DJ|FX TRADER
DOW JONES & THE WALL STREET JOURNAL

- MARCH 30, 2011, 3:10 P.M. ET

Money Managers Dump Yen For US Dollars

By BRADLEY DAVIS

- "Don't fight the G-7" should keep the yen under pressure
- Dollar could gain to Y85-Y92 within three months
- Fund manager still on guard for intervention with a break below Y80

NEW YORK (Dow Jones) --Coordinated intervention may prove to have been a key turning point for the yen.

Money managers are placing bets on the dollar gaining against the yen after Japan and its partners earlier this month threw down the gauntlet and halted the yen's rise against the greenback.

The dollar rose Wednesday to a foothold above Y83, well above its immediate post-intervention high of Y82. The yen is also weakening against its other rivals, with the euro Wednesday rising to a 10-month high against the Japanese currency.

"My sense is that the old adage 'Don't fight the Fed,' or, in the case of [the yen], 'Don't fight the G-7,' is setting in," said **Josh Levy, managing director of Tactical Group Holdings**, which operates mainly as an algorithmic currency-trading operation with monthly trading volume of around $10 billion.

Like more active money managers, algorithmic currency traders, Levy said, are adjusting their models toward a positive-dollar, negative-yen bias.

After Japan, in concert with other Group of Seven leading industrialized nations, intervened earlier this month in currency markets to force the yen lower after the dollar weakened to an all-time low of Y76.25, it seems the dollar is now on a steady path higher, fund managers said.

"We think that the intervention is significant and real and will possibly continue," said Daniel Janis, who manages a $7.2 billion portfolio as part of the John Hancock Asset Management company in Boston.

Within three months, the dollar could continue to strengthen to Y85 to Y92, Janis said, as "people realize that the world is stabilizing," with growth picking up and concerns in the Middle East and Japan abating.

Based on the idea the yen should continue to weaken, Janis said after the March 18 intervention, he bought a yen-put, dollar-call six-month option at Y87.

That put is a bet the yen will lose value; as the yen depreciates, the option will gain in value, allowing Janis to sell the option for a profit. Puts are contracts that grant a buyer the right to sell a currency at a predetermined price in the future.

Janis had stayed away from the yen for more than a year, but sees the dollar having bottomed out against the Japanese currency.

In a move to "de-risk" its portfolio, the $53 million TEAM Asset Strategy Fund went neutral last week in its currency exposure, said portfolio manager James Dailey.

But Dailey said he is keeping an eye to potentially pounce on a rising euro against the yen. A weekly close above Y116 would "signal," based on the portfolio's investment process, the euro could move higher, potentially to Y124, said Dailey, whose firm is based in Harrisburg, Pa.

The euro has benefited broadly from European Central Bank officials tough-on-inflation talk, with many investors believing a euro-zone rate rise could come as soon as April.

Other central banks--including the Federal Reserve--that are likely to begin a tightening path of their own should weaken the yen even further, said David Renta, senior vice president for institutional foreign exchange at KeyBank in Cleveland.

A low-yielding yen becomes even more attractive to use for the so-called carry trade, in which investors borrow cheap yen to place bets on higher-yielding assets, Renta said.

With yen weakening on the horizon, Renta said he is advising the firm's corporate clients with long-term yen-denominated assets to "lock in net investments in their yen operations."

"If you're long yen, lock it in," he said. "If you're short yen, pony up and buy optionality," he said.

Options are now priced at pre-earthquake levels, Renta said, with volatility coming down and making options instruments "relatively inexpensive to buy," he said.

For now, Thanos Papasavvas, head of currency management in London for Investec Asset Management, which has $70 billion in assets under management, is taking a wait-and-see approach on the yen, which he sees against the dollar in an Y80-Y85 range. The firm was underweight yen ahead of the intervention and has not changed its position after intervention, he said.

If the dollar breaks the Y85 range "then clearly there is something going on," with investors likely more focused on global growth and interest-rate differentials; if the range is broken, Papasavvas said the firm will reassess its underweight yen position.

Meanwhile, Papasavvas said he stands on guard for the dollar to reverse course and drop below Y80. If it does, Papasavvas said Japan and its G-7 partners are likely to come back into markets to stop the yen in its strengthening tracks.

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