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What's UP with the 'Abenomic' Dollar

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Gordon T Long
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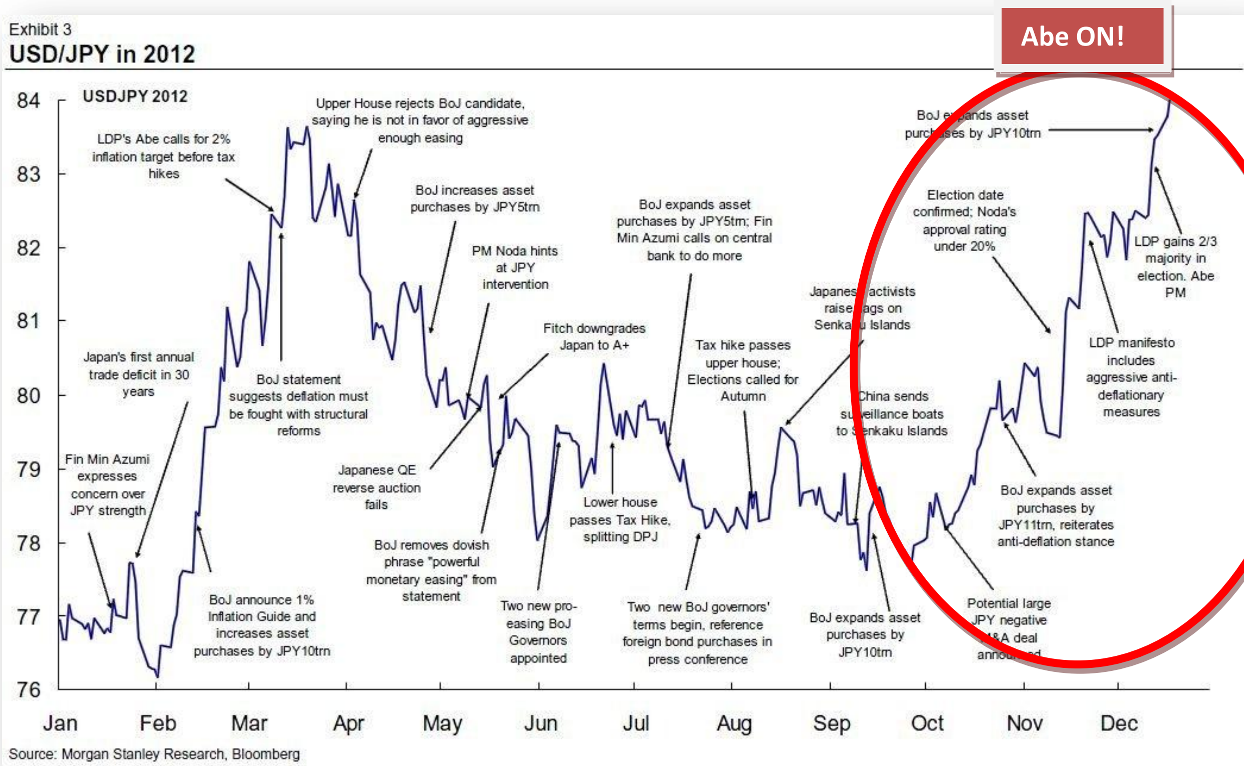
What's UP with the 'Abenomic' Dollar

Shinzo Abe was elected Japanese Prime Minister on December 16th, 2012 and even prior to the final ballot being cast the Yen was in free fall and the US dollar was rising.

The Japanese people were as ecstatic about this and the rising Japanese stock market as they were about the promises of their new Prime Minister. Barrack Obama ran a euphoric first election campaign on the nebulous platform promise of HOPE. Prime Minister Abe ran on an election platform on Monetary Policy change. Few if any politicians have ever won an election on such a platform. After 20 years of stagnation the Japanese people feel Monetary Policy is an election issue. In 20 years the American people may also finally get the message.



ABENOMICS

Now that baby boomers are retiring, Japan will have to borrow money from abroad rather than from its own savers, so it will have to pay higher rates. If its average rate goes to just 2%, its interest costs will equal 100% of government tax revenues. It other words it will be bankrupt.

