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29 April 2014

Bersiaplah Dengan Peningkatan (Besar) Inflasi Jepang

Abenomics konon katanya telah berhasil mencapai targetnya: meningkatkan inflasi.

Pasca kenaikan pajak konsumsi per 1 April 2014 lalu, CPI Tokyo bulan April pun melonjak 2,9% (Y/Y) – tertinggi sejak 1992 – dan menembus secara signifikan target inflasi 2% *BoJ*, seperti Anda dapat lihat pada grafik di bawah ini.

Jadi misi sudah selesai?

James Gruber, penulis di sebuah mingguan investasi, *Asia Confidential*, memang mengatakan bahwa **deflasi yang diderita Jepang selama 20 tahun akan segera berakhir.**

Berikut adalah tulisannya yang menjelaskan alasan mengapa Jepang akan mengalami inflasi ke depannya.

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"Japan raised its consumption tax rate in 1997 - a recession soon followed as well as a deflationary spiral which has lasted to this day. With this month's hike in the consumption tax from 5% to 8%, investors are fearful that history may repeat itself.

This fear ignores several key differences. First, there's no Asian currency crisis to deal with now, unlike in 1997. Second, Japan's banks are in much better shape than during the 1990s when they held off writing off bad debts. Third, the central bank is engaged in a massive experiment in monetary stimulus this time around. Finally, today's labor market is very tight, compared to back then.

The last point is crucial and goes to the heart of one of the biggest myths about Abenomics. That is, with or without Shinzo Abe, Japan's sharply declining working-age population was always going to lead to a tight labor market, resulting in wage pressure and higher inflation. Today's post will attempt to show that the tipping point for higher wages is near.

In addition, you should see even more stimulus enacted in the coming months as the economy slows. This stimulus - of a gargantuan amount in aggregate - combined with higher wages, may be enough to push inflation higher.

But Japan's government and central bank are likely to get much more inflation than they bargained for. This risks a sharp spike in interest rates and a bond market rout, with investors fleeing amid concerns about the government's ability to repay its enormous debt load.

In the ultimate irony, it may not be the deflationary bogey man which finally kills the Japanese economy. Rather, it could be the inflation so beloved by central bankers and economists that does it.

Myths of a Japanese recovery

It's amazing the extent to which mainstream commentary has embraced the narrative that Abenomics is working and the Japanese economy is recovering. That's despite almost all of the recent economic data suggesting otherwise.

Let's run through this data. First, Japan posted its largest-ever trade deficit during the fiscal year to March. The gap between the value of Japan's exports and its imports grew by more than two-thirds to 13.7 trillion yen (US$134 billion). Gains in exports were almost solely due to the declining yen as export volumes were only up 0.6% for the year. And during the January to March quarter, export volumes were actually down 0.2% in seasonally-adjusted terms.

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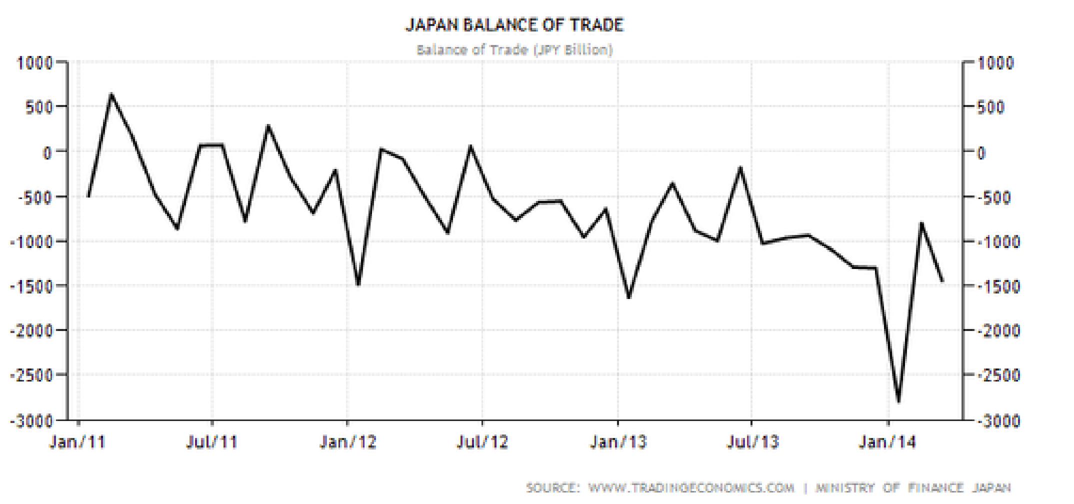
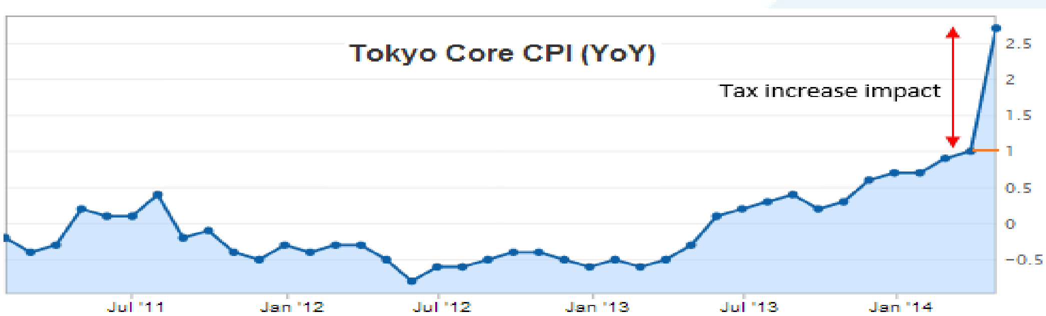
Meanwhile, import volumes increased 2.4% for the year. But the yen value of imports rose 17.3%. The import strength was partially due to the shutdown of all of the country's nuclear reactors after the Fukushima nuclear accident in 2011. That's meant 30% of Japan's power needs has been taken offline. And utilities have had to buy from overseas to plug the gap, with a lower yen making it much more expensive to do so.



