

2022/5/1 Chuck Kawakami's Short Comment

The dollar's upward momentum will gradually weaken.

WTI, the main contributor to inflation, has not yet reached the \$130/bbl after it once marked the level in March, so as time goes by, the U.S. inflation rate, which is leading the way, will decline YOY. The impact of the minimum wage act by states will have run its course this year, so the rise in labor costs, which are not commensurate with labor productivity, should be coming to an end soon. Consumption growth will also begin to decline as inflation reduces real purchasing power. Therefore, I believe that the U.S. interest rate for the 10-year Treasury note will be close to the upper bound of 3%. The market's inflation expectation measured by 10-year break even inflation rate, is also becoming capped at 3%.

It will soon be the case that speculators will give up selling the yen in anticipation of a further sharp rise in US interest rates which almost discounted the above points (I think the recent developments may be a prelude to this). In any case, Germany and other European countries cannot survive without Russian energy, so they will continue to import it after all. Once the energy market realizes the political compromise, concerns will diminish. I think the 1.04 level at the moment is too much for the euro, and it is also bottoming.

Since the U.S. continues to run a sagging trade deficit and its external debt is deteriorating further, the dollar surplus will remain unchanged and will eventually depreciate as the current temporary dollar shortage is resolved. We believe that the anti-U.S. coalition forces of Russia, China, Iran, and others will economically reduce dollar settlements and proceed with settlements in their own convenient currencies in reality, and in the future, their possible options include digital yuan. This will accelerate as oil settlements move away from the dollar. Many countries in Africa and the Middle East potentially follow. This is a trigger of retreatment in the Western-style international order that has been in place for a long time. The symbolic system is the dollar standard system which is at risk to meltdown by multi polarization movements in the world.