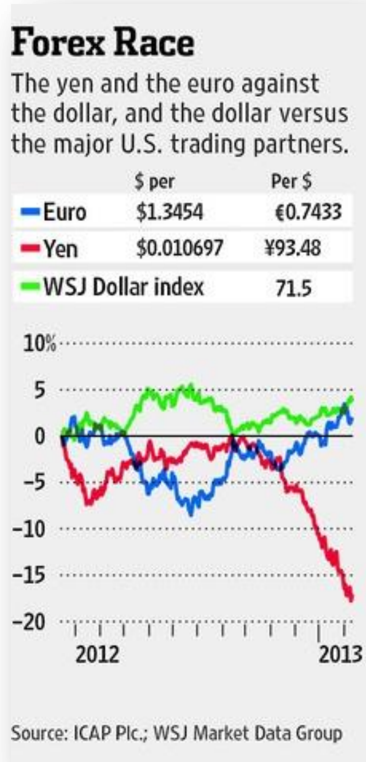
There is no solution for this much debt, so Japan now goes through finance ministers about every six months. Abe having been previously Prime Minister forcefully promised aggressive monetary easing (from ZIRP?) and threatened to nationalize the Bank of Japan to bring it under central government control.

The BOJ Governor retired and 'easy money' compliant President of the Asian Development Bank and his minions was immediately installed. Abe has demanded a 2% inflation from his new BOJ Governor.

Japan's new economic minister announced that he wanted the Nikkei stock market index to rise from 11,200 to 13,000 by March 31.

There is only one way all this can be achieved. Outright Monetization or OMF (Overt Monetary Funding).

Damn the torpedoes and full steam ahead! Obviously this is the equivalent of intentionally pulling the rug out from under your currency. The G20 was appalled at this blatant Currency War tactic but was appeased by publically 'toned down' language from the Japanese leadership.

