

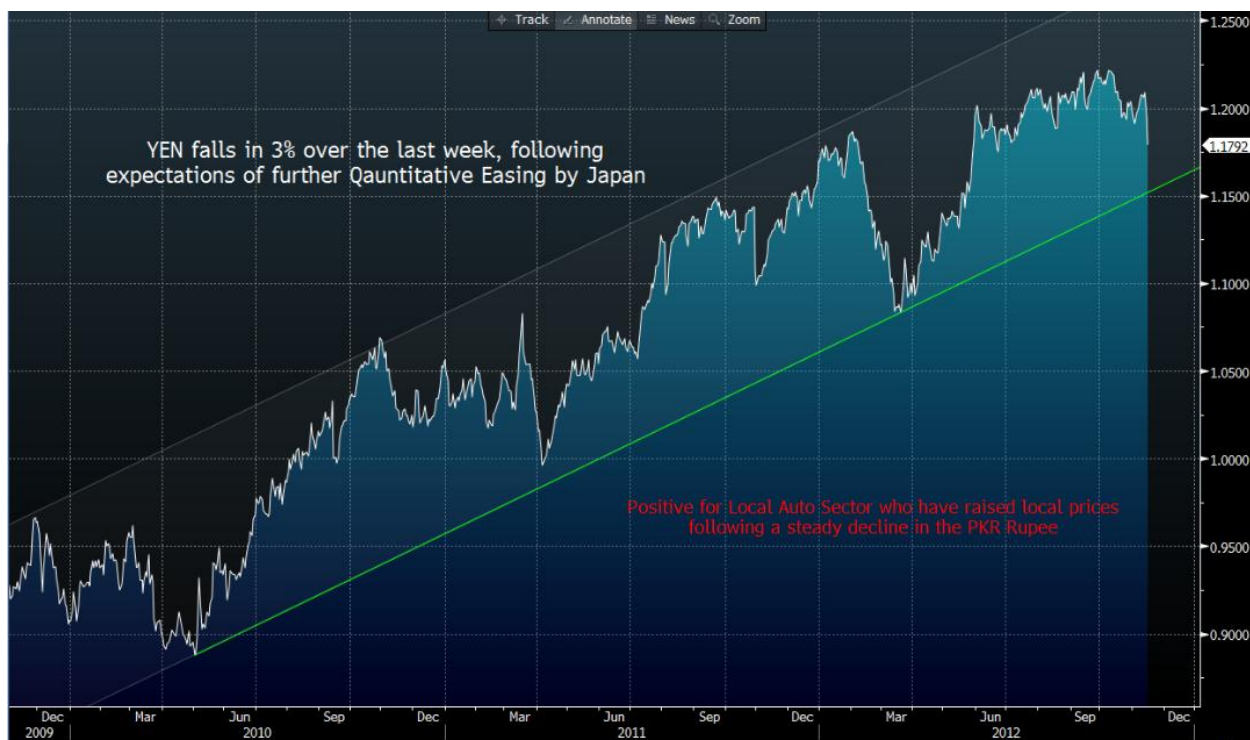
Faysal Asset Management

Yen Slides to 6½ month low on BoJ easing calls

Japanese Political Shift and its instant impact on Yen

The yen fell sharply on Wednesday after Japanese Prime Minister Yoshihiko Noda said he was ready to dissolve the lower house of parliament later this week and hold a snap election next month. With the main opposition Liberal Democratic Party (LDP), which favors further monetary policy easing by the Bank of Japan, leading in opinion polls, the prospect of an early election is regarded as negative for the currency. LDP leader Shinzo Abe called on the central bank on Wednesday to print "**unlimited yen**" to achieve a new inflation target.

As depicted in the chart below, Yen has fallen by almost 3% in the last one week, following the expectations of further Quantitative Easing by Bank of Japan (BOJ).



Impacting Auto Sector of Pakistan

Drop in yen is positive for local auto sector that have already raised local car prices by approximately 1.7%-2.0% following a steady decline in the PKR rupee. The slide is expected to benefit local assemblers with the lowest degree of engineering localization, especially Honda Atlas Cars (HCAR), Indus Motors (INDU) and Atlas Honda (ATLH) – with margins on their high-end brands expected to expand the most.

After touching a high of PKR 1.2218 per Yen, the Japanese currency has declined to PKR 1.792 – eyeing support of approximately PKR 1.16 per Yen. The currency averaged PKR 1.20 over Jul-Sep '12 as well as over Oct-Nov '12 (QTD), signifying a fall of ~2% to date. At its support of PKR 1.16, the currency will have recorded a fall of 5% from its recent high of PKR 1.2218

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