am FX

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The politics of Japanese inflation have changed

On November 4, 2021, I wrote a piece called "The Politics of Inflation Have Changed." It was accurate! Polls I quoted in the piece showed the US population was more worried about inflation than COVID and that inflation angst was suddenly raging. Public patience with the incorrect "inflation is transitory" narrative finally wore out. That was important.

Two weeks later, the NASDAQ peaked and a week after that, Powell dropped transitory. The great fiscal and monetary bubbles finally burst as a decades-long US preference for low rates went POP almost overnight.

Now, the politics of inflation have changed in Japan.

First of all, a few days ago there was this:

Kyodo News+

BOJ chief retracts price tolerance remark amid criticism

KYODO NEWS - Jun 8, 2022 - 16:08 | All, Japan

TOKYO – Bank of Japan Governor Haruhiko Kuroda on Wednesday retracted a controversial remark claiming consumers had become "tolerant" of rising prices, after facing criticism from lawmakers and consumers.

Speaking during a parliamentary session, Kuroda said his remark Monday at an event organized by Kyodo News did not mean that households had begun to accept rising prices.

https://english.kyodonews.net/news/2022/06/d1f6613a4ec3-boj-chief-retracts-price-tolerance-remark-amid-criticism.html

Overnight, we got this:

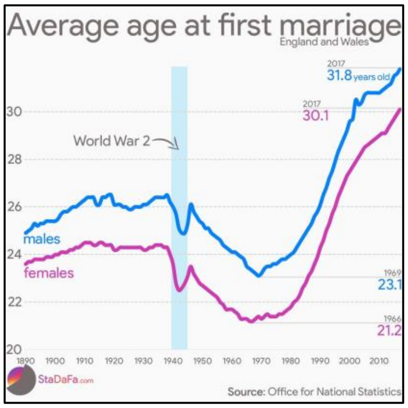
- Asked about BOJ Governor Haruhiko Kuroda's remarks that people are beginning to accept price increases, 77.3% said they were "inappropriate"
  - 58.5% said Kuroda was unfit to be the BOJ governor

And this:

*KURODA: RECENT RAPID WEAK YEN IS NEGATIVE FOR ECONOMY

Which goes with Friday's major increase in rhetoric:

*MOF, BOJ, FSA: CONCERNED ABOUT RECENT RAPID YEN DECLINE



Current Views

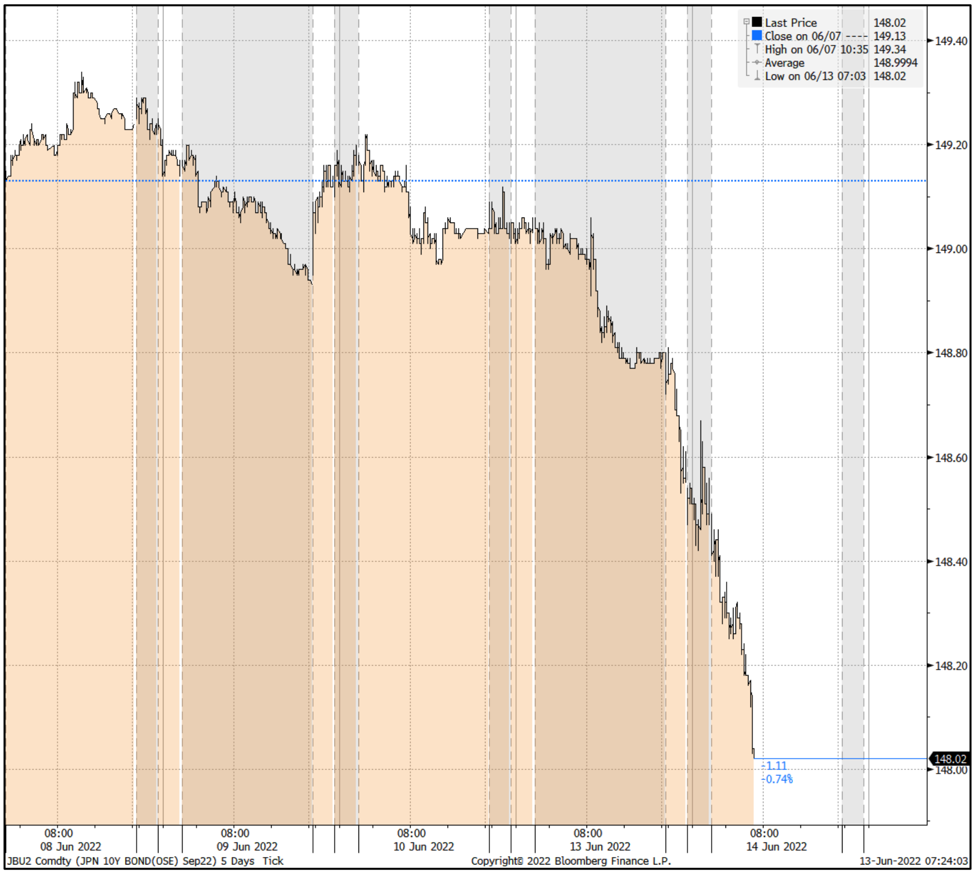
Short USDJPY @ 134.05
Stop loss 135.55
Take profit 130.55