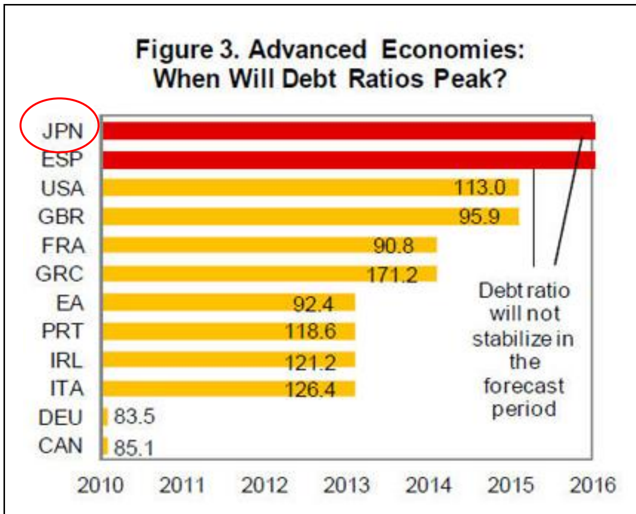


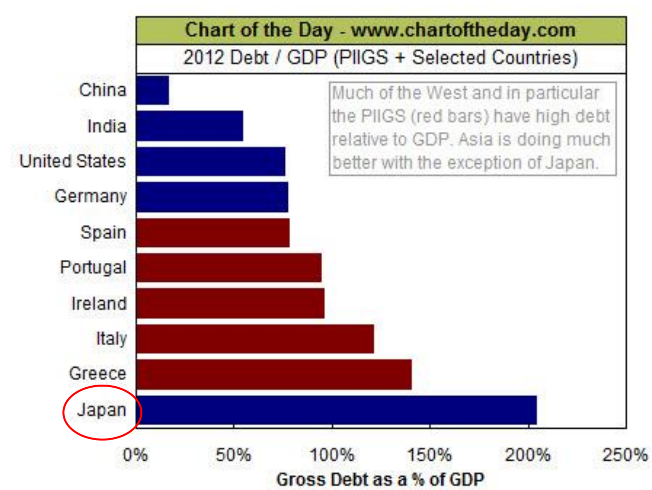
THE 'ABENOMIC' DOLLAR

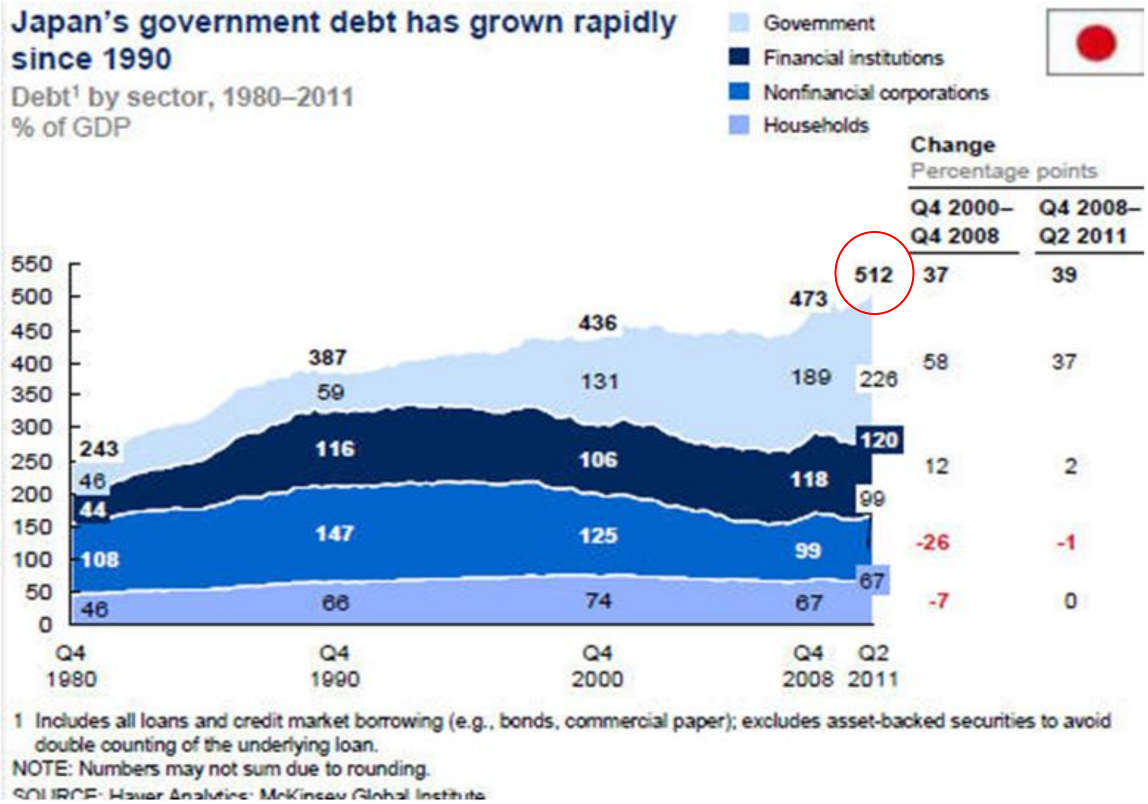
If the YEN falls then other currencies must rise. None more than the US dollar and Euro.

Japan as the biggest buyer of US treasuries (despite having the biggest Debt to GDP of any sovereign in the world and being warned by the IMF as being unstable) now gives hope to US Treasury purchases with all this new Japanese Yen that will soon be available.

The US now has an "Abenomic" Dollar.

