Weekly Commentary 42 – Oct 2022

Why the City of London will choose Rishi Sunak…

Just three days after the sacking of Liz Truss as the Prime Minister of the UK, the ruling Conservative Party will choose the successor on Monday 24 Oct. This is again not an election, it is another selection. But if you think that it will be these politicians who will decide who will lead them and the country, you should think again.

In reality, it will be the City of London, the financiers, and the hedge fund managers who will be doing the selection. Obviously not directly, but one can imagine that they will have intense "behind the scenes" lobbying to set the stage for their choice of candidate to take power.

Why is that? This is because the crisis that brought down Liz Truss is entirely financial. It means that there will be no solution to the crisis unless the ones who engineered the abandonment of the mini-budget have a stranglehold on who gets to govern. Not by casting a vote in a political process, but by their overwhelming ability to send both the Pound and gilts to hell if they don't get their choice of a Prime Minister whom they would consider to be both competent in and committed to managing the economy.

In other words, they can keep doing what they did to Truss and Kwarteng until the Tories succumb.

The politicians have no leverage over the financiers; on the other hand, the financiers can do what it wants in the current financial crisis. If you ask me, the parliamentarians casting the votes for their choice for PM on Monday, will keep that in mind, because if they fxxk it up again, a general election will be the inevitable result. They will all lose their cherished jobs. That fact alone will enable the financial industry to covertly influence the choice of PM. Period.

Most people interested in following the PM selection race have voluminous, even overwhelming, coverage of the situation. We all know that this is a race between Rishi Sunak, the former Chancellor of the Exchequer, Penny Mordaunt, a former defence minister who did not have a long tenure; and lo and behold, Bojo, the discredited former Prime Minister, who if he had behaved himself or paid more attention to his job, would not have led to the national disgrace that he and his successor, Truss, brought to the country.

I read the same materials as most of you. I am happy to tell you what I think, a little bit beyond the headlines. Boris Johnson has already proven that he cannot do the job, whatever a few of his friends and supporters say in his favour (I mean, would they say anything else?) As such, the positives they present about the man – like, he is the best person to unite the party, or he was the one who led the Tories to stunning victory in the last election, are completely irrelevant to the issues at hand.   On the first Bojo strength, the party has already been destroyed, partly by the man himself and then by the Truss-Kwarteng pair which were brought into power because of his screw-ups, and whether they are united or not, they would already be losing the next election. If they are united, they will lose to Labour by 10-20 percent. If they are disunited, they will lose by 20-40 percent.   Right now, polls show Labour lead by 36 percent. What difference would Johnson make?   Nothing.

Then there is Penny.   Well, has anyone heard of her before the last Tory selection process which chose Truss over Sunak and her?   In other words, Mordaunt is a spent force. She has tested her bid just two-three months ago with the very same people who did not think she would have the qualities or perhaps experience to lead.   Why would this situation change in six weeks?   And besides, because we know that she too has no financial experience, the markets will see her as a nonentity.   She won't make it.

It is quite natural to conclude then that the only real choice for the UK is Rishi Sunak.   The country is at the point of economic collapse, and there seems no other candidate for PM who can potentially solve the crippling problems that have exploded into the national and global consciousness in just the last two weeks.

What then are exactly Sunak's qualifications to stem the haemorrhage?

He disclosed his position on economic policy during the race against Truss.   Given the circumstances the UK is in, Sunak's plan is exactly the opposite of the thrashed mini-budget. As far as has been disclosed by his statements during the debates, he would likely increase taxes. That would have been the main difference between the alternative policies provided by the two.   If we conclude that Truss was an unschooled neophyte in economic policy and she was just winging it during her ultra-short premiership, then the Sunak position on taxation would likely be cold-turkey treatment for the country to stem the erosion of confidence in British government by the City and the international financial sector.

