

A recent debate touched on a possible Japanese U.S. Debt Sell off? Which in turn could trigger a US Dollar Meltdown?

Firstly I site that the disaster in Japan in my opinion is far from over, the question is how Japan will finance their reconstruction efforts. This has not been properly debated or reported; in fact it has remained relatively unaddressed.

Our initial research in to this tragedy has indicated that recent reports have estimated the damage is in excess of \$300 billion. At this point I could put that in to prospective by mentioning the fact that this figure is nearly four times higher than the amount required to fund damages caused by hurricane Katrina. I also further would comment that this number will likely rise the longer the nuclear crisis remains unresolved. So troubles ahead!

There are several problems facing the Japanese:

Everyone knows that the Tsunami has done a tremendous amount of damage to the landscape even when they get that cleaned up the authorities are going to have to address the big issue rebuild. Add to that fact that then they've got about 8 gigawatts of electrical generation that's been taken offline and there's no hope of restoring that anytime in the near future then one can see that the picture is not good.

I would also point out the obvious fact that the capital flows that have gone into Japan from exports are going to turn into capital flows going the other direction because Japan has to buy the materials that it needs in order to rebuild its society.

That said the main issue in terms of rebuilding is one of funding. While the US may send foreign aid to help get Japan back on its feet, such measures are not very popular due to the current state of affairs in the USA as my reports over the years have highlighted the US have massive debt levels and spending problems, I would then draw the conclusion that any support t provide by the USA will be limited.

Japan can't depend on international aid of any significance either, because, well, no one else gives like the US. Private donations may help people on the ground with food, clothing and shelter, but those are a drop in the bucket compared to what is necessary.

Considering that Japan is the third largest economy in the world, they will be left to come up with the money themselves.

How Japan will come up with the money is the relevant question.

Without printing more money how are they're going to raise the vast amount of cash, should they select this route they will cause problems for Japan latter on. They could start selling some of their US Treasuries. After all Japan owns about 20% of all US debt.

I would highlight that Japan's regular purchases of US Treasuries are about to come to a screeching halt, or at least, be reduced significantly. This fact alone is going to mean that the USA is going to have to find someone to step in to buy up that excess debt.

My opinion is that this is likely to be swallowed up by the usual source of funding for new issues. But even if the Federal Reserve were to buy up the new debt that Japan won't, there is the question of how Japan is going to fund the \$300 billion plus in recovery efforts. And given that there is no end in sight trouble will continue to plague this region. **Those invested in RIO Professional Investors Fund may recall that in last weeks report any continued trouble from this region will benefit this fund, due to trading strategies currently utilized.**

US Treasuries

The question is, will Japan need to sell off some of its US debt in order to pay for recovery and reconstruction efforts? And if so, could that be the initial trigger that starts the domino effect that will lead to a US debt sell off, and ultimately, a currency collapse? Until a month ago this was nowhere on the radar. Now, we have every reason to be concerned about this possibility.

It may be the obvious thing to do simply sell some of there US treasury holdings. Fortunately the danger for the United States is not tomorrow, it's a few months out. Right now Japan are still trying to clean up the mess. But once they actually start actively rebuilding they're going to have to have a way to finance this.

The above scenario is where the danger comes from, because if Japan were to start selling Treasuries, it would be realistic to assume that the Chinese, who hold a far larger amount of US treasuries, would view such actions negatively. Perhaps the Chinese would have feeling that if they don't sell now they lose even more. I draw members attention to the fact that during January Treasury Secretary Tim Geithner confirmed that the United States are literally on the brink of a catastrophic debt collapse resulting from a need for money and raising of the US debt ceiling. The point being, it's very clear that the USA is already in serious trouble.

If Japan were to stop buying our treasuries and actually start selling their existing US debt holdings, it could potentially accelerate the already destructive path on which the USA embarked on some time ago.

As I have suggested previously, all it will take is for buyers and holders of US debt to say 'no more' and the game is up. We're talking manly about China, if they were to pull the plug on the credit they have thus far extended to the USA this would have devastating results.

This may be a low probability event, but a very serious scenario if it were to raise its head.

William Gray

The RIO Club