5/21/25 email

Dear Gregg:

I'm remembering your admonishment to "watch Japan":

InFocus: Japanese bonds: The canary in the coal mine

The yield on Japanese 30-year government bonds (JGB) soared north of 3% over the past couple days due to low bids in two successive bond auctions. In other words, investors are demanding higher yields for the risk of default. Japanese Prime Minister Shigeru Ishiba described the situation as "worse than Greece," which underwent its own decade-long sovereign debt crisis starting in 2008.

Japan's debt-to-GDP ratio is somewhere around 265% – the highest in the world – and the Bank of Japan owns over 50% of the $7 trillion JGB market. Japan is simply running out of buyers willing to endure the risk of holding this enormous amount of debt, keeping the Bank of Japan (BOJ) as the buyer of last resort.

The risk is that this breakdown triggers the global sovereign debt crisis that was always going to happen eventually. Japan is rightly being described as the "canary in the coal mine" as the first developed economy to test the limits of endless debt.

Meanwhile, Japan is the top holder of U.S. Treasuries at $1.13 trillion. Due to this crisis, Japan may be forced to sell off Treasuries, adding greater pressure to the 30-year Treasury yield which is above 5% as of this morning. And this now poses a problem for the United States as the Treasury Secretary wants yields to go lower, while investors may demand higher returns for the risk. Because Japan has lost control of its yield curve, investors will expand their concern over U.S. debt. And the logical conclusion for U.S. debt is that if JGBs can collapse, then so can U.S. Treasuries. Frankly, the Japanese bond crisis is a preview of what U.S. Treasuries will eventually experience.

In response, I'm doing three things. The first is increased monitoring of Japanese financial asset managers to determine what they're doing and if this actually is the start of something much worse.

The second is I'll closely monitor U.S. investment banks to see how they size up the follow-on risk to the $27 trillion U.S. Treasury market.

And third, I follow and talk to several financial analysts and asset managers. Last month, one of them told me he expected the sovereign debt crisis to unfold in about 3-5 months, so roughly between July and September this year. This morning I asked if Japan is the feather that breaks the camel's back and he said it's possible. In other words, he was pretty noncommittal on this so far. I'll continue to follow up and also see if he'll join me for an interview on this topic. More to follow. - M.S.

Early Warning Network

Liz Adleta