Not because he was a member of that powerful fraternity, having been a successful hedge fund manager himself and should be completely knowledgeable about how they think about British public finances, but because his public statements since serving under Bojo and what he actually did as Chancellor are indicative of what a "conservative" economic policy should be like. It is certainly not going to be a Trussian free lunch for people who didn't even asked to be invited.

The current Chancellor, Jeremy Hunt was most likely brought in by the Tory brass, and not Truss herself, as her dismissal was obviously gaining momentum by the time Hunt was appointed and who then went about dismantling everything that had the words "mini" and "budget" in any policy prescription that was in sight. That only brought the playing field back to zero base. What is the next step? How would the Chancellor build on that to create the possibility of a recovery in the British ship of state?

That, I think, is beyond Mr Hunt, as he is clearly just there to stop the chaotic situation from becoming a tragedy. Put a bandaid on the gushing wound and then call the doctor.

If Rishi Sunak is that doctor, what would he have to do?

The first step is to regain the confidence of international finance, as represented by the City and the IMF, in the government. What the rest of the Conservative Party (which is carrying out the actual selection of the new PM) think is irrelevant. Call these financiers vultures or disciplinarians, whatever you will, but these guys are now in control. And they want to see the kind of fiscal discipline that Sunak has declared and had in fact put into practice in the last months during the Johnson administration and to be fully embraced by a properly functioning government.

Without question, Mr Sunak would be the financiers' choice. But financiers don't get to do the selection of the new PM, as this is the job of the MPs, at the basic level, - just about 357 people - and then of the wider membership of the Tory membership which is not quite 180,000 in total.

At this time of writing, Sunday 23 Oct, the news coming out of the UK is that indeed, Sunak has the lead. He claims that he has secured more than 100 of the 357 MP votes to enter the leadership ballot, before either of the other two contenders and seems to be on the road to 10 Downing Street. If the Mordaunt faction joins the Sunak supporters, then the race will be overwhelmingly won by the former Chancellor. But if in another 24 hours, the Johnson faction is enlivened by bigger numbers and the MP's voting is tied, then the decision goes to the entire Tory membership, which many pundits think will favour Boris Johnson. The Party will then have collective amnesia of what happened just three months ago, when they banished Boris into political wilderness, blaming him for all the ills that any Prime Minister can be guilty of.

Here is an assessment from The Economist, as of yesterday.

"Britain's conservative party is holding its second leadership election this year. The winner will also become the country's next prime minister. Liz Truss, who won the previous contest, lasted 45 days in office before announcing her resignation. Her premiership was marked by a series of chaotic political missteps, starting with a disastrous "mini-budget" on September 23rd that promised unfunded tax cuts, spooked the markets and pushed up government borrowing costs.

The contest will be short; 357 Conservative MPs and, if there is no coronation, 170,000 party members will pick a new leader. To be in the running contenders need to get 100 nominations from their fellow Tory mps by 2pm on October 24th. MPs will then vote in a first ballot at 3.30pm on October 24th, and if there are three candidates the person with the fewest votes will be eliminated and a second ballot held to indicate mps' preference. The result will be announced at 9pm. The party's members will then have until 11am on October 28th to choose between the two hopefuls via an online ballot. The result will be announced on the afternoon of October 28th. According to the betting markets the leading contenders are:

Chance of becoming next Conservative leader
% implied from Betfair Exchange, last updated 7am October 23rd 2022

The leading contenders, at October 22nd

Rishi Sunak

Implied probability	*76.4%*
*Polling among party members**	*23.0%*

The [former chancellor](#) of the exchequer was runner-up to Ms Truss during the previous leadership contest in September. His withering assessment of Ms Truss's fiscal plans during their campaign debates has proved prescient. Although Mr Sunak won more support than Ms Truss among mps, he remains a divisive figure in Parliament. Many mps blame Mr Sunak for causing the defenestration of the previous prime minister, Boris Johnson.

