



Key News

- [Japanese Prime Minister Yukio Hatoyama said on Monday](#) that the recent rise in the yen has been tough for small firms. (Reuters)

Quotable

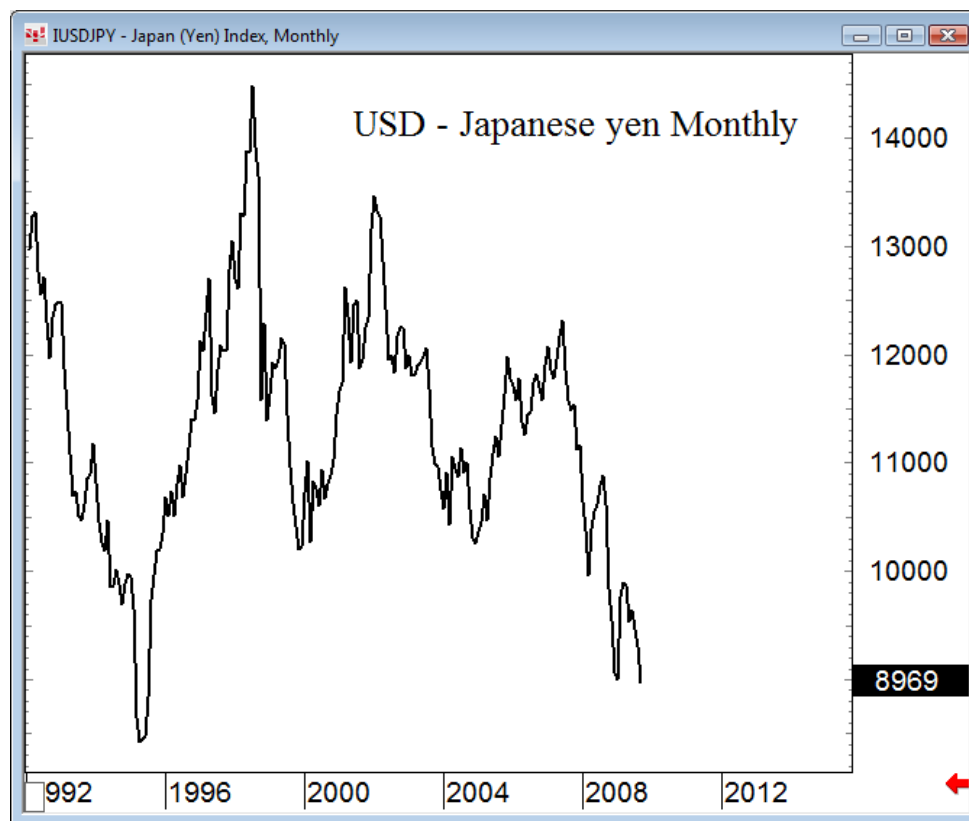
“Good pitching will always stop good hitting and vice-versa.”

Casey Stengel

FX Trading – Yen-Yikes!

Talk about fundamental disconnect—yikes!

Traders are all over the Japanese yen—it is the soaring against all comers. Some traders are eyeing the 85 level, an area not seen since 1995.



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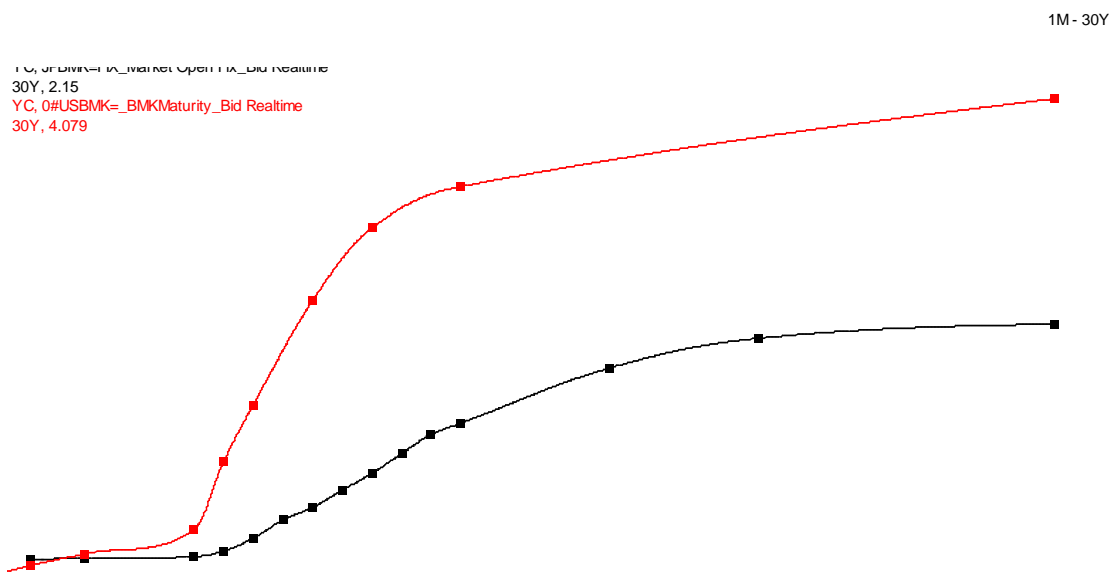
Other than a belief Japan's Finance Minister, Hirohisa Fujii, is unconcerned about a stronger yen (countered this morning by the Prime Minister as \$-yen tumbled), there

doesn't seem much in the way of economic fundamentals to be driving the yen higher...momentum is a powerful thing indeed.

Barron's magazine ran a story this week, which made the case the Japanese economy is a ticking debt time bomb (maybe the leader of a pack of time bombs across the industrialized world). Total population in Japan is falling fast, and falling even faster is the working age population to support Japan's massive debt to GDP ratio, measured officially at around 217%, that compares to 81.2% for the US and an average of 72.5% for the G-20 nations, according to *Barron's*.

An analyst quoted by *Barron's* says there is a major bubble in Japanese government bonds given this demographic reality i.e. he sees no way the low rates can be sustained.

Below a chart of the yield spread between US (red line) and Japanese government bonds (black line); spread total at bottom in green:



Source: Reuters

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Near-term likely no matter...but the question is: Where is the tipping point on debt to GDP? JGB's have remained low for a long time despite the massive debt build, and others have been on the idea of a bubble and been burnt. But maybe it's a set up for long-term value players among us.

Jack Crooks

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