Yen Carry Trade & Flight to Safety

Posted August 25th, 2026 - By Chuck Coppes

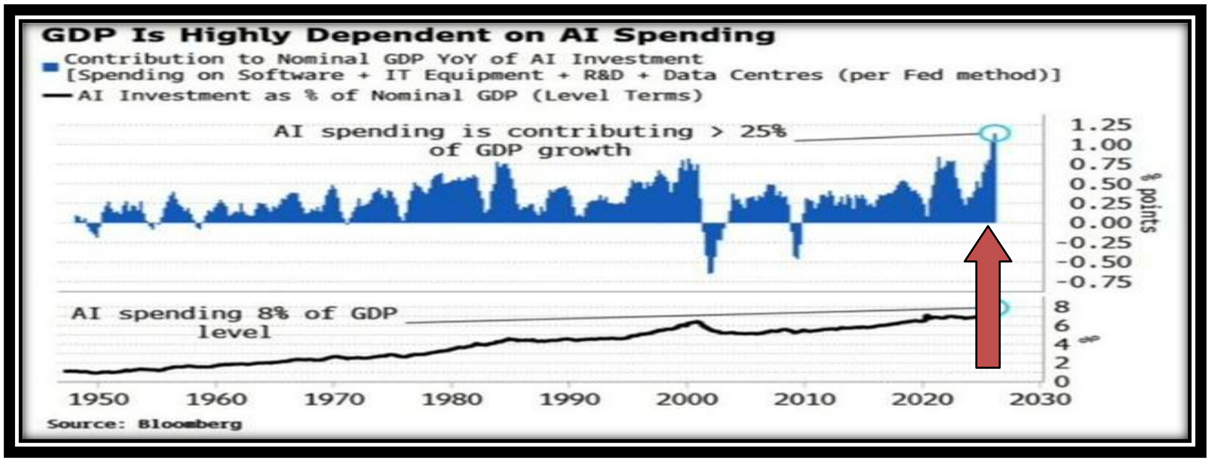
"With the exception only of the period of the ***gold standard****, all governments of history have used their exclusive power to issue money to defraud and plunder the people."*
Freidrich A. Hayek, Austrian Economist (1899 - 1992)
*"****Money*** *is the most important subject intellectual persons can investigate and reflect upon."*
Robert H. Hemphill, President of Atlanta Federal Reserve Bank
"Of all the contrivances for cheating the laboring classes of mankind, none has been more effective than that which deludes them with ***paper money****."*
Senator Daniel Webster (1782 - 1852)

Greetings to All,

Ayn Rand famously said, "We can ignore reality, but we cannot ignore the *consequences* of ignoring reality." Some might call this the Normalcy Bias or Illusory Affect or whatever but as the above quotes remind us, creating "money" out of thin air always results in terrible consequences. At issue is the Fed coordinating a currency swap to protect the Japanese bond market in order to protect the US dollar and US stock market. As one **blogger** put it, "Washington just crossed a line it pretends doesn't exist. In a move that should unsettle anyone still clinging to the illusion of 'free markets,' the United States reportedly sold euros to buy Japanese yen—effectively stepping into the role of the Bank of Japan. This isn't routine coordination. It is direct intervention in a foreign currency market, and it reeks of desperation." Yes it does. And these moving financial parts need to be examined more fully.

Japan is our largest creditor holding $1.1 trillion in US bonds. Japan has had negative or zero rates for almost **40** years and is now being forced to raise rates. As Zerohedge reports, "Since the 1980s, Japan has sat at the heart of the global yen carry trade, exporting savings, suppressing yields, and helping sustain a financial order built on cheap leverage and central-bank engineering. That order is now breaking down." This also means that capital markets will be forcing interest rate interventions.