In addition, many news publications hailed Tokyo consumer prices rising at the fastest pace in 22 years in April. Another sign of Abenomics working, apparently. Or not, as the case may be.

Because the increase was solely due to the implementation of the rise in the consumption tax rate. Strip the impact of the tax out, and tax-adjusted consumer prices grew just 1% versus the 2.7% headline number. The tax-adjusted figure was unchanged from the previous month and below market expectations, as the below chart from [Sober Look] shows.



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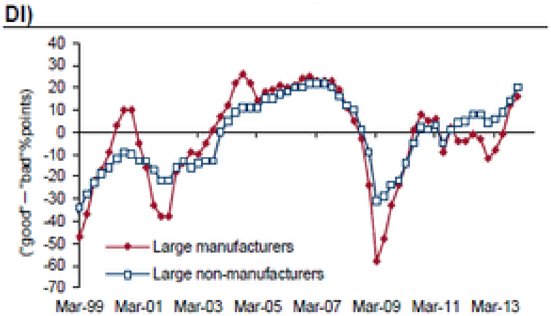
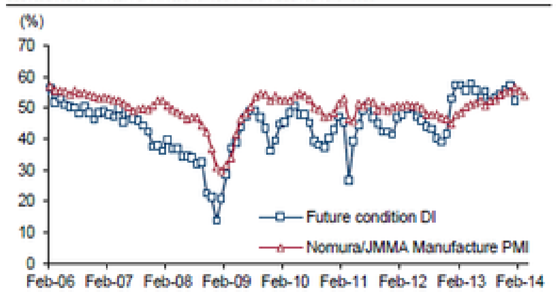
It's also becoming clear that corporates aren't buying into Abenomics. The Bank of Japan's March Tankan survey was broadly weaker than expected. The weakness in the auto sector was notable (down 38pt to -2) reflecting a large retracement post the VAT hike.

Exhibit 17: BoJ *Tankan* Survey (business conditions DI)



Source: BoJ, Credit Suisse

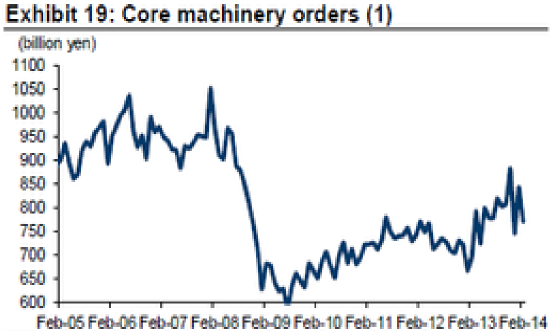
Exhibit 18: Business Watchers' Survey for manufacturers and the Nomura PMI



Source: Cabinet Office, the BLOOMBERG PROFESSIONAL™ service

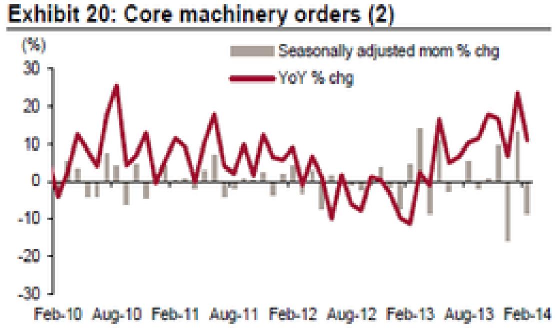
The lack of business confidence is reflected in capital expenditure numbers. Core machinery orders fell 8.8% in February after a 13.4% rise in January. Combining the first two months of the year, orders were 0.6% lower than the October-December average.

Exhibit 19: Core machinery orders (1)



Source: Cabinet Office, Credit Suisse

Exhibit 20: Core machinery orders (2)



Source: Cabinet Office, Credit Suisse

Consumer sentiment is also poor. The Economic Watchers Survey for March reported a 6.8pt month-on-month increase in the household activity-related index for current economic conditions. There's little doubt the increase reflected last-minute demand before the consumption tax rise.

Meanwhile, the index for future economic conditions fell 5.4pts in March, after a 10.1pt drop in February. In other words, consumers aren't confident about the economy going forward.

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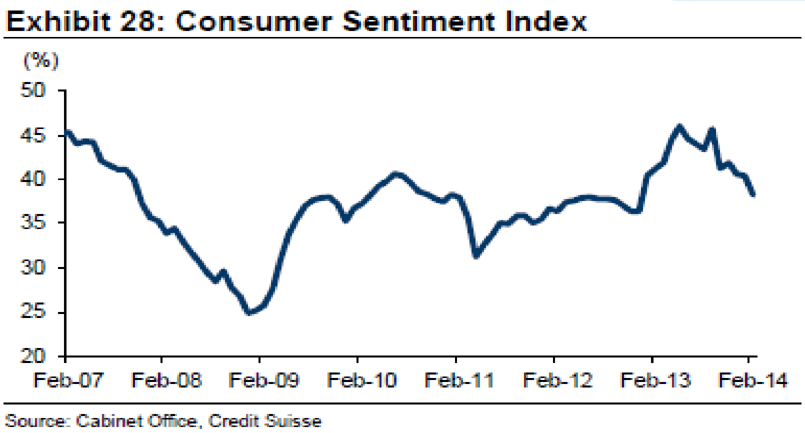
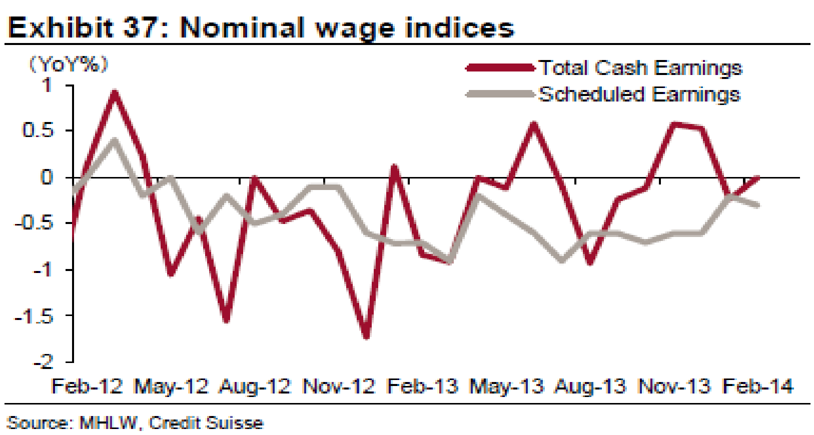


