

ADBI-JFSA Joint Conference

**“Strengthening the Asian Financial Sector toward
Sustainable and Inclusive Growth”**

*Session 1 Global Financial Supervisory Reforms: Implications and
Lessons for Asia*

**Liquidity of U.S. Dollars in Tokyo Market: in Comparison with London and
New York, and its Implications for Asian Financial Policy**

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Abstract

During the global financial crisis, international financial markets were affected by shortage of liquidity and sudden shrank of market activities. International investors became so pessimistic in the market and uncertainty had been widened. Demand for US dollar for transaction purposes in international market became suddenly increased. Liquidity shortage in US dollar market was observed in many financial intermediaries. Shortage of liquidity spread not only currency market but also affected bond market and interbank money market.

The paper addresses the impact of dollar shortage on the money markets in Tokyo, London and New York. During the global financial crisis, the credit quality of European and US banks deteriorated substantially, but that of the Japanese banks did not. However, the liquidity shortage of the US dollar was more serious in Tokyo money market than in the other two markets. This suggests the importance of distinguishing between credit risk and liquidity risk in different markets.

Our results deliver several lessons for Asian banking system and Asian exchange markets. How to deal with sudden liquidity shortage in the Asian region is one of the important policy lessons. The paper will make proposals for the financial supervisory agency and the central banks how to cope with liquidity shortage. We find that coordinated central bank liquidity provisions were useful in reducing liquidity risk in US dollar transactions. We also suggest that the multilateralization of the “Chiang Mai Initiative” is expected to play its role as a safety net for dollar funds in the Asian region.