His fiscal response to covid-19 is also the cause of much of the opposition he faces in the party: under Mr Sunak the tax take was due to rise to its highest level in decades. It will now rise higher still thanks to Ms Truss's mistakes. Mr Sunak supported Brexit and has promised a big drive to revise eu-derived regulation. But some on the right of the party accuse him of being soft on Brussels. Although he is known as a diligent administrator, the anger around his wife's non-domiciled tax status suggests that he may lack the political nous to keep a fractured party and country together.

Boris Johnson

Implied probability	*18.9%*
*Polling among party members**	*32.0%*

The return of Mr Johnson, Ms Truss's predecessor, would mark one of the most unlikely comebacks in British political history. Mr Johnson was ousted in July for his role in lockdown-busting parties at Downing Street and for dishonesty. He is a divisive figure among Tory mps: many have balked at the idea that he could throw his hat in the ring.

Yet he is seen by many as a proven election-winner. He was the most popular candidate in a survey of Conservative Party members by YouGov, a pollster, on October 17-18th. And he has a habit of bouncing back from scandal. His last words during his final prime minister's question time in Parliament in July were "Hasta la vista, baby". Even he would not have expected to be contemplating a return so quickly.

Penny Mordaunt

Implied probability	*4.5%*
*Polling among party members**	*9.0%*

During the previous leadership contest Ms Mordaunt, a Brexiteer from Portsmouth, emerged as a favourite among the Conservative Party's members. She had been tipped before as a possible prime *minister when serving in 2019 as Theresa May's defence secretary—the first woman to hold the job (albeit for just 85 days). During her brief time in office Ms Truss appointed her as leader of the House of Commons. On October 21st Ms Mordaunt became the first (and so far only) candidate to officially declare that she is standing.*

In the last leadership contest Ms Mordaunt came under fire from mps on the right of the party, who accused her of being softer on "woke" issues than her rivals, particularly over trans rights. (She described this as "toxic politics".) Ms Mordaunt was also criticised for the sketchiness of her tax plans, and for proposing to abandon one of Mr Sunak's fiscal rules—that the government should not borrow to cover day-to-day spending. After fiscal recklessness resulted in disaster for Ms Truss, Ms Mordaunt may rethink that stance."

Assuming that The Economist is much better in reporting on the UK than it has demonstrated in his China or Russia coverage, then we might already have a new occupant of 10 Downing Street, and if the movers are efficient, it will all be set and done by Halloween…

Other than the prospect of the lettuce in Tesco winning the contest after it scored that decisive win against Liz Truss, I too do think that we are on the threshold of a Rishi Sunak premiership. That is the only sensible thing for the Tories to do. We will now have a smart guy with policy experience trying to rescue a formerly glorious country from becoming a ridiculed banana republic after the last smart guy without policy experience, Kwarteng, sent it there in just one short speech lasting 40 minutes.

The big question on my mind is what would Sunak do about the British economy after he takes the job. How will he fix the mess?

I think it will be in the direction of what Jeremy Hunt has already done. Tax cuts? Forget it. We won't see that kind of insanity for another five elections.

Cuts in spending? That's already being worked out. And it's already being discovered by Chancellor Hunt that there is not that much fat in the budget to avoid financial hardship for a lot of the ministries and agencies that are charged with running the country. Inevitably, the middle and lower classes, who depend on government assistance, will take it on the nose.

Tax hikes? This may well become unavoidable. The UK government, in financing the rescue packages on Covid - completely reasonable - and then to help Ukraine fight a war against Russia at the behest of the USA – totally miscalculated - is essentially bankrupt.

What should Mr Sunak do?

If I were him, I would put it across to the nation that there are no soft options anymore.

I have long said in this blog that the aftermath of the era of money printing to ease the pain of covid economic disruptions must inevitably end in a hard landing. The natural tendency of the liberal democratic system is that it never actually practises what it preaches. Capitalism is extremely hard-nosed. Even brutal. When the covid economy brought hardship, the governments of the west, hoping that largesse can garner them longevity at the polls, sought to steer capitalism with temporary socialism by adopting loose economic policy that a pure Dickensian capitalism would reject. True capitalism would have brought vast portions of the British population into economic hardship. And there would be riots in the streets. Putting free money into the hands of every voter, instead of enforcing unpopular public health policies, ensured the Tories' political survival.