Part of the reason for the pessimism is likely due to the fact that wages are still going nowhere. Total cash earnings were flat in February, after being down 0.2% in January.



There have been a couple of positive data points. Retails sales were brisk in the lead-up to the tax rise. Unfortunately, the signs aren't as good post the tax hike going into effect. Isetan Mitsubishi, an up market department store chain, reported a 13% decline in sales in the first six days of this month.

The other bright spot has been on the jobs front. The unemployment rate declined 0.1pt to 3.6% in February, as the total number of people employed expanded by 130,000.

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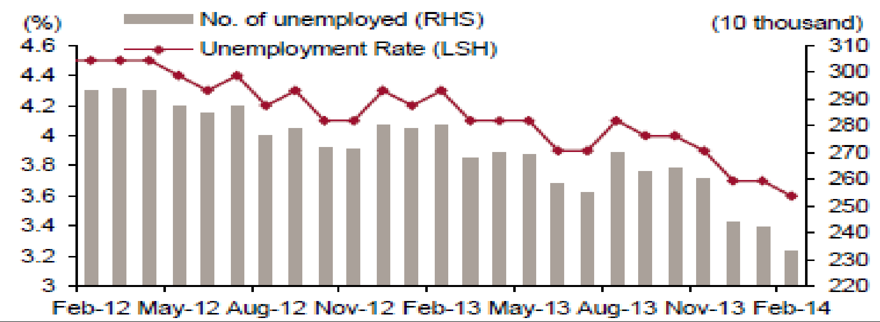
Exhibit 25: Unemployment rate



Source: MIC, Credit Suisse

All up, the economic data have shown a marked deterioration over the past 3-6 months. And investors are worried that this trend will continue.

More stimulus soon

A further slowing in the economy will almost certainly push the Bank of Japan (BoJ) into printing more money in a bid to kick-start growth. Probably by July this year.

Earlier this month, the BoJ held off from adopting more stimulus, citing a moderate economic recovery and progress towards its 2% inflation rate target (currently 1.3%). It suggested capital expenditure in the public and private sectors had picked up and household consumption and investment had proven resilient.

As a consequence, the BoJ voted unanimously to keep monetary stimulus at an annual pace of 60-70 trillion yen (US$583-680 billion). This came as no surprise as central bank officials had hinted on several occasions that the economic "recovery" would be strong enough to withstand the VAT hike.

In our view, he BoJ would make even the best PR agency blush. All of its talk of economic recovery makes for great propaganda but bears little resemblance to the facts. Because of this, you can soon expect a U-turn and for more stimulus to be approved.

And to put the Japanese stimulus into perspective, it's currently around 3x the quantum of the US-equivalent versus the size of its economy. It's an extraordinary experiment of a scale rarely seen in modern times (and given the money printing habits of today's central bankers, that's saying something).

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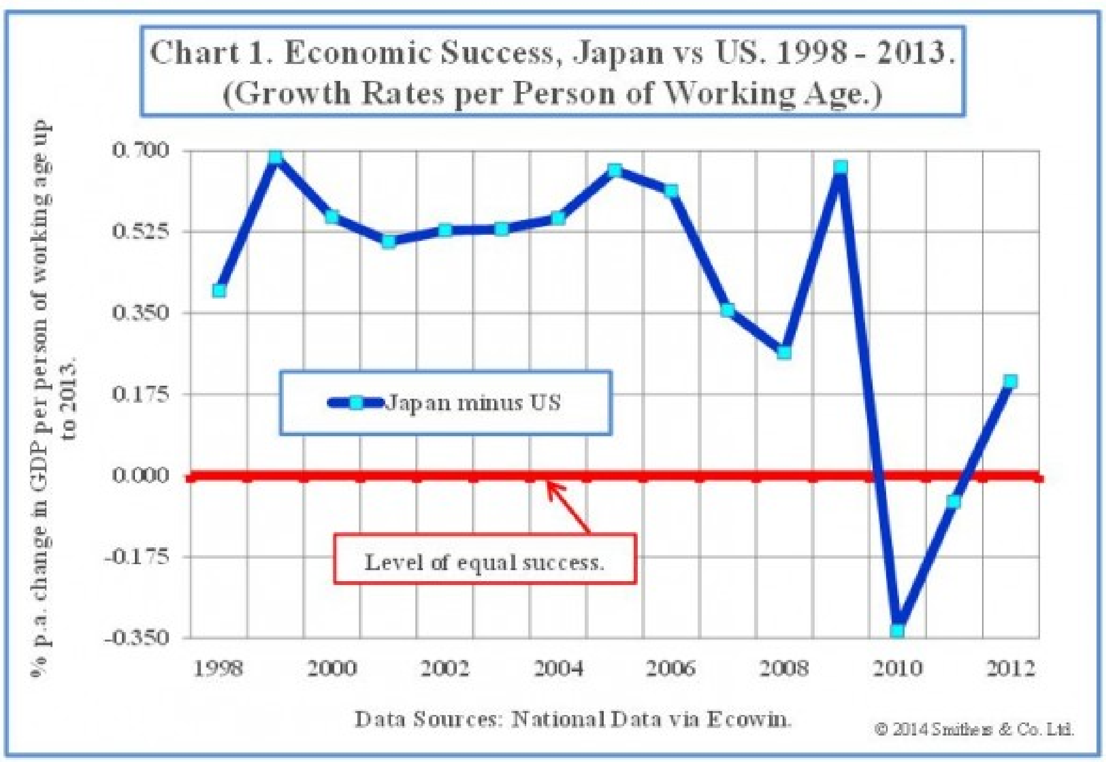
Wage growth around the corner

However, Asia Confidential thinks higher inflation is coming to Japan, with or without an economic recovery. To understand why, let's provide some context.