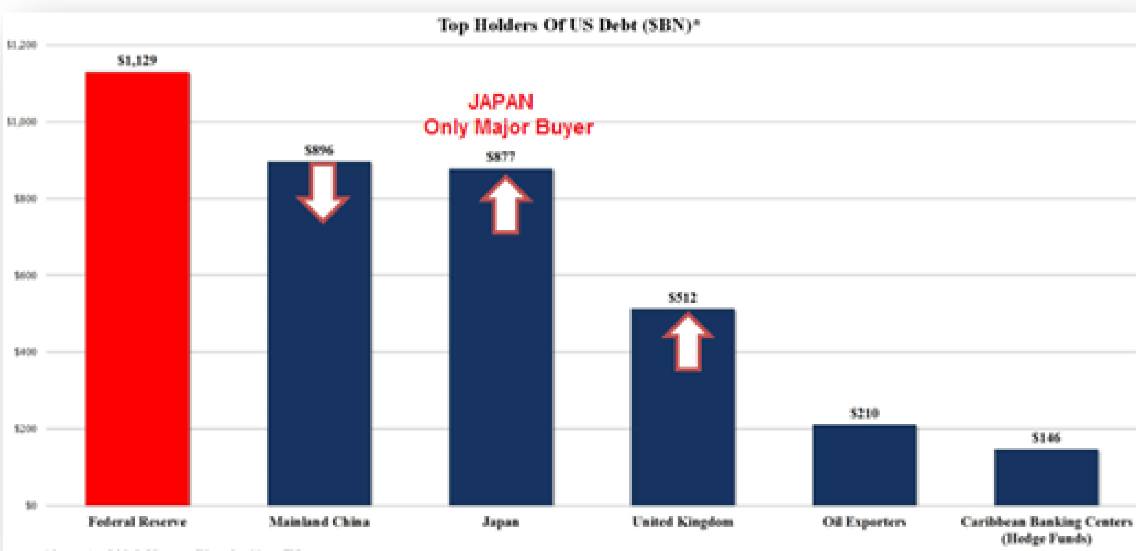






US TREASURY PURCHASES

The only large purchasers of US Treasuries are now the US Federal Reserve and an 'insolvent' money printing Japan.

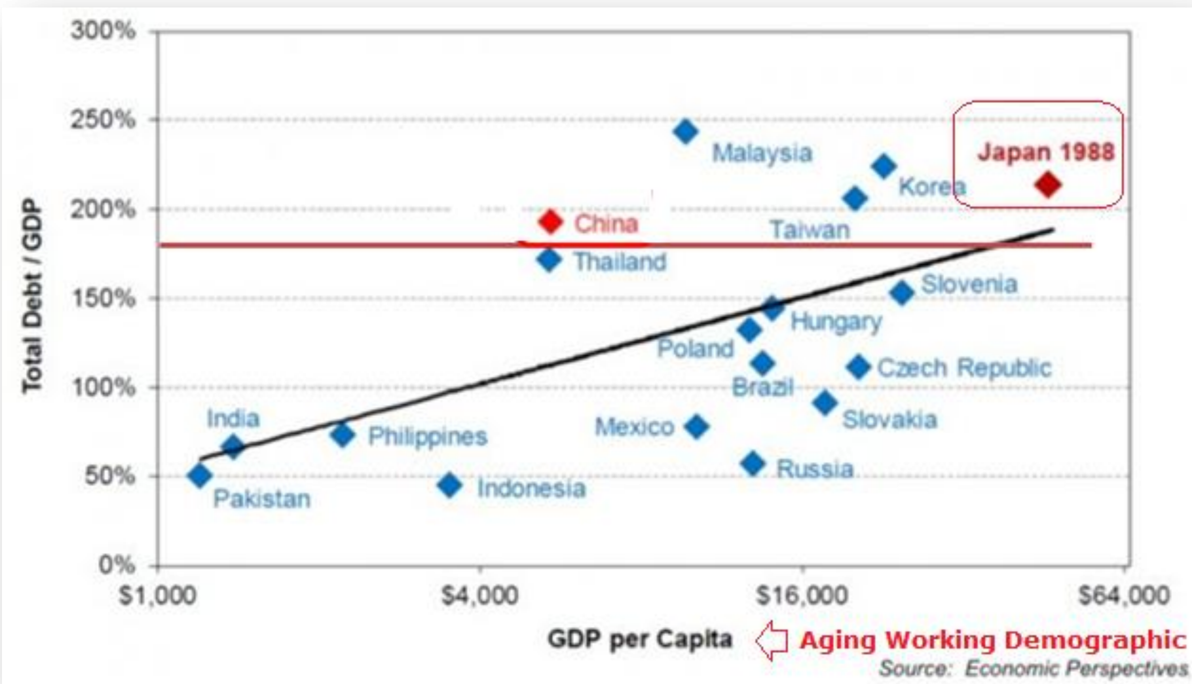


CONCLUSION

Japan is in serious troubles and these policies will only delay matters further.

In the meantime the US dollar has disconnected from the US stock market. The steady rise in the US market despite a rising dollar, no volumes and weakening global economic situation tells us just how distorted and dysfunctional the financial markets have become due to Monetary Malpractice and sustained negative real rates.

Something is going to force re4ality into the market. Capitalism does not work when risk assets are mispriced.



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