Alright. They got to keep the power. But the day of reckoning has come. In the US, the large interest rate hikes will soon lead to a recession, while in the UK that recession has already abruptly arrived. Accelerated by the blundering policies of a pair of economic policy amateurs that sought to cut taxes and then compete with the rest of the economy for loans to cover its expenses, the rude awakening of a drifting economy has happened, and all onboard found the ship actually sinking. Just the prospect of massive borrowing by the UK Treasury was enough to send interest rates and mortgages rates skyrocketing. Even before the cost of living problem has been addressed, the recession has arrived.

PM Sunak, assuming the pundits are correct about his anointment, will have to fess up to the problems facing the country. The problem is that there is no simple solution. To be caught up in the twin problem of inflation and recession is an economic nightmare. You cannot solve both problems together as the policies which lessen the inflation will aggravate the recessionary forces. It will take a wizard out of Harry Potter to turn this around. And it could take years.

Then there is the outstanding problems of Brexit. Yes, Sunak was number 2 to the champion of Brexit, Bojo, and if in his political calculations he did not find it wise to speak against the agenda of his boss, he would be considered loyal. If and when he takes the top job, and given that Brexit in its actual implementation has proven that the reality is far worse than the worst predictions prior to the event, he will probably have to change direction.

What do I mean?

Brexit was in fact a virulently restrictive immigration policy pretending to be a free trade policy. The restrictions on immigration worked, but the trade policy was another Tory party fiasco. They never had a proper grounding in economics even from the very beginning, a travesty of intellect, when a country would choose to break away from its biggest and nearest trade partner on the same continent for the wishful alternative of preferential trade with a country one vast ocean away. As it turned out, the Remain folks turned out to be correct, and Britain's economy has suffered immeasurably from trying to go it alone. There is still no trade pact with the US, in spite of the fact that the UK has followed every wish and whim requested of it in foreign policy by the US State Department. Its trade with the EU has dropped 18 percent, and only small trade pacts have been reached with Australia, New Zealand and Singapore, for old times' sake. That's it! The magic of Brexit is turning to dust. That does not make sense for a country of nearly 70 million people trying to re-emerge as a global economic power.

As one economist, Umair Haque, wrote, "Brits are now, it's estimated, almost 10,000 pounds poorer than their counterparts in Europe. That's a gap which has opened up after Brexit – it's roughly exactly the amount good economists predicted Brits would get poorer by. We knew exactly what we were talking about, because this isn't rocket science, it's just dumb numbers. And yet the entire British media backed Brexit, and to this day, more or less considers it taboo to really discuss the utter catastrophe that Brexit made inevitable, which was this period of economic implosion."

The result is a country that been rendered significantly poorer, through the reduction of trade, in the last few years. But nobody can adjust that quickly to lower earning power. The response has been to borrow money to keep up with the same standards of living, leading to widespread indebtedness in the country. And that's why when the Truss Kwarteng pair, who were oblivious to the pathetic state of the economy, blissfully imagined that Britain can once more become "great again" by stimulating the economy with unfunded tax cuts, their actions were akin to a blind man performing surgery. Is it any surprise that there is immediate haeorrhage?

Therefore for Sunak to succeed, he has to go back several years, to the time when trade was buoyant and exports were booming. Before Brexit, the British economy was nearly 9/10th's that of Germany; now, it is less than 70 percent according to some economists. The problem for him is even worse now than in 2016. The whole of Europe and America are also going into recession, all suffering from the same cavalier public financing policies that worked for the great depression of 1930, not now a century later, when indebtedness is much higher and everybody is living on a knife's edge month to month.