There are a number of myths regarding Japan's economic performance since 1990. I agree with the very smart Andrew Smithers, who suggests Japan's economy hasn't done badly since that time.

Judging the country's economy purely by GDP is a mistake, as Japan has a falling and ageing population (remember GDP equals productivity growth plus working-age population growth). If you adjust for this, Japan has actually been the best performing of all Group of Five leading economies. That is, Japan's GDP at constant prices per working person has grown the most.

And here's what will surprise most people. By this same measure, Japan has outperformed the US economy over the past 15 years.



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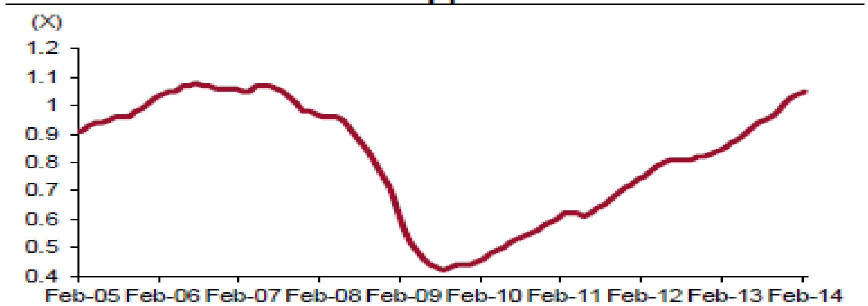
This leads to a second myth: that deflation is the principal cause of Japan's slowing GDP. As Smithers shows, demographics have played a larger part. After all, Japan's working-age population peaked in 1997.

I will add a final myth to Smithers' list: that massive money printing is needed to beat deflationary forces in Japan. On the contrary. Our view is that an extraordinarily tight labor force is almost guaranteed to lead to wage growth over the next 2-3 years.

Japan's working age population has decreased from 69 million in June 1997 to 65 million now. Those aged 15-24 have plummeted from 8.9 million to 4.9 million over the same period.

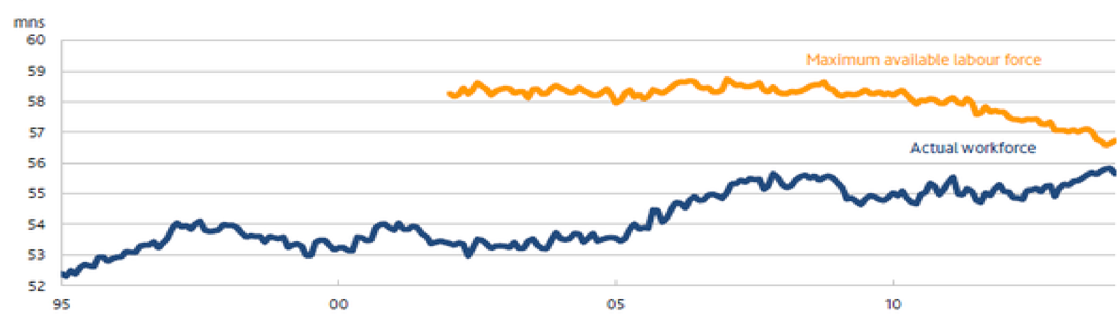
This has contributed to the falling unemployment rate, as noted above. The number of open positions per job seeker in Japan is 1.04. JP Morgan suggests that ratio will rise to 1.5 by 2017, the highest since 1974.

Exhibit 26: Job offers to applicants ratio



Source: MLHS, Credit Suisse

Japan's Available Labour Force



Source: National Institute of Population and Social Security Research, MIC, Bloomberg; compiled by SMBC NIKKO. Maximum available labour force = Population over 15 multiplied by participation rate minus structural unemployment. Actual Workforce = Current permanent employees plus contractors & part time staff.

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Now, this tight labor force hasn't yet resulted in higher wages. The Prime Minister is pressuring companies to raise wages in his bid to lift inflation. But our view is that this isn't necessary: ageing demographics and the declining working-age population will do the trick anyhow.

Put simply, the odds favor Japan getting higher inflation. It's a matter of when, not if. Abenomics will simply serve to accelerate this process.

Positives from inflation...

Mainstream economists bow at the altar of inflation. Apparently, inflation is central to economic growth. Not only does this defy common sense but also many periods throughout history where strong economic growth has been accompanied by deflation.

That said, higher inflation in Japan may provide some benefits, at least initially:

1. *Theoretically, employers should be able to hire and fire more easily. This is a huge issue in Japan given its traditionally rigid labor force. Corporate restructuring has been painfully slow as a consequence.*
2. *Higher inflation will help Japan deal with its enormous debt load. Increased inflation leads to higher nominal GDP, while debts and interest payments remain the same, thus reducing the overall burden. Japan needs this given public debt to GDP of close to 245%.*
3. *Higher wages will boost consumption in the short-term. With consumption accounting for 60% of GDP, that matters.*
4. *Given a lower yen, it should boost the fortunes of exporters.*
5. *For believers in the "wealth effect", equities should benefit from increased inflation. Many historical studies show inflation helps equities up to a certain point.*

...Offset by bond market risks

Here's the rub though: the stimulus when combined with wage growth is likely to lead to much higher inflation than the BOJ bargained for. And this risks currency and bond market carnage. That may sound hyperbolic but the math dictates such an outcome.

