rise to support the yen bloc, an equally large number of New York and Chicago bankers intend to sell. It is clear that the yen will be volatile for some time and that major determinants of the yen's rate will be foreign, not Japanese decisions.

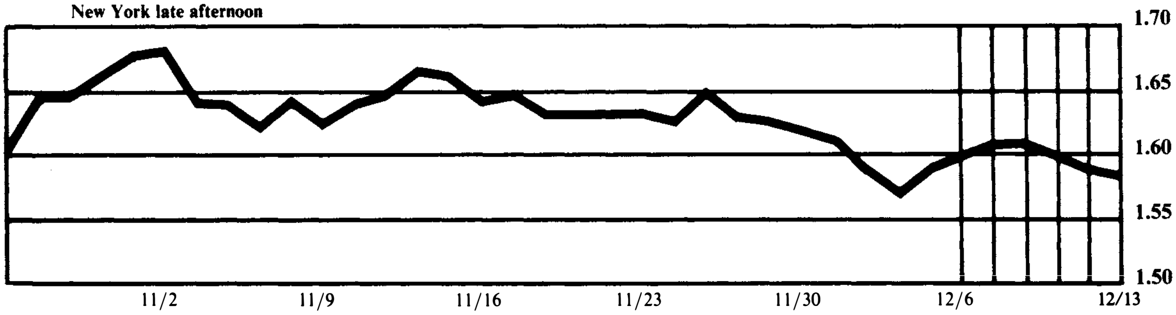
The dollar in deutschmarks
New York late afternoon



The dollar in yen
New York late afternoon



The dollar in Swiss francs
New York late afternoon



The British pound in dollars
New York late afternoon