How will he say this to the British people at large? That the Conservatives have got it wrong on Brexit? Or that they should have handled covid differently? Politically, since that won't fly, he cannot say those things. He has to dream up some excuse why he has to forgo tax cuts (not too bad), reduce spending (harder to do but still politically possible) and then raise taxes (now this is impossible, given that the electorate is facing a cost of living problem). In short, he has to lie some more to cover the previous six years of lies. And that is ultimately unsustainable.

As such, however brilliant Sunak may be, the fact that the electorate has never understood the economic implications of Brexit, or that beating covid has a massive cost that was just kicked down the road to a time when there would be no more road for kicking anything around, or that giving money to a bankrupt Ukraine was flushing it down toilets into corrupt pockets or blasted into smithereens on the actual battlefield, makes it impossible to unravel the narratives that were once politically expedient to propagate. In short, the history of modern liberal democracy is not to actually face a problem head on and then solve it but to tell a story that seems like the problem is not the fault of the ones in charge.

Rishi Sunak has to do the same and fail, or he can fess up and be booted out. I don't know what it will be…

In his case, the option of telling a good story, of making excuses, is no longer possible. If Mr Sunak is as clever as he is made out to be, then it is better for him to do away with yet another narrative, call a spade a spade, and enact the tough policies that will save the country. After all, what has he got to lose? On the current trajectory, he will last in office for less than 2 years, when the Tory mandate is up and Labour's Keir Starmer will replace him.

Within the same 24 hour period (Sunday 23 Oct) while the British are trying to stop the country from falling off a cliff, the Chinese Communist Party celebrated the closely watched conclusion of its 20th Congress. And there were no surprises. Xi Jinping was re-elected as Party Secretary, hence President of the country, for another five year term. A new team, composed mostly of loyalists, stood by his side on the podium in Beijing' Great Hall of the People, as he spoke of his plans for prolonging the longevity of the CCP and its vigorous solution of outstanding problems in the Chinese economy. All carefully scripted and articulated with the precision of a concert conductor.

The line up of the new leadership in China shows that President Xi has consolidated his power, and this is no bad thing. That resulting unity is fundamental to the aspirations of the Chinese to assume global economic leadership, and in his parting remarks, Xi invited the world's media gathered in that cavernous hall, to visit China more often, anywhere they wish to go, and report objectively what the China experience and the CCP story are all about. This was clearly in reference to the constant narratives that emerge from western media which denigrate the country and its ruling party. I doubt you would see that invitation reported in the western media…

Coming at a time when China is engaged in an ongoing economic war against the US, which has inherited the mantle of the leader of the collective west from the British Empire, it seems ironic that the orchestrated end of the 20th Party Congress is in start contrast with the leadership change occurring in London. This may just seem to historians that it represents a face-off between two economic systems, with the Chinese one brimming with confidence about the future and the western one looking sad, saddled with problems from its recent past. Ironic that just a little more 70 years ago, it was the other way around.

And each side is trying to demonstrate to the Global South, the countries that represent the other sixty percent of the planet's population standing on the sidelines, which system can eliminate the fundamental problems that are in the path of mankind's aspirations – how to live without worrying when the next meal will come. The western liberal democratic system based on extortive capitalism has worked to boost GDP for the last century, with most of the benefits falling into the hands of the top 1 percent, while the Chinese model has demonstrated an astonishingly fast track to eradicating widespread poverty, which has already put China up as the top economy in the world in terms of purchasing power. And its government is visibly avoiding all the problems of concentrations of wealth in the hands of the few, using policies it has coined "common prosperity". If you are not one of the 2000 people who own a billion dollars or more, which would you think is the better model?

And what other bad news can the western media read into the Chinese 20th Party Congress to confirm the leadership of Xi Jinping. Like the winter Olympics some eight months ago, for all the sniping and the envious criticisms, the Congress has ended successfully without much further ado, and it is now history. Going forward, the new cabinet under the same leader will obviously tackle the economic problems like the housing market, relaxing covid lockdown, and the commercial battles in the chip sector against the US, as well as economic repercussions stemming from a firmer Taiwan policy with solutions that work, and which may be quite painful for some in the country. That pain is going to be far less than what the western model will bring on their peoples eventually, as we are witnessing in the UK. And soon enough in America.