As bond yields declined in the **1980s** the Bank of Japan increasingly bought their own debt to keep yields down and even purchased their own stocks to boost valuations (sound familiar?). Currently, the **BOJ** owns **52%** of their debt and is the largest holder of public stocks. In recent days, the US Treasury has purchased the Japanese currency. Why did we do this? Essentially to prevent Japan from selling US Treasury debt and thus raising our bond yields at a sensitive moment. The US also wants to help maintain low rates in Japan so that direct investment in the US stock market will not unravel (prior to the midterm elections). This is what the carry trade has been about for at least **30** years. "At zero to negative rates, Japan became *THE* go-to lender for the global shadow banking and corporate elites, who would happily borrow yen for nothing and then convert those yen into trillions of dollars for massive leverage in the S&P and NASDAQ," writes **Matt Piepenburg**. "The fancy lads called this the Japanese 'carry trade.' It was an absolute boon for American stocks. But folks, the Japanese banks are now cutting off that free money spigot." In recent months he US stock market has been hitting new record highs as the tech sector (AI) has become a crowded trade on Wall Street. **Below** you can see how distorted things have become as this FOMO frenzy is directly linked to our annual GDP growth!



Traders liked to consider this carry trade as risk-free since it was easy to borrow in Japan and buy risk assets with higher yields. But now everything is looking risky. In a demonstration of how complex and interdependent the global economy has become the recent US misadventure into Iran has caused energy prices to rise. Japan must import all of their energy needs and **Ed Steer** explains how this is affecting the Japanese economy and triggering the moving parts of the financial system.

> *The price of LNG—the fuel Japan must import to keep its lights on—is up 77.5% year-on-year. That means Japan's trade balance is hemorrhaging, and its currency, the yen, has collapsed to a 15-year low against the dollar.* ***A collapsing yen is a catastrophe for Japan. It makes imported energy even more expensive, crushing domestic consumption and industrial production****. But a collapsing yen is also an existential threat to the United States, for one simple reason: Japanese investors, who have borrowed cheap yen for decades to buy higher-yielding American assets, are now facing a margin call of historic proportions.* ***If the yen falls too far, they are forced to sell those U.S. bonds to cover their losses. If Japan sells U.S. bonds in size, U.S. interest rates spike. If U.S. interest rates spike, the American housing market, stock market, and federal budget all shatter simultaneously.*** *So the United States finds itself in the absurd position of having to prop up the Japanese yen—not out of altruism, but because Japan is holding a gun to the head of the global bond market.*

The global bond market is the real indicator of financial stability and risk – *not* the stock market. However, rumor has it that Japan is also getting ready to dump **$520 billion** in US equities.

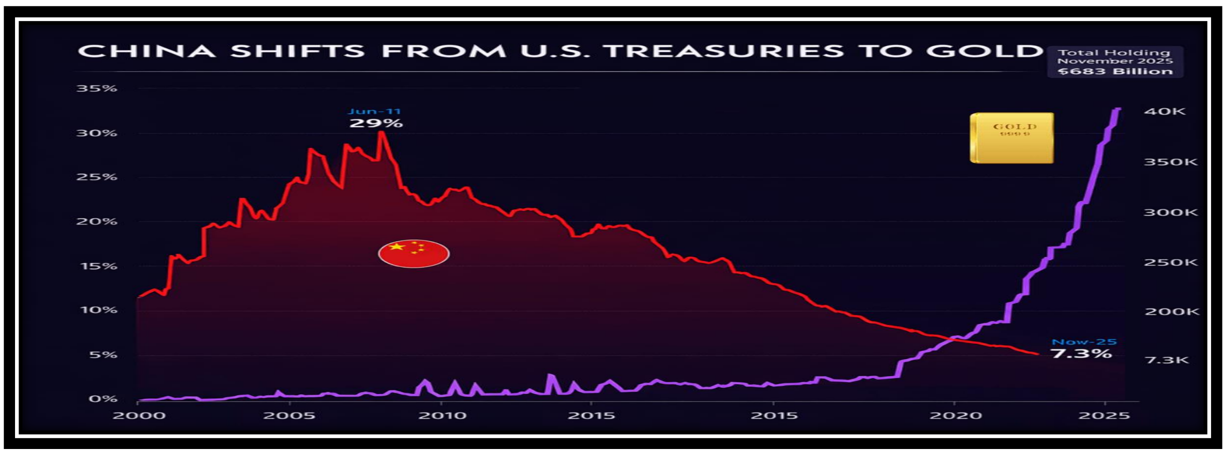
Commenting on the recent currency swaps and bond market in particular, Wall Street veteran **Edward Yardeni** says, "The financial system right now looks like a giant Jenga tower with the yen as a load-bearing piece." **James Rickards** warns that unwinding the leveraged exchange rate "is the equivalent to all out nuclear war." These are not reassuring words. On **August 18th** the US finally exceeded ***$40 trillion*** in public debt and we are talking US Treasury bills, notes and bonds. The 30-YR bond yield is currently **5.3%** and this is an unsustainable burden to service our reckless spending with the risk premium only getting worse. In the **1980s** a **5-7%** yield on the 10-YR bond was normal but not anymore. This is our reality and the bond pits are not ignoring this reality since the *consequences* do not bode well for either Japan or the US. This is why the US is taking drastic measures right now.