As most know, Japan's debt burden is extraordinary. Total debt to GDP tops 500%. Government expenditure is 20x government revenues. Interest on government debt is 25% of government revenue.

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Everyone knows Japan will never repay this debt. It could choose to cut back government spending, but this would cause a recession or depression, given the size of the necessary budget cuts. Instead, it's choosing the more politically palatable option: to attempt to inflate away the debts.

But higher inflation carries substantial risks also. If inflation spikes, so too will interest rates. That will mean higher rates on government debt. If rates rise to just 2%, interest expenses on government debt will increase to 80% of government revenue. Any rise in economic growth won't be enough to offset this burden. If this scenario plays out, there's a high likelihood that Japan's bond market will blow up.

Many will suggest this can't happen as domestic savers hold more than 90% of government bonds. That ignores two things. First, these savers are ageing and are having to sell bonds to fund their retirements. Second, Japan's deteriorating current account means foreigners will be asked to fund a greater part of the government's finances. I can tell you that these foreigners will demand much higher rates than those currently on offer."

Berikutnya, pada 22 Maret lalu, Michael Pento dari Pento Portfolio Strategies, mengingatkan dengan tegas bahwa **eksperimen global akan menjadi mimpi buruk.**

Dan 2 skenarionya di bawah ini berbahaya untuk seluruh dunia:

"I first warned about the impending bust of Japanese Government Bonds (JGBs) when I wrote "Abe Pulls Pin on JGBs" back in January 2013. In that commentary I laid out the math behind a collapse of the Japanese bond market and economy stemming from the nation's massive government debt, combined with the Bank of Japan's (BOJ's) folly of pursuing an inflation target.

It was my prediction back then that a spike in interest rates was virtually guaranteed in the not-too-distant future. I also predicted that debt-service payments would soon reach 50 percent of all government revenue, which would be the catalyst behind the rejection of JGBs on the part of the entire global investment community. Sadly, that prediction should come into fruition during the next few months.

The Japanese Finance Ministry recently predicted that debt-service payments would reach $257 billion (25.3 trillion Yen) during this fiscal year; up 13.7% from fiscal 2013. Also, revenue for this year is projected to be 45.4 trillion yen. This means interest expenses as a percentage of total government revenue will reach 56 percent. Therefore, it should now be abundantly clear to all holders of JGBs that since more than half of all national income must soon go to pay interest on the debt, the chances of the principal being repaid in anything close to real terms is zero. A massive default in explicit or implicit terms on the quadrillion yen ($10 trillion), which amounts to 242 percent of GDP, is now assured to happen shortly.

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Exacerbating the default condition of Japan's debt is the BOJ's increasing obsession with creating more inflation. Central Bank Governor Kuroda said recently that the inflation goal of 2 percent is well on track to be realized. Core inflation is already up 1.3 percent, and overall prices have climbed 1.6 percent, while fresh food prices have surged 13.6 percent from the year-ago period. In fact, Japanese inflation is now at a five-year high.

Surging debt levels and rising prices belie the quiescence of the Japanese bond market. For example, the 10-year note offers a miniscule yield of just 0.62 percent as of this writing. That yield seems especially silly when viewed in historical context. The average yield on the 10-year note is 3.04 percent going back to 1984. And you have to go back only six years to find a 2 percent yield on that benchmark rate. Of course those much-higher yields occurred in the context of significantly less debt and inflation than we see today.

The facts are that Japan has a record amount of nominal debt and a record amount of debt as a percent of the economy. Deflation has ended, thanks to hundreds of trillions worth of yen printing by the BOJ, and the central bank's increasing success at creating inflation will lead to insolvency for the nation's sovereign debt.

How can it be possible for interest rates to be at record lows if the nation is insolvent and inflation is rising? The answer is of course that the central bank is the only buyer left. For now the ridiculous pace of 70 trillion yen per annum worth of BOJ money printing seems to be enough to prevent rates from spiking. But as inflation waxes closer to the central bank's target, interest rates must rise.

The BOJ will soon have to stand up against the entire free market of investors who will be betting more and more with their feet that JGBs will default. The bottom line is the BOJ will have to dramatically step up its pace of bond buying, as interest rates rise and bets against JGBs intensify.

Unfortunately, Japan isn't alone in the insolvency camp. The United States and parts of Europe face the same fate. There will soon be an epic battle taking place between the developed world's central banks and the free market. The sad truth is that there isn't any easy escape from the manipulation of sovereign debt on the part of the European Central Bank, BOJ, and Federal Reserve. The exit of government bond buying from these central banks will lead to a massive interest rate shock and a deflationary depression. On the other hand, if these central banks continue printing endlessly, it will lead to hyperinflation and total economic chaos."

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What Do the Charts Say?

Jika Anda sungguh ingin tahu mengapa Jepang sedang menuju kebangkrutan, maka bacalah 3 laporan singkat Tyler Durden dari www.zerohedge.com di bawah ini:

1) *The BIS Chart That Abe And Kuroda Would Rather You Didn't See* *(June 23, 2013)*

Earlier we noted the rather peculiarly truthful (lack of optimistically-biased bullshit) annual report from the BIS as reading Zero Hedge-sermon-like. There is a smorgasbord of data, charts, and quotes strewn throughout the 204-page melodrama but one caught our eye. Reflecting on the fact that governments in several major economies currently benefit from historically low funding costs, and yet at the same time, rising debt levels have increased their exposure to higher interest rates, the BIS projects the dismal reality that ***any rise in interest rates without an equal increase in the output growth rate will further undermine fiscal sustainability****.*

