

Is The Yen Carry Trade Ready To Return?

Japan's War On Its Own Currency Supports Global Risk Markets

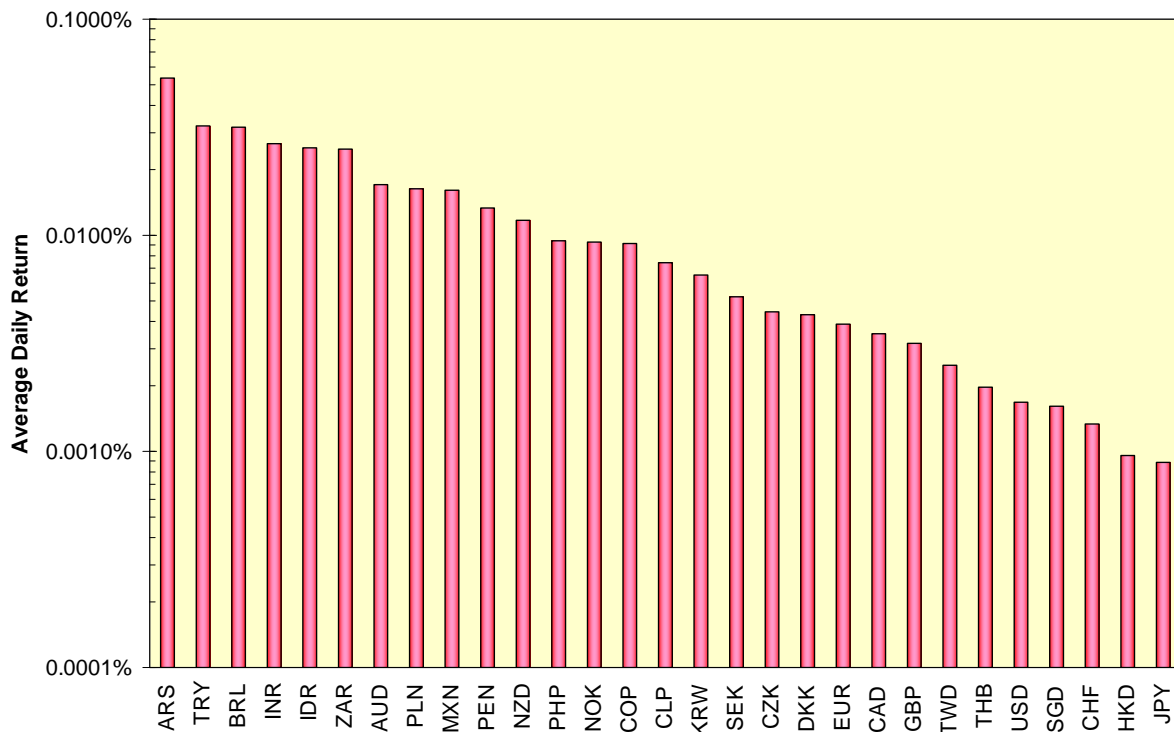
I had to take the very machine I am writing this on over to Best Buy (BBY) for some work a couple of weeks ago; it turns out the new version of Intel (INTC) firmware was not compatible with the old version of Dell (DELL) hardware, or something like that. Regardless, a young Geek of the female persuasion too young to be my daughter and too old to be my granddaughter (but, I suppose, young enough to be some sort of niece, first cousin once-removed or some other classification comprehended by my wife but not to me) was wearing hip-hugging pants with the same sort of wide web belt I recognized from the late 1960s. The lesson was clear: Everything comes back into style eventually.

Return Of The Yen Carry Trade

The list of phoenixes includes, apparently, the yen carry trade, the borrowing of yen to lend or invest outside of Japan. As I noted in November 2010's [Yen Carry Trade, R.I.P.](#), there was little need for investors to borrow the yen when the dollar was just as cheap and lacked the risk of sudden revaluation always present in the yen. Even as recently as a month ago in [Yen Remains Hard to Drive Lower](#), I was not at all convinced the Bank of Japan had established credibility on the revaluation front.

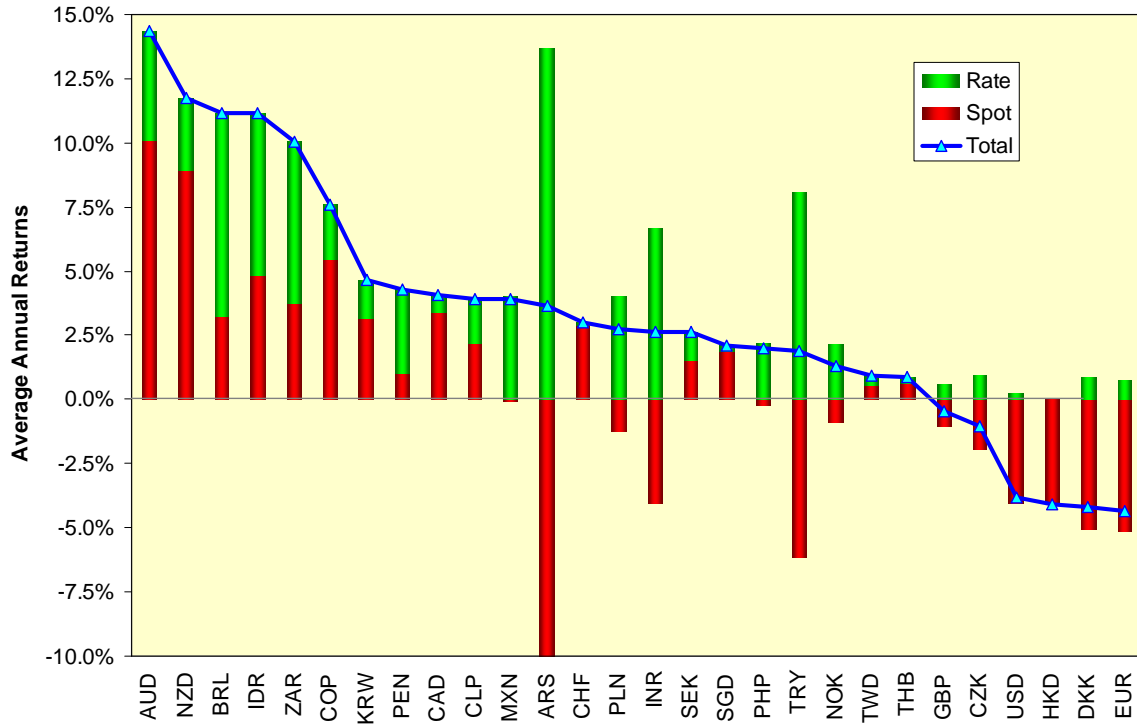
However, the BOJ may be ready to fly the Mission Accomplished banner in its war on the yen (yes, I just wrote this). The yen has regained its status as the cheapest currency to borrow, edging out other worthies such as the Hong Kong and Singapore dollars, the Swiss franc and the U.S. dollar.

Three-Month Interest Rate Returns On Selected Currencies
March 2009 Onwards



That status is pushing more and more currencies into a positive carry against the yen. Even in those many cases where the yen has gained on a spot-rate basis, the loss is being offset by a higher interest rate spread. The overall result is a positive total carry. As recently as November 2011, 20 currencies had negative carries against the yen over the post-March 2009 era; that number is down to six.

Decomposing The Yen Carry Trade March 2009 Onwards



The good news for the rest of the world, which is where I live, is a revived yen carry trade will ease the shock from any dollar carry trade unwinding should the U.S. ever allow its interest rates to rise. It also will fuel flows into emerging markets and support funds such as the iShares Emerging Markets index (EEM).