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Title	The First Arrow Hitting the Currency Target: A Long-run Risk Perspective
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Abstract	This paper reconsiders the successful currency outcome of the first arrow of the Abenomics. The Japanese yen depreciation against the U.S. dollar after the introduction of the first arrow comoves tightly with long-term yield differentials between Japan and the United States. The estimated term structure of the sensitivity of the currency return of the Japanese yen to the two-country interest rate differential indeed shifts up and becomes steeper after the onset of the Abenomics. To explain this structural change in the term structure of the Fama regression coefficient, we employ a long-run risk model endowed with real and nominal conditional volatilities as in Bansal and Shaliastovich (2013). Under a plausible calibration, the model replicates the structual change when nominal uncertainty dominates real uncertainty in the U.S. bond market. We conjecture that the arrow was shot off from the U.S. side, not the Japan side.
Keywords	Japanese yen/U.S. dollar exchange rate; Term structure; Fama regression; Long-run risk; Abenomics
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