In just about two weeks, the US will hold its midterm elections, and based on most polls, the Democrats will lose both houses of Congress to the Republicans. Many forecasts have been made about this, and I would just like to touch on one key economic factor that is not likely to help the Biden Administration. This is the coming correction in the US housing market.

The housing market globally is not looking good. We already know that Chinese real estate is in bad shape and that is largely due to the government intervening a couple of years ago to ensure that the bubble in the market would not eventually threaten the financial system as the US property bust did in the Global Financial Crisis of 2008. The CCP did execute restrictive policies that had the effect of crimping the liquidity positions of the major developers. While many western analysts keep saying that this is a disaster, my opinion is that their projection of the problem to Lehman proportions is simply mischievous. I think it will be solved within a year of the 20th Party Congress; after all, the dire warnings how this will blow up have gone on for two years without anything serious happening.

But there seems to be an incipient housing crisis in the rest of the world. Through the years of the covid crisis, property prices rose quickly at double the pace it enjoyed over the decade before the big boom. But with the interest rate hikes of the last six months, house prices are now falling in nine of the developed countries. In Canada, where condos are popular, investments in these have already fallen nine percent in just six months since February. As inflation and recession start to inflict pain on the developed economies, a housing market crash may be imminent. While this is not expected to blow up the global financial markets like it did in 2008, it will probably deepen the recession that is on the cards, distorting the finances of people with mortgages and leaving them vulnerable to deep social stress amid a political storm.

The looming problem is obviously the result of the Fed's unwavering fight against inflation. In these crucial weeks before the midterms, voters are horrified to see that 30year mortgage rates have rocketed to nearly 7%, more than double that a year ago and now at the highest level since two decades ago. The people who brought about the pandemic housing boom, which was driven by interest rate cuts, stimulus cash and the avoidance of social distancing rules by moving to larger space in the boonies. Now there is a U turn (remember how these days are marked by U turns?). Yup, most of those wonderful lifestyles are going to be strangled by high interest rates.

The buying power of the borrowers is collapsing. That will make it harder for new buyers to afford homes, and when that depresses demand or when mortgages rates cannot be afforded, the homes will be sold adding to the woes of the market. This housing downturn will be grim. Sales in the US dropped by 20 percent in August, according to some estimates and in Canada, the drop for the whole year will be 40 %. When the labour force is stuck without the ability to sell and relocate, and the much heralded cross country mobility is lost, economic dynamism would be sapped from the labour force.

The slower real estate market will crimp growth. Because of falling home equity, consumers will be even more reluctant to spend money. Across the developed world, personal wealth held in property far exceeds that in stocks, and probably accounts for 50 percent of all personal net worth. As the housing market pulls back sharply, it will also impinge on consumption. This is not good for politicians hoping to avoid recession. It's the same story really – the higher interest rates are dragging growth down, and the rising mortgage rates as well as the slowing building due to reduced demand will lead to the chances of recession rising.

And those high and rising interest rates are also raising rents. The effect of this is obvious. On the one hand, housing values are not going up and homes are harder to sell because it is not easy to afford a new mortgage; at the same time, those same interest rates are causing owners with existing mortgages to raise rents for those who don't own their homes. The housing market across many of the developed world is in a state of stress.

If we need to add to the woes of the Democrats going into the midterms, in addition to inflation of food and fuel prices, the real estate market must count as another. Renters are suffering and owners are also not keeping pace with inflation. Nobody's happy in front of the crucial report card on American government.

