



Rodney's Take

April 22, 2024

Get (Yen) Shorties

I liked *Get Shorty*, with John Travolta playing the lead. The movie has three great things: great actors, a great story, and Renee Russo. I know, the actress (Do we use that term anymore?) Renee Russo is included twice in those three things, but she's worth it. In the movie, the characters want to get a bag of cash without getting caught by the FBI. There's only one Shorty in the story, unlike in my title, but the current situation with the yen reminds me of the movie. Short sellers are piling into the same trade (selling short the yen), while other traders bet against them. With the yen at an extreme low versus the U.S. dollar, things are getting interesting. So, who will be left holding the bag?

In 2022, the yen started at a value of about 115 per U.S. dollar, but it lost value quickly as the Fed raised rates. By the summer of 2022, the yen was blowing past the 130s and climbing into the 140s. (The yen is quoted backward, in how many yen it takes to buy one dollar.) It took \$600 billion dollars over three interventions to take the pressure off. The pressure began mounting again in 2023, but economic forecasts allowed the yen to fall to below 130 to the buck. That was then.

By the end of 2023, economists were bickering about whether the Fed would cut rates five times or six in 2024. Economic growth was slowing and inflation was easing. If we hit a rough patch, which we surely would, many thought the Fed would cut rates by late spring and peg them at 4% or lower by the end of the year. Now, people aren't so sure. In that group of people I include Fed Chair Powell, who is using terms like "higher for longer." This is

not music to the ears of Japanese banking officials, who want the yen to strengthen without a change in policy. For that to happen, the U.S. would need to lower rates, an event that has been pushed into the future. With Japanese rates in the cellar, the yen is at the dangerous level of 155 to the dollar.

But Bank of Japan (BoJ) officials sound like bad parents telling kids they'll be in trouble if they do something "one more time"—and, of course, short sellers will do it again as the yen gets cheaper. Now, the yen is at its lowest mark in 30 years. Will the BoJ raise rates, making domestic goods more expensive, or will the BoJ keep drawing lines in the sand? I don't know the answer, but I like the odds here of the BoJ hiking rates. The Japanese economy is humming along and thus can take it.

If that happens, there will be blood in the commodity streets, as the last of the short-yen/long-dollar traders get killed. Everyone on that side of the trade will feel pain, but some of the people on the short-yen side have made an entire career of it.

It might be time to switch teams.

Rodney

Got a question or comment? You can contact us at info@hsdent.com