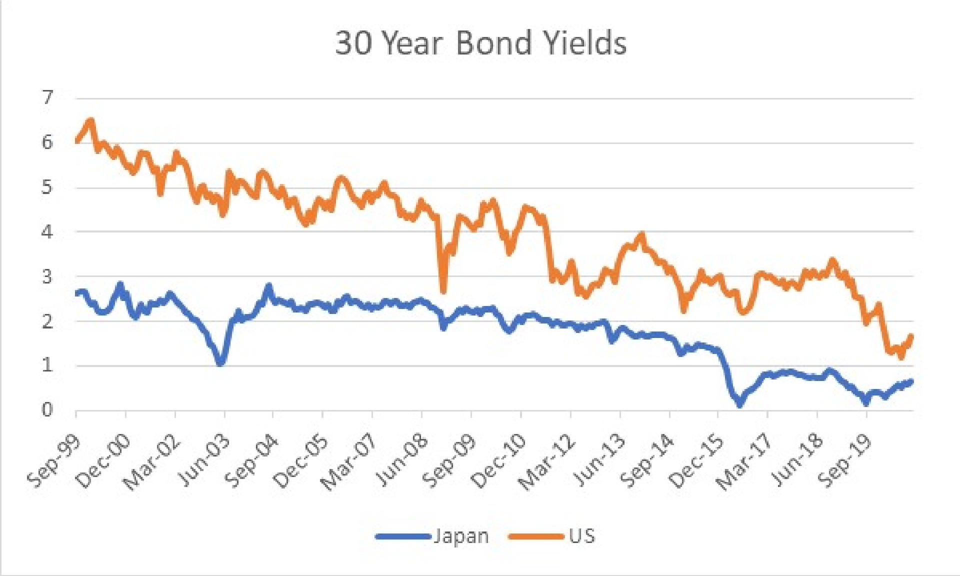
# WHAT IF THE JAPANIFICATION OF JAPAN IS OVER?

Russell Clark's
Market Views

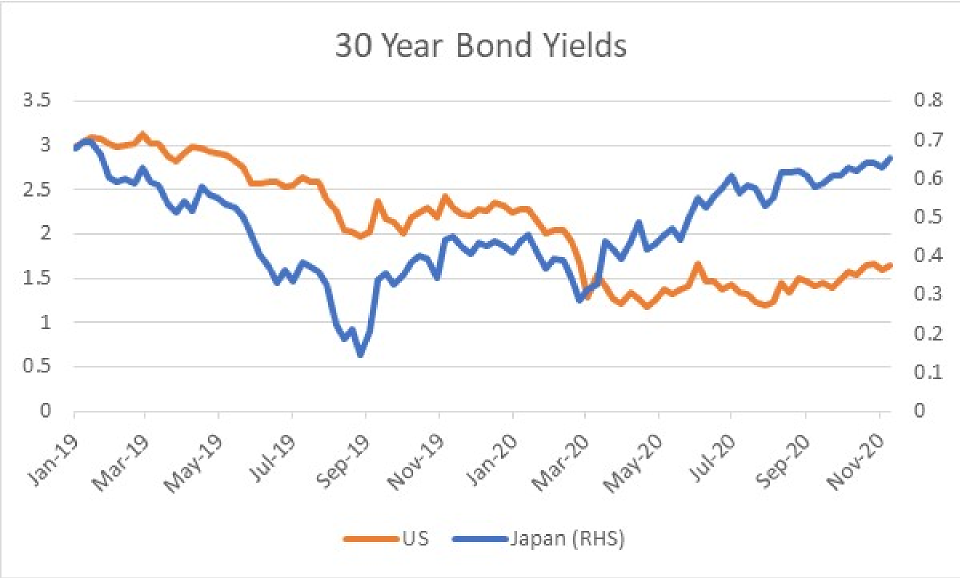
"Key features of the Japanification of Japan over the last three decades are ever lower yields, rising government holdings of treasuries and a policy of Yen weakness to encourage inflation. Food inflation seems to be causing a shift, with rising yields, a strengthening Yen and much slower rise in treasury holdings."

Since the end of the Japanese economic bubble, Japanese government bond ("JGB") yields have continually fallen. While originally seen as a financial aberration, falling bond yields in the rest of the world has been dubbed the" Japanification of global markets".