The market cap for the US bond market is **$51** trillion compared to **$75** trillion in the US stock market. All debt is issued with interest and the US is beginning to hit the wall as reported by Silver Academy:

Washington's involvement suggests policymakers see that crack widening into a fracture. They aren't reacting to noise. They're reacting to stress building beneath the surface—stress that threatens to unwind trillions in leveraged positions. ***When the carry trade reverses, it doesn't unwind neatly. It implodes. Liquidity disappears. Correlations break. Everyone rushes for the same exit at once. And now the U.S. is intervening to manage the fallout before it becomes unmanageable. This is the part they don't say out loud: if markets were stable, they wouldn't need to do this. If the system were healthy, they would let currencies find their own level. Instead, they're stepping in—quietly but aggressively—because they understand how fragile the situation has become.*** *What's most alarming is the precedent. The United States acting as a backstop for another country's currency is not normal. It signals a system so interconnected, and so overleveraged, that national boundaries no longer matter.* ***When one piece starts to fail, everyone scrambles to contain it. We've seen this movie before. In 2008, interventions started as targeted, temporary measures. They quickly escalated into systemic rescues. The difference now is scale. The carry trade today dwarfs what existed back then. This isn't stability. It's damage control. And when governments start quietly intervening across currency markets, it usually means the real crisis has already begun.***

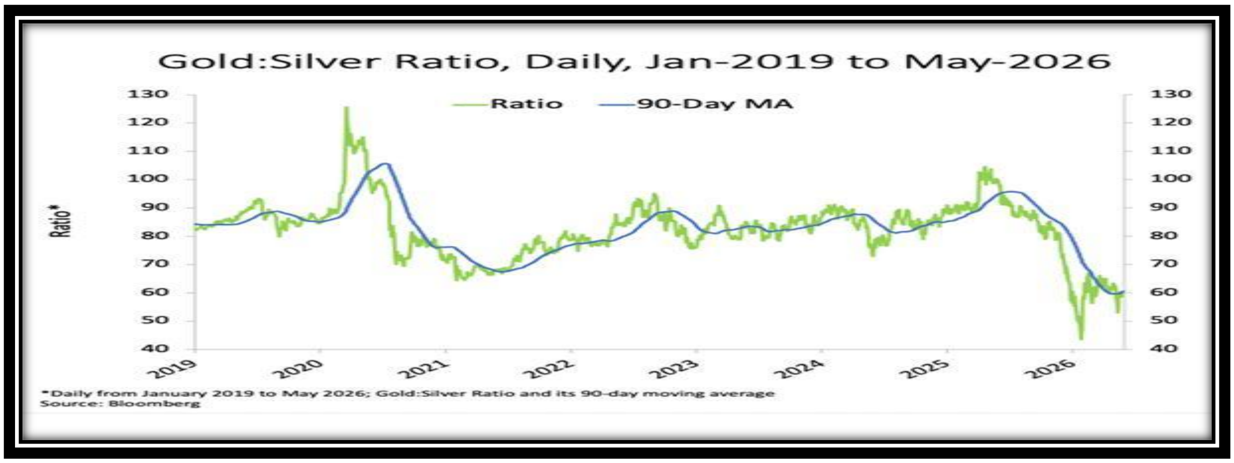
As noted here, what **Treasury Secretary Bessant** clandestinely did to prop up the yen has created a precedent for even more interventions and for some this signals that the real crisis has already begun. It is no coincidence that the **gold market** started to rise soon after this action taken by the US and I will discuss this more in a moment. To summarize, most investors have the Normalcy Bias and keep their focus on the equity markets which have risen at the same pace as money-printing since 2009. This is nothing more than the *inflated wealth effect*. Rising energy prices is causing trade deficits and this will lead to even more central-bank engineering to protect the fragile stock/bond markets.