Although predicting when and how a correction in long-term rates will unfold is difficult, it is possible to examine the potential impact on the sustainability of public finances and how any normalization of rates (or Abe's success in creating 2% 'inflation' in Japan) leads the ***nation's debt-ratio to explode (to over 600% debt-to-GDP)****.*

What is more concerning is that even with no negative impact from demographics (age-related adjustments) and even assuming a central bank that can keep interest rates at their ultra-low levels for another 30 years, Japan's debt-to-GDP ratio will reach almost ***400% (that's a best case scenario!!)***

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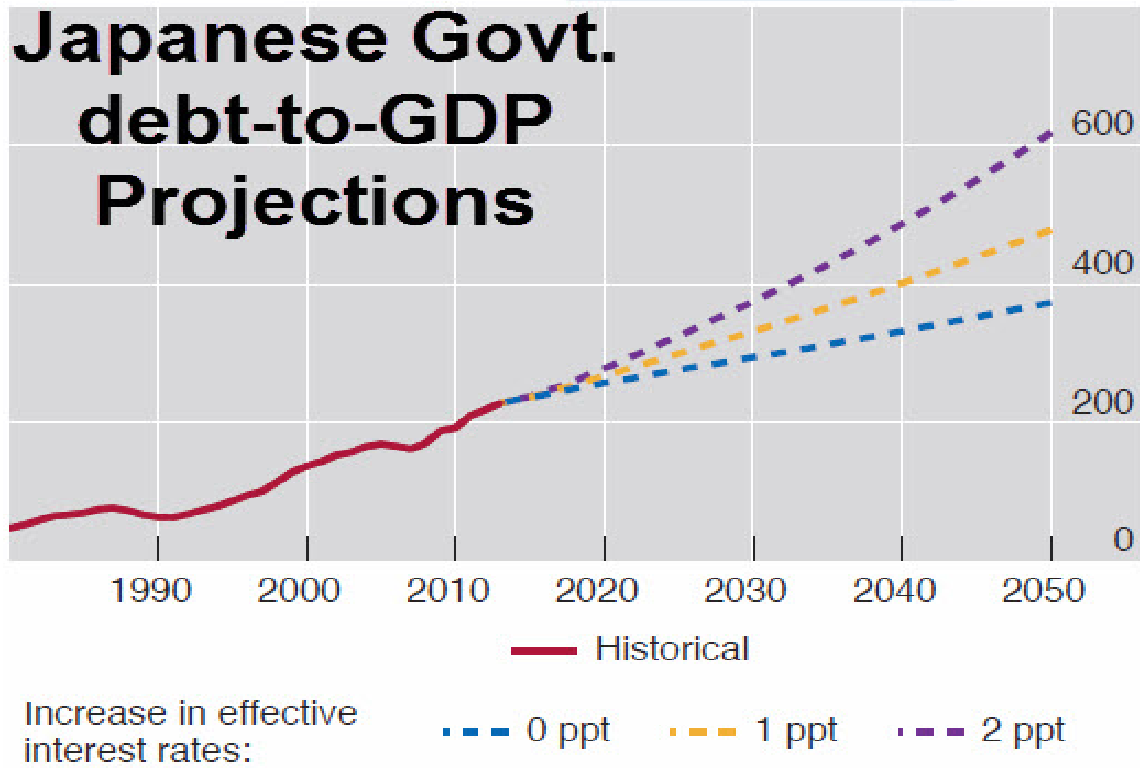

Unsurprisingly, ***the higher the interest rate, the faster debt will increase****; and while the BIS and the central planners of the world clearly 'believe' they can manipulate JGB yields should this happen, we suspect there is a (non-specific R&R vs. Krugman based) limit that once crossed creates the* ***qualitative perception shift*** *that Kyle Bass has so unequivocally explained is coming.*

As we noted earlier from the BIS - "some policies have clearly hit their limit."

Chart: BIS

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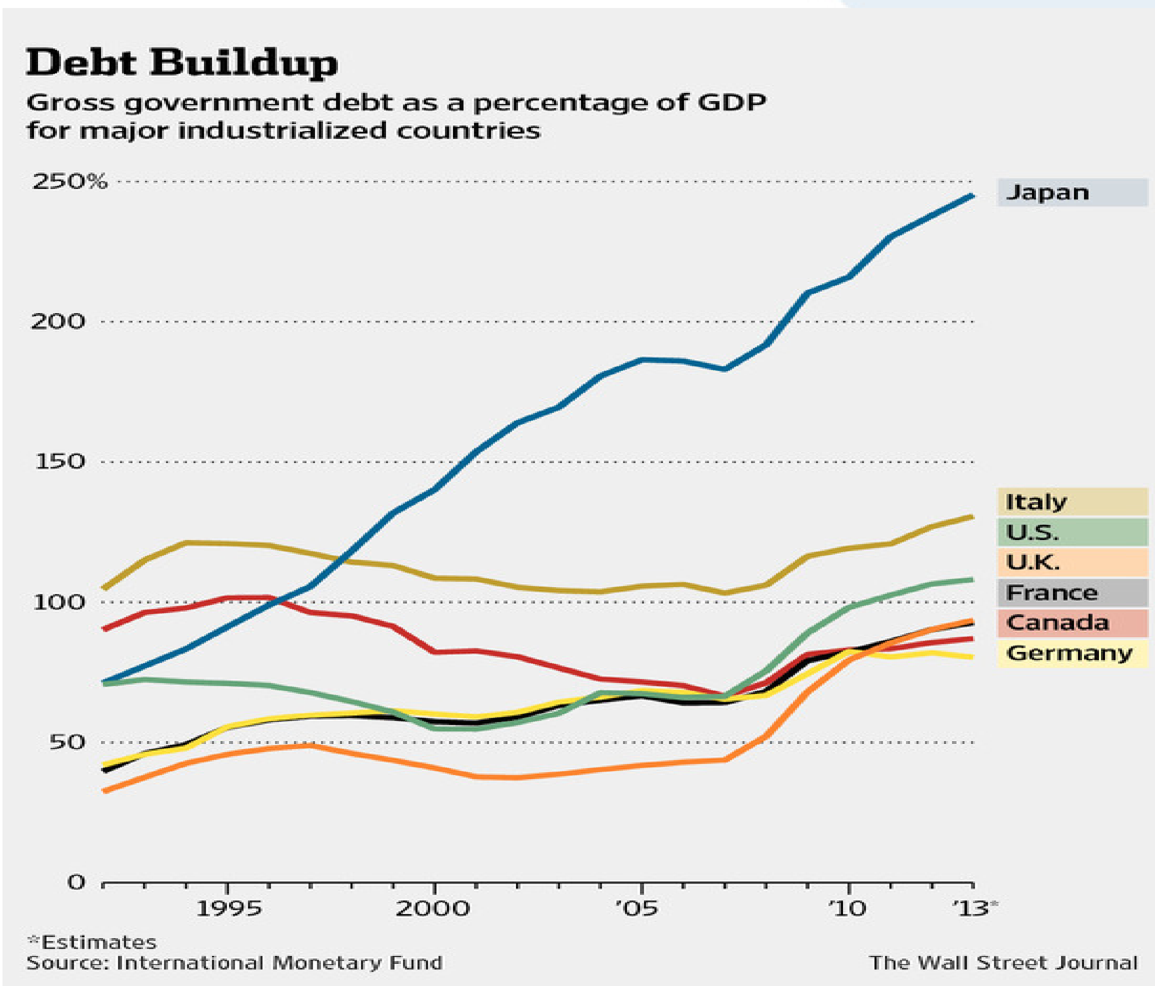
2) *Doubling Down On All-In: Spot The (Somewhat) Odd One Out* *(July 31, 2013)*