And in our final topic of markets coverage this week, international media has confirmed that the Bank of Japan had intervened on Friday to bolster the Yen. Here is a Japan Times Report:

"Japanese authorities intervened in the currency market again Friday during New York trading to stem the yen's slide against the U.S. dollar, following its first such attempt in 24 years last month, sources close to the matter said Saturday.
The country's currency surged within hours Friday in New York, with the rapid swing fueling speculation that Japanese authorities intervened for the second time.

But market participants say such efforts will only help slow the pace of the yen's slide and do little to reverse its weakening trend as long as a gap between U.S. and Japanese interest rates is expected to widen.
The yen surged by more than ¥5 to 146.20 in New York trading after the authorities apparently stepped into the market. Market participants were cautiously testing the downside of the Japanese unit before the intervention, pushing the dollar to ¥151.95. The yen eventually settled at ¥147.74-84 at 5 p.m. in New York.
Prime Minister Fumio Kishida on Saturday issued a fresh warning about excessive moves in the yen in the foreign exchange market, saying the country won't shy away from taking "appropriate" measures when necessary.

"We remain on high alert toward the foreign-exchange market, and will take appropriate actions against excessive moves," he told reporters after a meeting with Australian Prime Minister Anthony Albanese in Perth. "We will not tolerate volatile moves due to speculative trading."

When asked whether Japan had taken any action on the currency on Friday, Kishida said "we won't comment" on whether the government has intervened in the market.

The nation's top currency diplomat Masato Kanda also kept silent on whether Tokyo had made a fresh intervention like the one last month.

The dollar continues to draw buying as the 10-year U.S. Treasury yield maintained its upward tone after touching a new 14-year high on Thursday, following hawkish remarks from Federal Reserve Bank of Philadelphia President Patrick Harker.

Earlier on Friday in London, the yen slid to the upper ¥151 zone against the dollar on the view that the U.S. Federal Reserve will continue with its aggressive interest rate hikes to tame rising inflation.

The yen last traded in the zone in July 1990, when Japan was in the final stages of its asset-inflated bubble economy.

Market analysts said caution about another intervention had limited the yen from falling sharply, though they saw the impact of the previous yen-buying, dollar-selling operation by authorities as short-lived, given the dynamics of currency markets.

Japan conducted a record ¥2.84 trillion ($19 billion) yen-buying, dollar-selling intervention on Sept. 22 to support its sagging currency, whose value has fallen by more than 20% from the beginning of this year.

Monetary authorities since then have repeatedly warned that they would take necessary action again against volatile yen fluctuations. Speculation had grown that authorities had already carried out "stealth" intervention to slow the yen's decline without making announcements.
The yen's slump to 32-year lows versus the dollar comes as a blow to Japanese households already hit by the rising cost of living. It inflates imported prices of energy, food and other raw materials for

resource-scarce Japan, and the government plans to draw up an economic package to ease their pain and support the economy.
The primary driver of yen weakness against the dollar is the widening interest rate gap between Japan and the United States as their monetary policies differ.

Bank of Japan Gov. Haruhiko Kuroda has ruled out raising interest rates in the next few years because the central bank's 2% inflation target needs to be achieved in a stable and sustainable fashion.

The U.S. Federal Reserve, for its part, is expected to go ahead with further rate hikes as inflation has been accelerating far faster than in Japan.

Finance Minister Shunichi Suzuki has said the United States showed a "certain degree of understanding" when Japan intervened in September."

Like I said on Friday, this intervention on its own is as inconsequential as piss in the wind. The dollar bulls will be back soon enough. Because the intervention was not sudden enough (it was totally expected at just those levels (around 150) where it did happen; and the amount by which the BoJ decided to move it (about 5 Yen) was not big enough, nobody got hurt. If so, the speculators are not deterred and they will be back to take the Dollar higher against the Yen in due course.

I expect the Dollar to go to 160 Yen in a few months. Will it stabilize there? At this time, I don't think so, because I doubt that by then, the Fed would have reached the end of its interest rate hikes.

If you are planning to travel to Japan, you should be all good.

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Un-Influencer in a World full of Hubris

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