As we know, **gold and silver** hit new peaks in January of this year. Why have the monetary metals been flat since then? The financial press would have us believe that it was a normal market adjustment or "correction" or metals were over-bought, etc. European gold broker **Laurent Maurel** points out that market interventions are in every sector of the global financial system as we see in the currency exchanges "These series of interventions also helps explain why the price of gold has been moving much less dramatically over the past several months than its fundamentals would suggest. If the markets were left to their own devices, the simultaneous surge in U.S. deficits, public debt, long-term interest rates, and money supply would likely have already triggered a much larger shift of capital toward gold. However, these imbalances are now constantly being cushioned by interventions from monetary and fiscal authorities," so **he writes**. "Support for the bond market, currency interventions, refinancing facilities, and active liquidity management: each new measure delays the natural price adjustment. Gold thus finds itself mired in a system where authorities are constantly seeking to smooth out the consequences of imbalances they can no longer resolve." The lords of finance are hoping to *smooth things over* but as **Ludwig von Mises** often stated, "There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved." The **Chinese** are not waiting to find out.



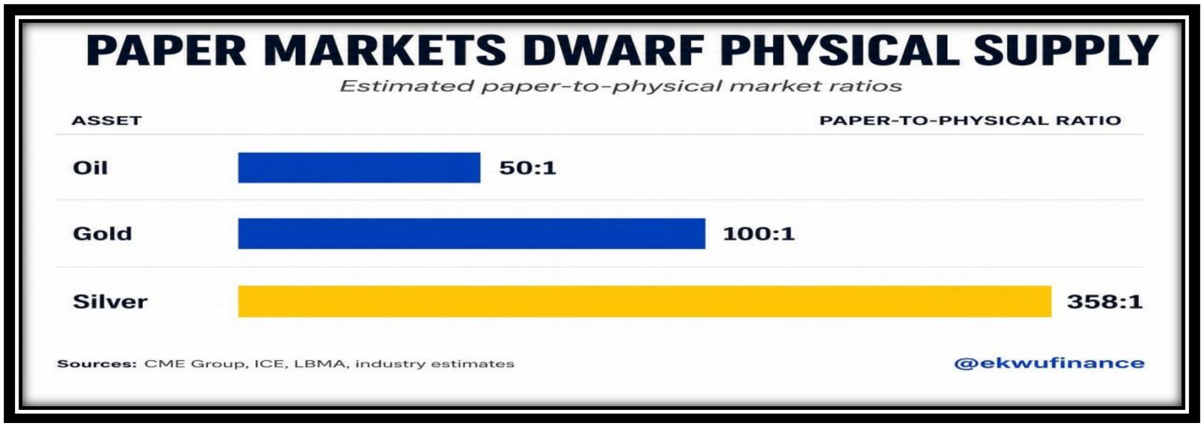
It is really no secret that **China** has been hoarding gold for the past **40** years or more. They are the number one producer and importer of gold account for **20%** of gold investment annually. They buy gold (and silver) regardless what the paper price is in the West and usually at a sharp premium as seen at THIS LINK. They have steadily reduced their US bond holdings and Japan is left as the largest bag holder of US debt. As I shared in my last newsletter, China adopted a new policy on **July 24th** to halt retail purchase of precious metals on margin. Why did they do this? Basically this is an effort to reduce volatility and promote thrift and stability. As the good folks at **Bullion Star** in Singapore note, "the policy direction appears consistent with a broader evolution of China's gold market: a shift away from short-term leveraged speculation and towards savings-oriented gold ownership. Rather than encouraging households to gain gold exposure through margin-based trading, the financial system is increasingly supporting participation through physical bullion, gold accumulation products and other fully funded investment channels." In other words, China *openly promotes gold/silver ownership* for its citizens and this is in sharp contrast to the West which barely mentions the monetary metals unless to disparage the metals. I also mentioned how earlier this year the Shanghai Gold Exchange (SGE) banned Western sources from participating on their platforms. They did this to directly target Western agents and proxies "who have used retail paper markets to artificially suppress gold and silver prices through massive short positions and spoofing tactics." China wants a legitimate gold market.