Things are rapidly getting out of hand, as the following chart conveniently reminds. Nowhere is this more so than in Japan, where as has been the case now for almost a year, Goldman Sachs, the central bank and local government (in order of decision-making importance) have all doubled down on their "all in" bet that the only thing that fixes recorder debt is moar recordest debt.

Spot the (somewhat) odd one out:



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As the WSJ laconically observes:

> *The government of Prime Minister Shinzo Abe is engaged in a high-stakes gamble to escape a cycle of paltry growth and falling prices using a combination of government spending, easy money and an ambitious overhaul of Japan's hidebound economy.*
>
> *If so-called Abenomics succeeds, then the world's third-biggest economy could re-emerge as a major engine of growth at a time when Europe is stagnant and China is slowing. If it fails, then Japan's Mount Fuji of government debt could come tumbling down, sending shock waves through the global economy.*
>
> ***"It definitely has the potential to be a huge shock," says Michael Manetta, a senior economist at Roubini Global Economics. "In terms of the behavior of capital markets, it would probably be similar to what we saw after [the collapse of] Lehman" Brothers.***

Since we've said all there is to say about that, we will redirect readers to the WSJ's rehash and simply add: good luck.

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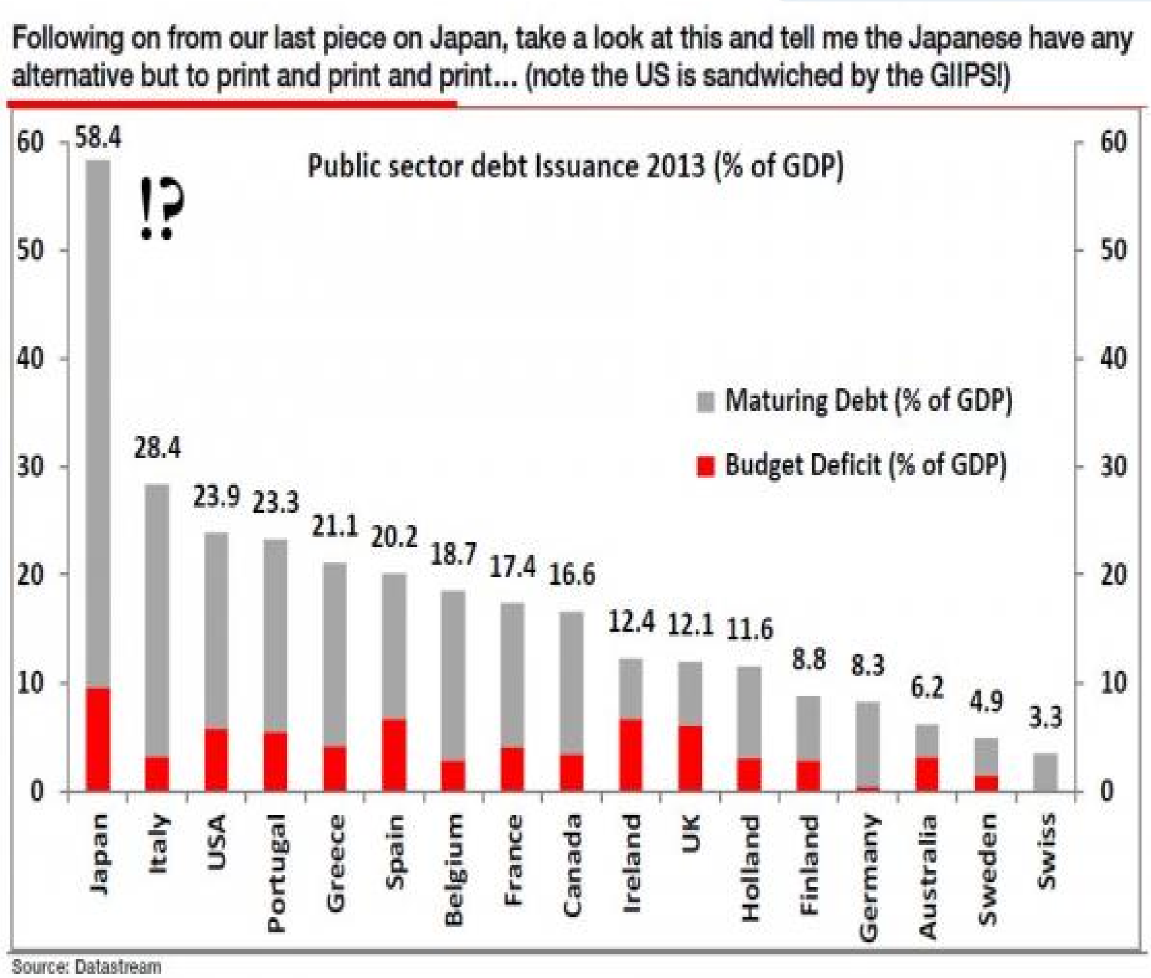
3) *Chart Of The Day: "Japan Has No Alternative But To Print And Print And Print (October 23, 2013)*

