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Published March 18, 2011 6:43 PM | A A A

G-7 Intervention Is Symbolic Tempering Of Markets, Not Targeting Of Yen Level-Economists

DOWJONES

By Ian Talley and Michael R. Crittenden

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WASHINGTON -(Dow Jones)- The Group of Seven's coordinated efforts Friday to weaken the value of the Japanese yen are likely designed more to temper panicked markets than targeting a specific currency level, economists say.

That should help markets to determine how much--or little--further intervention should be coming in the days and weeks ahead.

"This is a short-term measure that has more the goal of stabilization and averting a short-run panic than taking a view about how global imbalances might evolve and what the right value of the yen is against other currencies," said Ralph Bryant, a former director of the Federal Reserve's international finance division, now a fellow at the Brookings Institute.

The G-7 overnight sold yen under an agreed so-called coordinated intervention, saying, "excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability," and that they will monitor exchange markets closely.

The yen late Wednesday popped against the dollar to the strongest historical level, battering an economy already devastated by a catastrophe. A devastating 9.0 magnitude earthquake and ensuing tsunami ruined cities and villages in northern Japan last Friday. Japanese authorities raised the death toll Thursday to 5,457, with an additional 9,508 missing, though the numbers are expected to climb.

The strong yen's immediate impact--with the Nikkei plummeting--and the long-term potential to disrupt the country's return to health, as well as the currency volatility's ability to disrupt global trade, spurred officials to move decisively Thursday at the request of Tokyo.

"This kind of concerted intervention...has signaled pretty clearly that the Bank of Japan is wide awake and it not only is committed to but has the support of its G-7 partners to do whatever it takes to prevent the yen from moving in the wrong direction," said Barry Eichengreen, a University of California, Berkeley, economist.

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The G-7's surprise joint intervention is unlike previous G-7 operations, say Nomura Securities forex analysts. "Typically in the past, when the G-7 has intervened in a coordinated fashion, it has been because the exchange rate in question was dramatically misaligned," Jens Nordvig, Global Head of G10 FX Strategy said in a client call. In 2000, the group's goal was not only to stabilize the euro, but to reverse the weakened currency's longer-term trend. That was also the case in 1995, when the goal was to strengthen the dollar. "If you look at where the yen is in real effective terms, it is not dramatically away from historical averages," he said.

And if the goal was to indicate to the market that the G-7 was prepared to battle against any strengthening beyond pre-quake levels, then it may be that the G-7 communique is as powerful as the actual yen selling.

"If the message is believed then you don't have to actually see the action...The symbolism of the coordinated action is what is most important right now," said Cornell University economist Eswar Prasad. "But they could hit it a lot harder…that's what gives them the confidence to make the strong statement that they did."

Bryant said that if there isn't much more disruptive behavior in the financial markets and the yen market in particular, "I wouldn't be surprised if they don't do very much more...Maybe some of the desired effects have been accomplished already through the signalling," he said.

Nomura Securites' Nordvig said that while G-7 countries are likely to be comfortable with a range near prequake levels around 83 yen against the dollar, beyond that, members may disagree over the appropriate level of strength. Markets are estimating the Japanese have sold around 2 trillion yen Friday, about the same amount of intervention they did to limited success unilaterally in September. The Fed confirmed it also sold yen Friday, but the U.S. has limited abilities: its yen reserves total around 2 trillion yen.

James Pearson, global head of Nomura's FX trading desk in London said, regardless of what amounts the U.S. Fed or the European Central Bank contribute, he thinks there's "considerable amount" more to expect from the Japanese next week. "This is a once-in-a-decade event, it's a rare opportunity for the Ministry of Finance to galvanize and garner support of the international community," he said, adding, "If they can stabilize and reverse the yen...you could see the yen moving into JPY80 to JPY85 range."

Friday afternoon, the yen traded round 80.65 yen to the dollar. That's compared to the record JPY76-level Wednesday night.

But, Bryant cautions, "who knows what the hell the next news is going to be about the nuclear reactors." If the radiation situation deteriorates further, it could cause further panic in the markets, putting pressure on the yen again. "That would be the kind of circumstance where they would be ready to cooperate again with more intervention," he said.

By Ian Talley and Michael R. Crittenden, 202-862-9285; ian.talley@dowjones.com

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