So how much gold does China have? Nobody knows. As of 1Q 2026 the official holdings are at 2,313 tons, but nobody believes this figure. Based on their aggressive production, refining and importing of gold and silver a better estimate is around 30,000 tons. Yes, *30,000 tons* of gold! The US has been claiming 8,133 tons of gold for years but this is also doubtful and most of it is either leased or rehypothecated or has counterparty issues. China's gold is a state secret and **Monetary Metals** offers this explanation. "Suppose China really does control substantially more gold than it acknowledges. Why announce it? Doing so could alert markets to the scale of Chinese accumulation. It could invite uncomfortable questions about Beijing's long-term monetary ambitions. And if China intends to continue buying, advertising the strategic importance it places on gold hardly helps it accumulate quietly. Secrecy preserves options." They continue. "There's another reason Beijing might prefer ambiguity today: China still operates extensively within the existing monetary order. It owns substantial dollar assets, and depends heavily on international trade. Deliberately undermining confidence in the dollar could therefore damage Chinese interests along with American ones." China's long-term monetary ambition is to become a new benchmark for gold and silver and provide a soft landing for their economy. The West has institutionalized fraud and interventions and *confidence* is the only thing holding it all together (as in con men) and this is becoming very fragile. As **Silver Academy** recently commented, "As trust erodes and intervention replaces markets, hard assets become the only neutral ground left. **Silver**, still deeply undervalued relative to both gold and real inflation, offers asymmetric upside. Gold anchors the system. Silver accelerates beyond it. When liquidity breaks and confidence follows, the re-pricing won't be gradual—it will be violent. Positioning early isn't optional. It's survival." The upside for silver deserves much more attention as we shall now do.



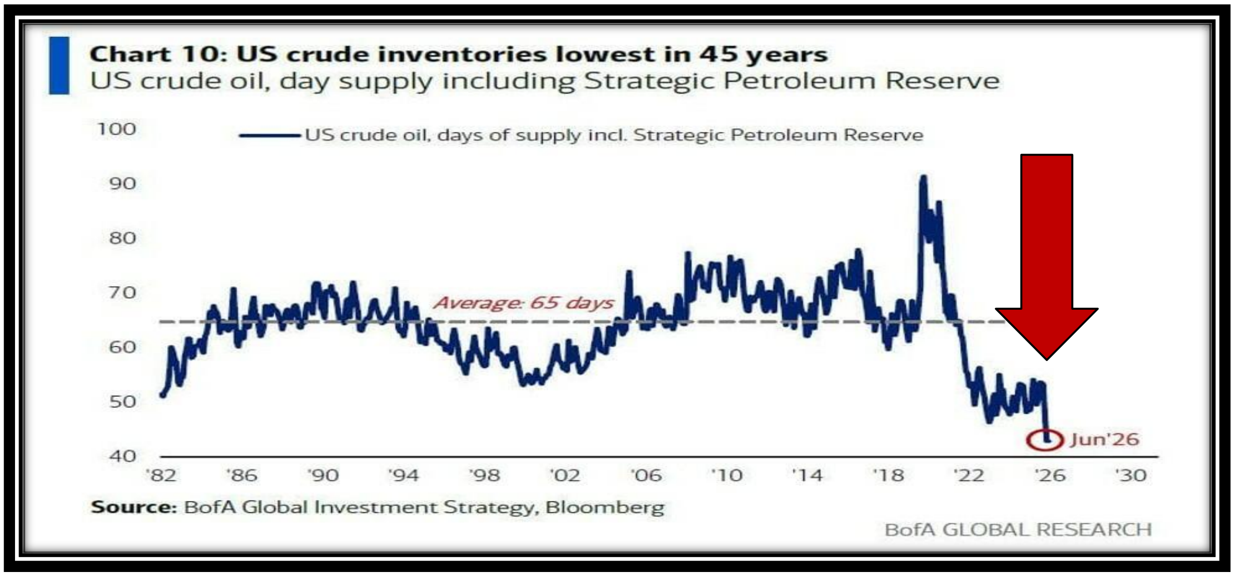
As seen in **the above chart**, the silver/gold ratio has been around **80:1** or higher for the past seven years or more. A more historical ratio would be **15:1** or even **10:1** based on extraction from the earth. The only reason for this distortion is market manipulation by the evil banksters and their agents. Silver is a very unique metal because it is both a monetary metal and industrial metal and this creates a **dual demand** for this very precious metal. **Bullion Star** highlights this feature. "Silver offers investors something no other asset quite replicates: a physical store of value with thousands of years of monetary history, backed by growing real-world industrial demand that is only accelerating. Its lower entry price makes it accessible, its dual demand drivers make it structurally supported, and its track record of outperforming gold during precious metals bull markets makes the long-term case compelling. Silver is a good investment, and one that rewards patient investors who understand its character." A recent example how silver outperforms gold was in **2025** with a hefty gain of 124% that beat every asset class. Silver is up 20% this month alone compared to the S&P 500 Index that is up 15% so far this year. The US dollar index has been dropping and this also gives a boost for silver and gold.

