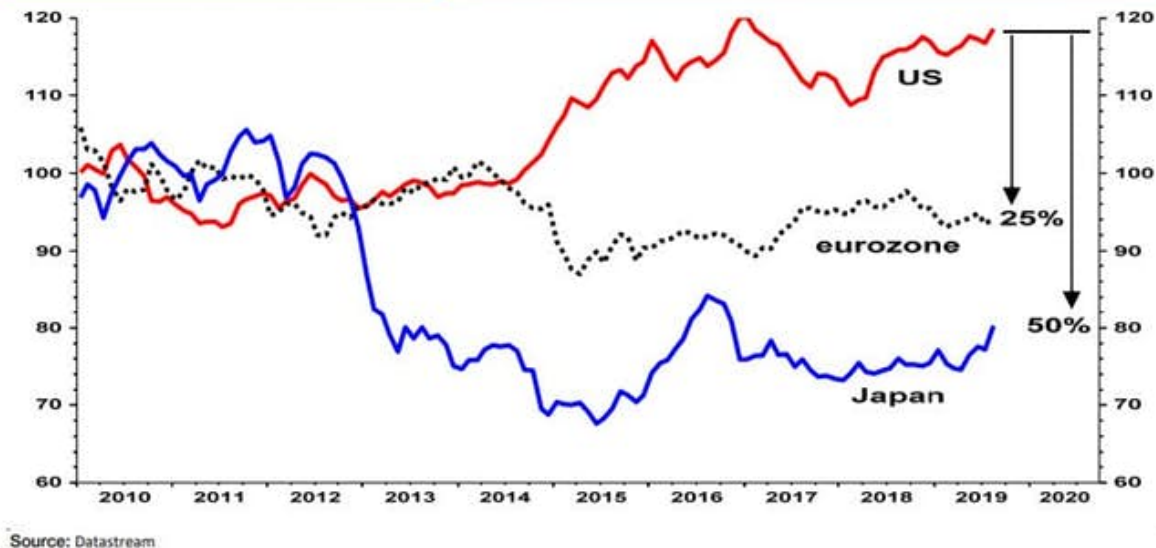


BIS Claims the Dollar Overvalued - How Long Before Trump Acts?

BIS has the US dollar real exchange rate 25% overvalued vs the euro and 50% vs the yen!



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The ECB cut rates further into negative territory and the BoJ is expected to do the same. How long before Trump reacts?

Japan Poised to Escalate Currency War

A Bank of Japan board member says risks are growing and the [BOJ Ready to Ease Again if Price Momentum Lost](#).

?My recent concern is that, amid significant downside risks concerning overseas economies, negative effects would be exerted on prices,? Takako Masai said in a speech to business leaders in Tsu, Mie Prefecture, central Japan, posted on the BOJ's website.

Sales Tax Increase

Japan is set to hike its sales tax from 8% to 10% on Oct 1 in response to fiscal policy completely run amok.

That sales tax hike is guaranteed to be detrimental to Japan's goal of spurring inflation.

Policies Proven to Not Work

The message from the BOJ is that it is ready, willing, and able to escalate policies proven not to work.

The current interest rate is -0.1%.

Not only will the Japanese pay more for goods thanks to the tax hike, they are also poised to lose more money on deposits via increasingly negative rates.

How that is supposed to help policy goals remains a mystery.


Rising Dollar

The result of all this monetary madness by the ECB and BoJ is a rising US dollar.

Albert Edwards at Society General explains via email.

The consequence of continued aggressive easing by the BoJ and ECB is that the US dollar is seeing continued unwelcome strength. Unwelcome in the sense that the US is in effect, importing eurozone and Japanese deflation. I simply don't think this is sustainable much longer. Patience is wearing very thin at the White House at the Fed's lack of easing vigor and the impact this is having on the dollar. I expect President Trump to take matters into his own hands and respond with real aggression imposing tariffs on EU auto exports to the US and authorizing unlimited foreign exchange intervention to drive the dollar lower.

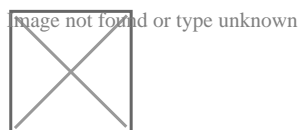
Japan has lagged the ECB recently in the easing game but seems set to catch up. In that context US yields have resumed their downward slide despite the recent stronger than expected economic data. Consequently the dollar remains annoyingly strong against the euro for the US administration - and even stronger if one looks at a broader [trade-weighted] basket.

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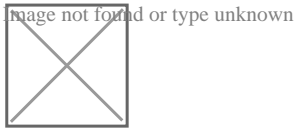
Trade-Weighted Dollar



Monetary Madness Trademark

Make no mistake, further BoJ QE is taking us to a whole new level of monetary debauchery pioneered in Japan and now known under the Monetary Madness Trademark (aka MMT). The ECB and especially the Fed are real amateurs at this game. No wonder the dollar is around 50% too strong versus the yen

Japan on Different Planet



The Bank of Japan's balance sheet is over 100% of GDP. By comparison, the Fed is in the gutter at about 18% of GDP.

In Search of the Effective Lower Bound

Yesterday, I penned [In Search of the Effective Lower Bound](#)

I define ELB as the "*point at which monetary policy becomes counterproductive to the goal, whether or not the goal makes any sense.*"

In this case, neither the policy nor the goal makes any sense.

After decades of monetary madness, all Japan has to show for it is stagnation.

I proposed yesterday Japan was already at the ELB. If so, rate cuts cannot possibly help.

However, it will be difficult to assess the blame because the monetary policy action will be in addition to the counterproductive fiscal policy action, raising taxes.

Producing Inflation is Easy

It's a mystery how Japan has struggled with this goal for decades.



Over three years ago I came up with [Mish?'s Sure Fire Proposal to End Japanese Deflation: Negative Sales Taxes, 1% Monthly Tax.](#)

Mish?'s Four Pronged Proposal to End Japanese Deflation

1. Negative Sales Taxes
2. One Percent Tax, Per Month, on Government Bonds
3. National Tax Free Lottery
4. Hav-a-Kid

Instead of increasing sales taxes Japan should cut them to negative. That alone would do the trick if the rate was deeply negative enough.

For added insurance, and to prevent bond yields rising out of control, Japan first needs to fully corner the bond market. It can do that by taxing government bonds at 1% a month. I guarantee you there would be a mass exodus pronto and the government could buy them all at a price it sets. At that point it could retire all the bonds all on the basis "we owe the money to ourselves".

A national tax free lottery works this way. For every purchase one makes on a credit card, that person gets a free lottery ticket for a weekly drawing worth \$10,000,000 tax free. Perhaps we need to set a minimum purchase of \$100 or so. Combined with a negative sales tax of say 20%, spending is sure to rise.

Hav-a-Kid addresses the demographic problem.

- One new child: 50% reduction in income taxes for a period of ten years.
- Two new children: 100% reduction in income taxes for a period of twenty years.
- Three new children: Subsidized housing, free healthcare, free schooling, and no income taxes for thirty years.

Easy Peasy

It is maddening that Japan struggles to produce inflation.

Current methods don't work because of demographics and the ELB.

My plan addresses both issues.

I offered this plan to Japan for free, but I will help guide this program personally for the token amount of \$10 million dollars.