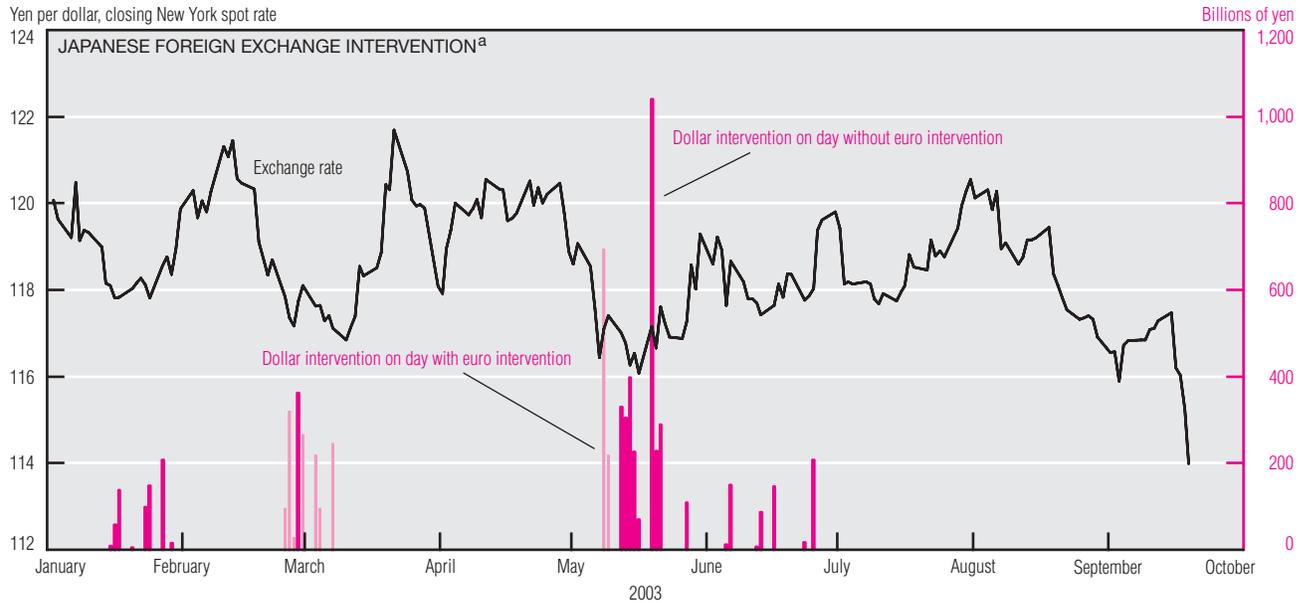


Japanese Intervention



Japanese Purchases of U.S. Dollars		
	Actual	Expected (if random) ^b
Did official Japanese purchase of dollars...		
...prompt a dollar appreciation?	15	16
...moderate a dollar depreciation?	5	20
...appear generally successful?	20	21
Total interventions	35	
Total days in sample	172	



a. The Japanese Ministry of Finance has not yet released daily details on foreign exchange interventions after June 2003. However, from July 1 through July 29, intervention operations totaled approximately \$17.1 billion (equivalent). From July 30 through August 29, the ministry did not conduct any foreign exchange intervention.

b. Assumes that successes have a hypergeometric distribution.

SOURCES: Japanese Ministry of Finance; and Bloomberg Financial Information Services.

The Japanese Ministry of Finance has recently come under criticism for its frequent, heavy interventions in the foreign exchange market. Although these transactions sometimes give the yen a bit of a nudge, they seem incapable of offering the competitive push that critics fear.

During the first half of this year, the Japanese Ministry of Finance entered the foreign exchange market on 35 days. Many of these interventions were unannounced and conducted so as to disguise their official

nature. All of them involved official purchases of dollars, which suggests that the Ministry of Finance sought to prevent—or at least minimize—any depreciation of the dollar against the yen.

Twenty of these transactions—nearly 60% of the total—appeared successful in terms of either promoting an appreciation or moderating a depreciation of the dollar. But 60% is not a very good success rate. Given the choppy nature of day-to-day exchange rate movements, one would

expect 21 such successes to occur purely by chance. The Ministry of Finance would have to score at least 26 successes to claim an influence on the exchange rate.

Studies of intervention have shown that the Japanese Ministry of Finance has sometimes affected day-to-day movements in the yen-dollar exchange rate. But these interventions did not affect exchange rate fundamentals and therefore did not give Japan any competitive trade advantage.