The last time silver tested **$50/oz**. was in **1980** and **2011**. Last October is when silver finally broke through the **$50/oz**. resistance. What caused this? Some saw this as a run up of prices due to the threat of an illegal tariff on silver imports to the US. Perhaps. We also know that China ramped up their refining capacity and started restricting silver exports while hoarding silver, and this has continued to this day. Silver has also been designated as a "strategic mineral" by nation states and this follows the sixth straight year of silver mining deficits directly affecting supply and demand fundamentals – these same fundamentals are now coming to bear. "Silver has experienced dramatic price swings over recent years," says **Sprott Money Blog**. "After finally breaking above multi-decade resistance near $50, prices have retraced but continue to hold historically strong levels. Rather than viewing this volatility negatively, we see it as a normal feature of precious metals bull markets. Parabolic advances are often followed by sharp corrections that shake out weak holders before the next major advance begins. For investors who accumulated positions years ago at much lower prices, today's correction represents a temporary setback rather than a fundamental change in the long-term trend." While I would agree that volatility is a normal feature of precious metals bull markets the "sharp corrections" are more due to interventions by the CME Group Comex and the London Bullion Market Association (LBMA).



As seen above, the amount of hedging, shorting and futures contracts against silver is far greater than any other commodity in the world. This is not normal. This is not a "free market" any more than the currency exchanges, stock indices or even bond yields. It is this kind of paper derivatives trading in the West that China is trying to ban with their exchanges. When silver reached a new high in January the banksters at Crimex immediately imposed a series of margin hikes against the long positions and this has mispriced the white metal as noted by the **Silver Academy**. "Silver is not merely cheap; it is profoundly mispriced against the monetary and industrial realities now converging around it. For years, investors have treated silver as gold's volatile little brother—useful in rallies, disposable in corrections. That complacency is precisely the opportunity. Silver has endured supply deficits, rising industrial demand, and a period of relative undervaluation versus gold and the broader metals complex. Yet price has refused to reflect that pressure. Markets can ignore a distortion for years. They cannot ignore it forever. When a compressed market finally breaks free, the move is rarely polite. It is abrupt, violent, unforgiving." This recent breakout for metals could be a signal that the bull market is again taking off. Not only has the US **currency** been debased through reckless fiscal spending but also our **coinage** through inflation. Nickels now cost 14 cents to produce and we saw the same thing happen with pennies that have more zinc than copper. As reported on **Zerohedge**, the Common Cents Act this year is an attempt allow more zinc in the nickel (currently 75% copper and 25% nickel). Now we learn that zinc "is flashing extreme tightness" as even the *base metals* are becoming too expensive! This is what late stage collapse looks like just as the Roman denarius became so debased by the 3rd Century. This is also known as Gresham's Law that bad money drives out good money in the real world.