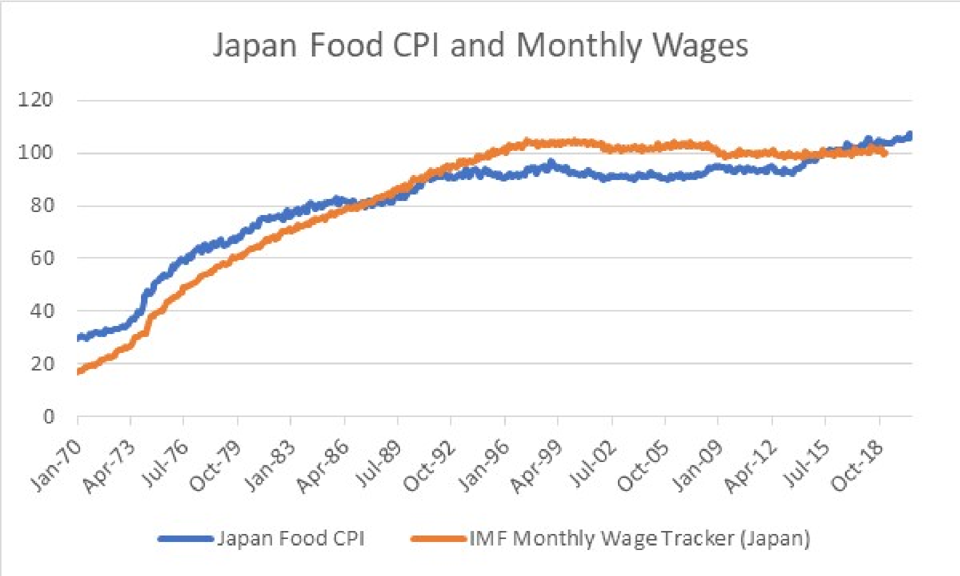

Since the dot com bubble, the 30-year JGB has acted as a good lead on the direction of the 30-year US treasury bonds, both in signalling tops and bottoms in treasury yields.




However, if we look at the last two years more closely, we see that 30-year JGBs yields saw their lows in Sept 2019, well before the Covid-19 pandemic. That is, Japanese government bond yields are higher this year, even as US government bond yields are lower.

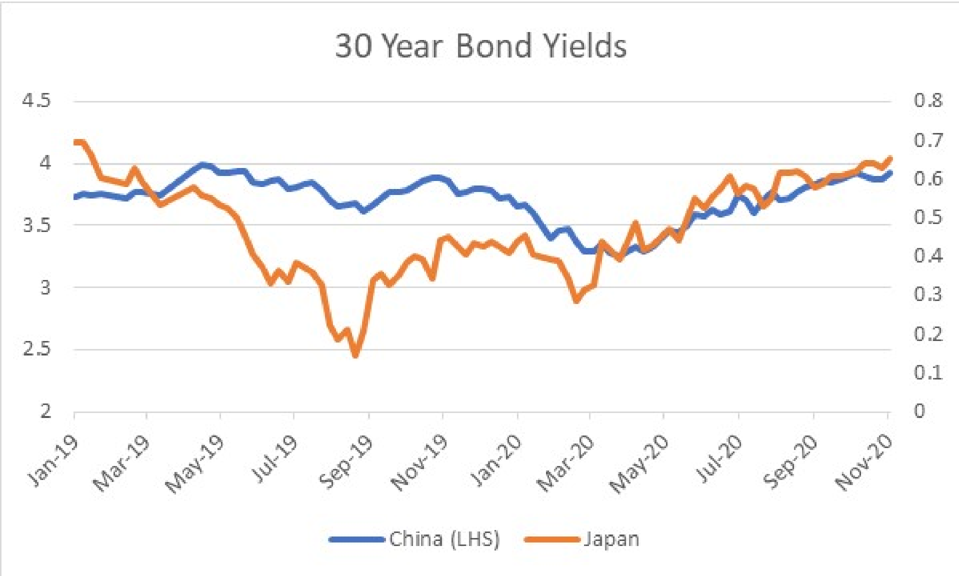



While much of monetary and fiscal response to Covid-19 can be viewed as inflationary, the behaviour of JGB yields seems to suggest an inflationary change BEFORE the pandemic. One big change has been in Japanese food inflation. Food inflation rose in the 1970s and 1980s, before peaking in 1991, and remaining dormant until 2013. In a highly consensual society like Japan, the idea that wages would move with food inflation seems logical, and IMF monthly wage tracker also bears out the close relationship between wages and food inflation. (IMF wage tracker only has data to 2019).



As pointed out in a recent Market View, Chinese food inflation has a reasonable chance of spreading globally via the grain and meat markets. Chinese food inflation has been driven by African Swine Flu, and the culling of pigherds. Until the pigherd numbers are rebuilt, food inflation will likely remain. Currently, Chinese pigherds are still being rebuilt, and is still some 40% below peak levels.


Perhaps even more simply, the influence of the Chinese economy on the world must be increasing. Chinese bond yields have been rising since the lows in March. Both the Chinese and Japanese eat pork as their main source of protein. This may explain why their bond yields are most closely correlated recently.




The idea, that Japanese and Chinese bond markets are moving in sync, feels intuitively correct given their economic similarities and geographic proximity. The bigger issue for markets is that Japan and China are the biggest holders of treasuries. After the Global Financial Crisis, China and Japan both increased holdings of treasuries dramatically. In recent years, China has been reducing its holdings of treasuries.


Key features of the Japanification of Japan over the last three decades are ever lower yields, rising government holdings of treasuries and a policy of Yen weakness to encourage inflation. Food inflation seems to be causing a shift, with rising yields, a strengthening Yen and much slower rise in treasury holdings. Just as the world accepts Japanification as its economic destiny, Japan looks to be leading the world out of Japanification.

## INFORMATION

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