



OFF THE NEWS



The Bank of Japan headquarters in Tokyo.

Yen Carry Trade R.I.P.?

The global debt and equity bubbles at least temporarily are beginning to show signs of vulnerability. At the center of the drama are Japanese politicians who have begun to jawbone their government and the Bank of Japan to drive the yen higher in strength to confront rising import price inflation resulting from decades of an official weak yen policy.

The way to deal with a weak yen should have been to gradually tighten fiscal and monetary policies. Instead, powerful forces in the Liberal Democratic Party are muscling authorities to push up the value of the yen through exchange rate intervention.

**Jay Powell,
call your office!**

The future global consequences of this policy change could be significant. For decades, global equity markets have been supported by the Japanese bubble, a weaker yen, and a tradition of Japanese investors (those wily housewives) looking abroad for higher rates of return.

All that appears to be changing.

The so-called yen carry trade has been used to finance asset inflation everywhere in the world. But it is not clear the Bank of Japan in the future will continue to aggressively expand monetary policy to keep the party going. It is not clear who controls the Bank of Japan. Jay Powell, call your office!

Weakness Is Provocative

TIE sat down with a longstanding U.S. defense and foreign policy strategist who preferred not to be quoted by name. Here are his latest thoughts.

The Biden administration is worried because Chinese President Xi Jinping “seems desperate.” In response to economic policy disappointment, Xi has dramatically ramped up centralized control and enforcement. “China is in a downward spiral,” the former U.S. official added. “They’ve got little strength in domestic consumption, but they can’t stimulate by handing people money because Xi doesn’t want working people to feel empowered. It’s a good way to lose your country. So all he’s left with is to resort to a policy of increased mandatory service—the draft.”

The big question is whether a U.S. President Kamala Harris would attempt to “out-Trump Trump” on tariffs against China. “The Chinese economy is not nearly as resilient as the U.S. economy. If the current low-grade tariff war with China escalates, the Chinese economy can’t change on a dime the way the American economy can. China could become highly irrational. That’s our greatest fear,” the former official said. “Beijing and its allies could really go into overdrive to destabilize America’s global presence even though there is not much they can do to respond to tariffs. America is vulnerable on a number of fronts.”



PRESIDENT OF THE RUSSIAN FEDERATION

Chinese President
Xi Jinping



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