

On-Going versus Completed Interventions and Yen/Dollar Expectations - Evidence from Disaggregated Survey Data

Yushi Yoshida^a and Jan-Christoph Rülke^b

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Abstract

We follow the methodology proposed by Fatum and Hutchison (2006) to measure the successfulness of each intervention by observing prior and posterior exchange rate movements. We examine the intervention activities of the Bank of Japan in USD/JPY foreign exchange markets between November 1995 and August 2007. Conditional on the successfulness of intervention activities, we examine the influence of intervention on exchange rate expectations using the disaggregated Foreign Exchange Consensus Forecasts poll. Rather than only focusing on sample average and variance of forecasts, we adopt panel analysis to test whether reactions of market participants to foreign exchange interventions are invariant to different successful definition of the Bank of Japan. In addition, in order to affect forecasts of market participants, interventions are necessarily observed in well ahead of time to be correctly assessed. Compared to the existing literature which argues that interventions have, if at all, short-term effects on the exchange rate, we find long-term effects on exchange rate expectations. More precisely, our results suggest that successful interventions of dollar purchase affects twelve-month forecast of market participants and improves forecast accuracy.

JEL classification: F31, G15

Keywords: Bank of Japan; Central bank intervention; Forecasts; Exchange rates; Successfulness

Address:

^a Corresponding author: Yushi Yoshida, Faculty of Economics, Kyushu Sangyo University, 2-3-1 Matsukadai, Higashi-ku, Fukuoka, 813-8503 Japan. E-mail: yushi@ip.kyusan-u.ac.jp

^b Chair of Macroeconomics, WHU – Otto Beisheim School of Management