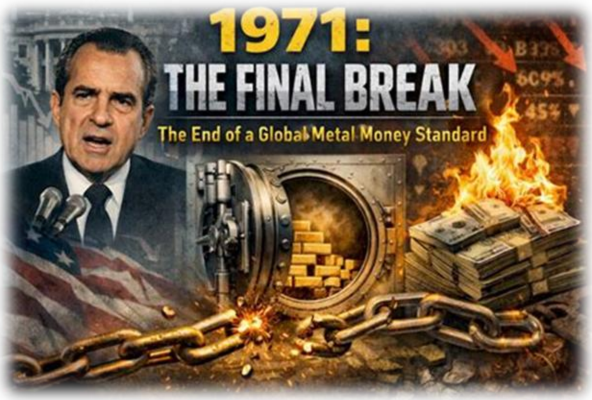
We also have another commodity that is flashing extreme tightness and that is **crude oil**. As I noted earlier, our misadventure into the Hormuz Strait has caused energy prices to hike and especially for foreign nations like Japan and others. This is also why the US has been steadily draining its Strategic Petroleum Reserve down to the lowest levels in **45** years. In addition, the administration has been shorting the oil futures market to artificially suppress the price of crude oil (just as they do in the silver and gold markets at Crimex). This is being done for political reasons of course but gasoline prices will have to rise before the end of the year as **Alisdair McLeod** has recently commented. "A notable development is that gold and silver are rising at the same time as the oil price. Oil prices are rising against a background of the US's oil suppression scheme running dry, with strategic reserves all but exhausted. The inflationary implications are for far higher wholesale and retail prices by the year-end, as indicated by the price of **diesel** which is a truer reflection of energy prices than oil itself."



Mention is made of **diesel fuel** and this is extremely important. **Fox News** picked up on this topic. "The fuel most Americans never think about could become the Iran conflict's biggest economic consequence. While gasoline prices grab headlines, **diesel** quietly powers the trucks, farms, freight trains and heavy equipment that keep the U.S. economy moving. From the groceries on supermarket shelves to the Amazon package on your doorstep and the materials used to build new homes, diesel is embedded in nearly every step of the supply chain. As prices rise, businesses face higher transportation costs that economists say often ripple through the economy, pushing up the cost of everyday goods. Diesel prices, which averaged $3.56 a gallon in January 2025, have climbed to $5.13 since the Iran conflict began, according to the US Energy Information Administration." Geopolitical analyst **Martin Armstrong** explains how these inflationary pressures expose our looming fiscal crisis in the US:

***The diesel crisis is especially dangerous because it is converging with a sovereign-debt crisis**. Higher transportation and food costs will keep inflation elevated, limiting the ability of the Federal Reserve to reduce interest rates. Higher rates increase the cost of servicing federal debt, which produces larger deficits and still more borrowing. **The government will spend more to offset the very inflation its policies helped create, and that additional spending will intensify the long-term fiscal problem.** This is not merely an energy cycle. It is the collision of war, inflation, and debt. **Crude oil receives the attention because it is easier to understand. Diesel reveals what is actually happening beneath the surface**. The record crack spread is warning that the world does not have sufficient refining flexibility to absorb simultaneous disruptions in the Middle East, Russia, and Asia.*

Armstrong concludes that efforts by this administration to "smooth things over" will backfire when reality hits home. "People will tolerate political incompetence while their standard of living improves. They become far less forgiving when prices rise and the government insists that everything is fine. By November, most voters will understand what the war has done to their wallets." Taken all together it seems like we are in a commodity war in the world with real tangible assets aligned against the global debt to GDP and inflated assets in the financial world. As I have been saying for years, we desperately need a **mark-to-market event** to establish genuine price discovery for every asset in the world. In other words, assets that are *overvalued* need to be marked to their real value and assets that have been *undervalued* need to be marked to their fair market valuations. The lords of finance are trying to maintain the status quo but our sovereign debt crisis is hastening the day of reckoning and this can be traced back to August **1971** when Nixon decoupled the US currency from **gold** exactly **55** years ago.

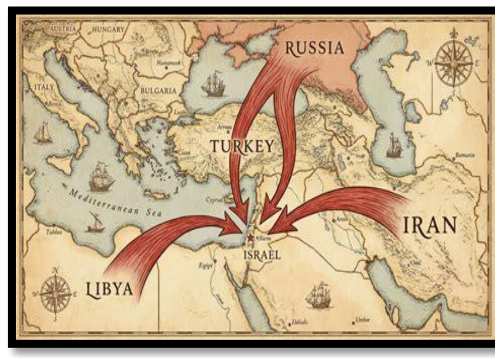


Back in **1971** the national debt was a mere **$380 billion**. Foreign nations were exchanging inflated dollars for gold and this was depleting our gold so we defaulted (a good example of Gresham's Law). Since that point the national debt has steadily risen. We hit our first trillion in **1981**. The debt was **$20** trillion in **2016** and has now *doubled* to **$40** trillion in just **10** years! As you can see, the removal of gold as a metallic standard has triggered this gross "credit expansion" of fiat currency and sooner or later warned **Ludwig von Mises** it results in a "total catastrophe of the currency system." This is where we are today. **The Mises Institute** highlights how banksters and politicians have benefited.

