Yen Strengthens as Expansion in Japanese Services Industries Accelerates

March 23 (Bloomberg) -- The yen rose near its strongest level in a month against the dollar as a government report showed Japanese service industries grew in January at the fastest pace in almost four years. Rising consumer confidence helped send the so-called tertiary index up 2.6 percent from December, the Ministry of Economy, Trade and Industry said in Tokyo. Economists had expected the index to rise 1.6 percent, according to the median of 16 forecasts in a Bloomberg News survey.

“The Japanese economy is definitely doing quite well --underlying economic fundamentals are improving, corporate profits are solid and the banking system is healthy,” said Kenneth Landon, senior currency strategist at Deutsche Bank AG in New York. “Investors are voting with their wallets.”

The yen climbed to JPY 106.76 per dollar from JPY 106.88 at 5:01 p.m. in New York, and rose against 12 of 16 major currencies tracked by Bloomberg. The euro was at USD 1.2343 from USD 1.2328 late yesterday, according to EBS prices.

An export-led economic recovery in Japan is prompting consumers to spend more on the services that make up about three-fifths of the world's second-largest economy.

Any gain in the yen will increase speculation Japan will sell its currency, as it is reluctant to let the yen advance to 105 JPY/USD before the March 31 fiscal year-end, said traders including Minoru Shioiri at Mitsubishi Securities Co. Finance Minister Sadakazu Tanigaki said the government is ready to take action as needed.

Bank of Japan

“It's possible the authorities will come in soon, making it harder for traders to buy yen,” said Shigehiro Kamimura, manager of the market-trading department in Tokyo at Resona Bank Ltd.

Japan's economy will grow at a steady pace, supported by exports and manufacturing, Bank of Japan Governor Toshihiko Fukui said at a meeting in the lower house of parliament in Tokyo. Fukui added that the yen's rise may be a risk for the economy, given that the current recovery has been driven by exports. He also said it is necessary to consider the impact of the yen's gain on business confidence.

Demand for the euro fell today after a European Central Bank report showed investors withdrew more than twice as much money from the euro region in January as in December.

Demand for the euro waned as consumer confidence in Italy held at a 10-year low and some economists lowered their growth forecasts for Germany, Europe's largest economy. A faltering expansion in Europe led investors to pull a net EUR 22.4 billion (USD 27.5 billion) from the region in January, compared with EUR 9.8 billion in December.

U.S. Purchases

“The European economy is not strong, and it probably won't grow this year as much as people were expecting,” said Meg Browne, currency analyst at HSBC Bank USA Inc. The fact that investors are pulling money out of Europe “provides a good excuse for selling” the currency today, she said.

Browne said the euro will trade between USD 1.2150 and USD 1.2450 in coming weeks.

In contrast with Europe's outflows, international investors increased their net holdings of U.S. government debt, corporate bonds and stocks in January at the second-fastest pace ever.
Foreign governments and investors bought a net USD 92 billion of U.S. assets in the first month of 2004 from USD 75.8 billion in December, the Treasury Department said last week. The total was the highest since a record USD 107.2 billion in May.

The dollar tumbled to a record low against the euro on Nov. 18 after a report that day showed net foreign purchases of U.S. securities fell to the lowest in five years.

Madrid Bombings

“Some of the luster has come off the euro,” said John McCarthy, director of currency trading at ING Financial Markets LLC in New York. The currency rose to a record USD 1.2930 on Feb. 18 after climbing 20 percent in 2003. It's down 2.5 percent so far this year.

The Madrid terrorist bombings earlier this month also dimmed expectations that Europe's economy will rebound soon.

“We're starting to see some leading economic indicators in Europe roll over, which suggests the recovery may be losing a bit of momentum,” said Robert Lynch, BNP Paribas's New York-based currency strategist. At the same time, “terrorism concerns are heightened in Europe because of what happened in Madrid.”