Short EURJPY @ 141.25
Stop loss 144.44
Take profit 137.77

Short EURUSD @ 1.0702
Stop loss 1.0801
Take profit 1.0411

The game is over. The mission Kuroda announced in 2012 has finally been accomplished. Amazing. Now it's time for the BOJ and MOF to cap USDJPY and let rates find equilibrium. JGBs are not waiting for the official removal of the yield cap:

September JGB futures over the last five days



In "USDJPY: Ride into the danger zone" I wrote about the many technical and cross-market factors suggesting 135.00/10 should be the top in USDJPY. Last night's high was 135.17, so you could say target reached and the failure to break through, despite the huge surge in US 10-year yields, is telling.

Sell USDJPY here (134.05) with a stop at 135.55, looking for a move to 130.55. I am already short EURUSD and EURJPY and this adds more long JPY exposure. JGBs can't be ignored. If you did the short JGB and short EURJPY pair trade, stick with it.

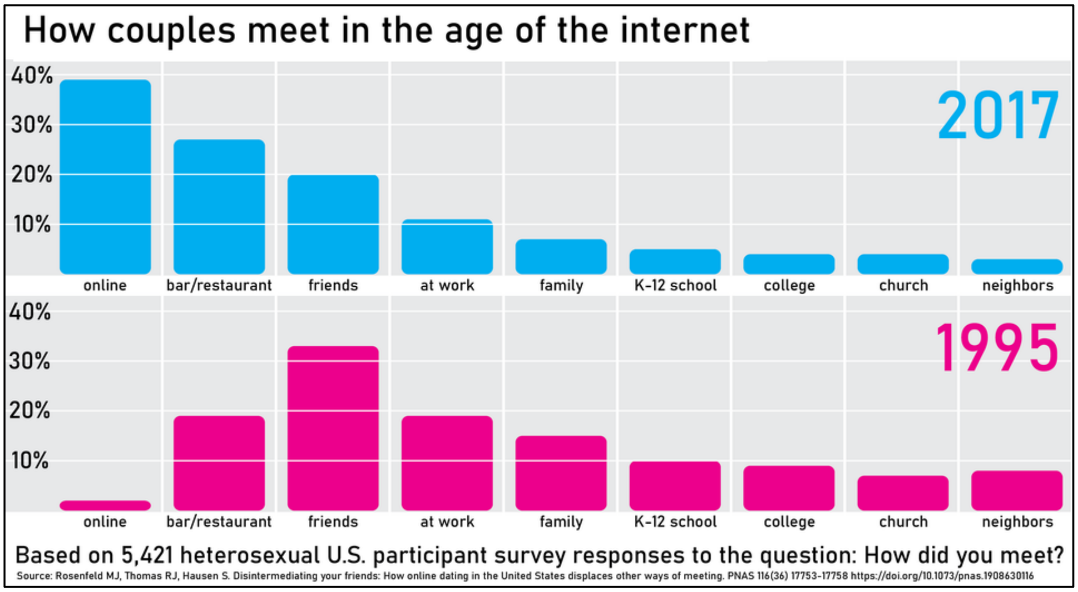
Final thought

Watch out for a turn in oil and crack spreads. That would be a clue that the Fed is finally hawkish enough and it broke the thing it wants to break. I mean a real break in oil, as in… Down 8%-10% in one day. We had many of those in 2020 and two in 2021. Until then, rates keep going higher.

Also, my guess for the Fed strangle was 3700/4300. The implication is that if we take out 3700, buy bonds as the market will once again start to price the negative economic implications of the equity collapse.

Have a lovely week.

good luck ⇅ be nimble



A surprisingly strong performance by bar/restaurant!

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