Bankers and politicians have had a mutually-rewarding relationship for ages. Bankers create money and loan it out at interest, which can be very profitable. *The trouble is, creating money electronically or with a printing press, which is what central banks do, is counterfeiting. In return for a share of the newly-created money, government lets banks get away with it. Government gets bigger, bankers get richer…* ***The story of gold's disappearance is part of a larger narrative about the growth of government. Besides being a check on bank counterfeiting, or inflation, gold is also a serious restriction on government expansion. For the advocates of big government, therefore, gold becomes a barbarous relic that stands in their way.***

Peter Schiff likes to say that inflation is the "silent partner" of the **Fed**. A central bank will *always* create inflation and the American people are being gas-lighted that everything is fine or we are in some sort of new Golden Era. This is delusional. **James Madison** said there are two ways to destroy a nation; the sword or debt. **Jefferson** warned that the "public debt is the greatest of the dangers to be feared." "Paper is poverty," wrote **Jefferson**, "that it is only the ghost of money, and not money itself." **Daniel Webster** railed against paper money and inflationary debt expansion that has exploited "the laboring classes of mankind." These men would be shocked to see what we have become today.

Summary & Conclusion. The global economy has become a complex and interdependent web of counterparty risk. What happens in one part of the world can affect other moving parts of the monetary system. The leveraged Japanese carry trade has been years in the making and now it is threatening to unwind trillions in speculative trades. The US is trying to persuade our creditor from dumping bonds to manage unsustainable bond yields in the Treasury market. If things were stable they would not need to do this and this topic has been all over the internet and financial media. Systemic risk is rising in the bond/debt markets and the US is ground zero. Inflation is a silent and *deadly* partner of the Fed and the coming energy spike will only make matters worse. The only reason the US has avoided worse inflation domestically is because the world needs dollars for trade "but after decades of exporting US inflation to the rest of the world, the increasingly diluted and unloved dollar is no longer just the world's problem, it's America's problem as well," writes **Matt Piepenburg**. The only way the lords of finance have been able to maintain this status quo is through confidence and that is fading. Gold and silver is not getting expensive – the currency is getting *cheap* and people know it. Inflation is a hidden tax on wealth and it is done deliberately to "defraud and plunder the people" as **Hayek** put it. The **Bible** calls this theft or stealing. "A false balance abomination to the Lord, but a just weight is His delight" (Pro. 11:1). "The love of money is the root of all sorts of evil" (1 Tim. 6:10). Silver and gold is taking on its historic role as a **flight to safety** and we will soon exceed the record highs seen earlier this year. As the folks at **Silver Academy** have stated, "When a compressed market finally breaks free, the move is rarely polite. It is abrupt, violent, unforgiving."



Finally, the **Bible** says that in the last days Israel will become a burden and "all the nations of the earth will be gathered against it" (Zech. 12:3). We are seeing this alignment now and the prophet Ezekiel predicted that Iran and Russia would invade Israel "to capture spoil" and try to destroy this tiny nation (Ez. 38:10-12). In **2010**, Israel discovered the largest LNG gas field in the area and this could be the spoil, but the main motivation is *ideological or even demonic.* The focus on Persia today is leading to a major confrontation and likely even nuclear. Shiite Muslims are anxious for the appearing of the Mahdi (Antichrist) and this is all fitting into a prophetic matrix or the final seven years prior to the **Second Coming of Jesus Christ**. For a better understanding of these events I invite you to watch this 37-min video by Greg Laurie and Mark Hitchcock – LINK. This also means the Rapture is near to remove believers in the world and that is why we need a Biblical Worldview and faith in our Lord in these times – LINK. I pray you are ready and trusting in Him. "The truth will set you free" (Jn. 8:32).

Until next time, your Messenger from Sandpoint,

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