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Headline: Raising Anchor

Article Link: https://fedguy.com/raising-anchor/

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Tweet: .@FedGuy12 argues that "Treasury yields will continue to drift higher," as higher Japanese yields will move the marginal Japanese buyer out of the Treasury market just as Treasury issuance is increasing.

Summary: The BOJ's low interest policy remains an anchor of global bond yields, but that anchor will soon be set at a higher level. U.S. bonds will appear even more unattractive to Japanese investors, whose exit from the market would allow U.S. bond yields to drift higher. The eventual Fed rate cuts would reduce FX hedging costs and potentially bring back some Japanese investors, but until then it looks like one more marginal source of demand is evaporating even as Treasury supply is set to increase. This suggests that Treasury yields will continue to drift higher. Related: American Gothic and China Isn't Selling Treasuries

Primary Topic: Fiscal Deficits

Topics: Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Op-Ed/Blog Post, Weekly

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