Economic Viewpoint

Yen surge: Japan savers ground down, what next?

MUFG Securities EMEA plc
A member of MUFG, a global financial group

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DR. BRENDAN BROWN
ECONOMIC RESEARCH
T +44 (0)20 7577 2712
BRENDAN.BROWN@MUFGSECURITIES.COM

KEY MESSAGES

- The flash surge of the yen this morning on the "Apple shock" does not signify broad confidence in Japan's ability to weather a global economic downturn even though political risks seem presently low. Read on!
- The total absurdity of the Abe economics attachment to the 2 per cent inflation standard becomes clearer by the day – other than in the context of a stealth agenda to tax Japanese savers via a system of financial repression and so slow the journey to public financial sector crisis. . .

How could a dominant party system react?

No doubt the flash crash of the dollar against the yen early this morning reflected in considerable degree thinness of market conditions at a time when the bad news from Apple struck. And understandably traders did not buy the official Apple story line that the disappointment (on sales) largely reflects Trump tariffs and their effect on Chinese demand (for i-phones); instead they focus on broader problems of global and US demand and possible implications for the state of global economy. At least in the milliseconds of trading algorithms dominate – sock futures down (Tokyo closed), yen up.

One aspect of the so-called "safe-haven" property of the yen is the perception that Japan seems untouched by the serious political risks present in Europe and even in the US. The dominant party system in Japan (effectively one party democracy where no apparent even remote challenger for the LDP) means that the yen does not "suffer" from political uncertainty. More telling is the widespread view that global asset deflation and the unwinding of carry trades means enhanced demand for the Japanese currency, given the prevalence of these positions amongst Japanese investors.

There are grounds for skepticism on this safe-haven view of the yen, though not from the perspective of the day-trader struck by market gyrations and news shock. In the longer term Japan faces two huge economic challenges stemming from the radical monetary policies pursued especially in recent years but also further back. First there is a bloated export sector and much mal-investment is likely to be revealed as the era of the cheap yen ends and global economic conditions become harsher. Second masses of Japanese savers who have been confronting the cruel reality of zero or negative returns on savings as imposed by the extraordinary monetary conditions have been "fooling themselves" that high returns elsewhere are compensating for these (especially in the carry trades and more broadly in global risk assets). As these onetime gains melt away we could expect a surge in dissatisfaction if not desperation.

Does all that leave the status quo of the Japanese dominant party system untouched? Time will tell. But even recent political history tells us about the capacity in Japan for new parties with charismatic leader to surge in support even just a few weeks before an election. And of course there are the factional battles possible within the dominant party. As always in US history, US interventions (think of frictions in present trade talks) will play a hugely catalytic role.

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