*Today's Chart of the Day comes by way of SocGen's Albert Edwards who in one image shows why, with gross debt issuance needs between budget funding and rolling maturities at 60% of GDP, Japan has no choice but "**to print and print and print**"*



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How About The Japanese Bond Market?

Seperti Michael Pento, *Elliott Wave International's Global Market Perspective* edisi April 2014, juga melihat bahwa suku bunga akan naik dan tekanan jual pada obligasi pemerintah Jepang (*JGB*) akan meningkat:

"This long term chart of the LIFFE active contract of the 10-year JGB presents a bleak outlook for prices going forward.

The degree of the labeled waves suggests a top in place for a very long time indeed. (One is tempted to say "forever.")

Even though one more extreme is possible, this market does not appear to be in line with the "one more high" scenario that characterizes many of the developed country government bond markets."

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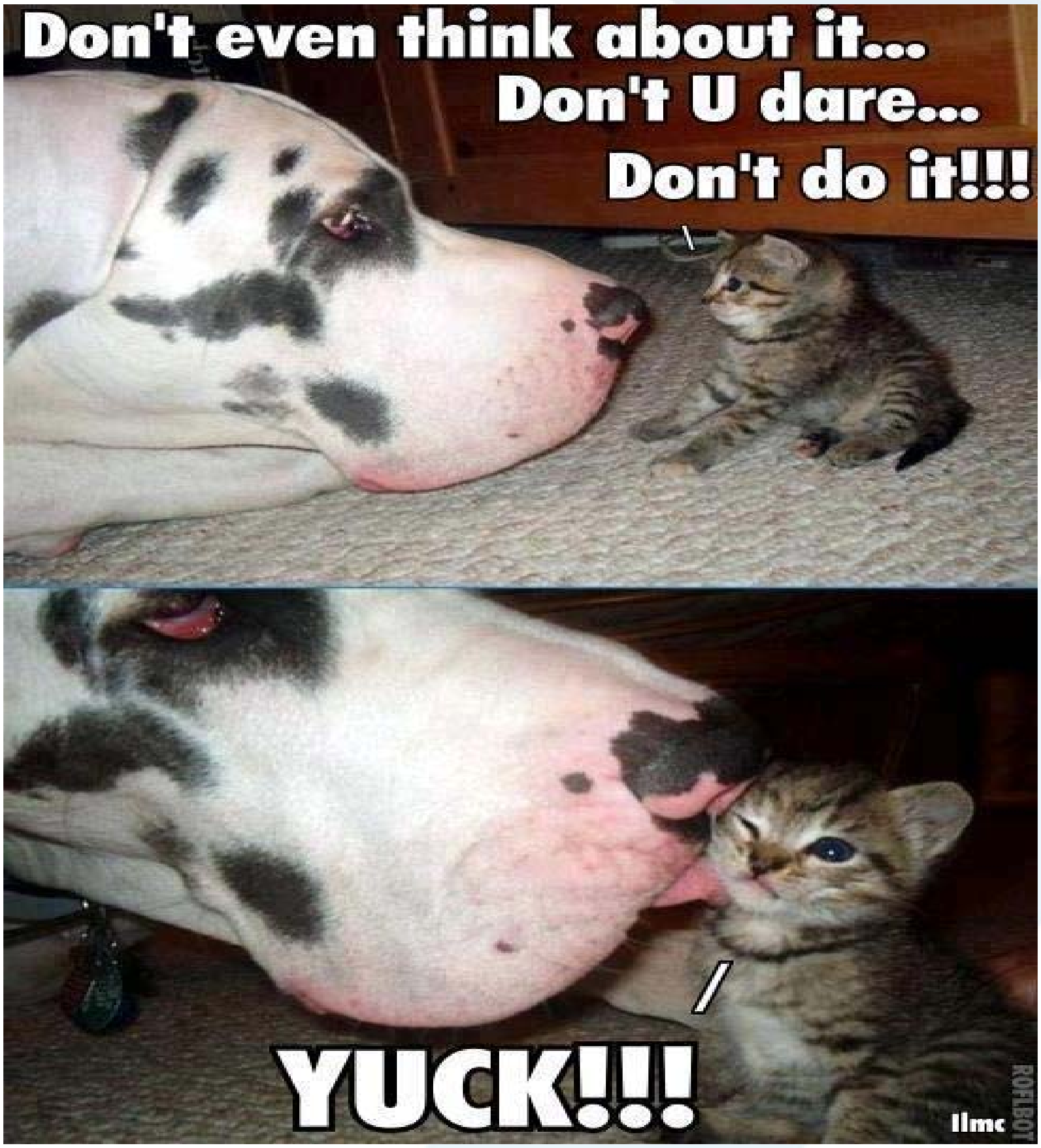
Di akhir tulisan ini agar Anda tetap ceria, berikut sejumlah gambar lucu tentang anjing dan kucing:



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Terima kasih sudah membaca dan semoga beruntung!

Regards,
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