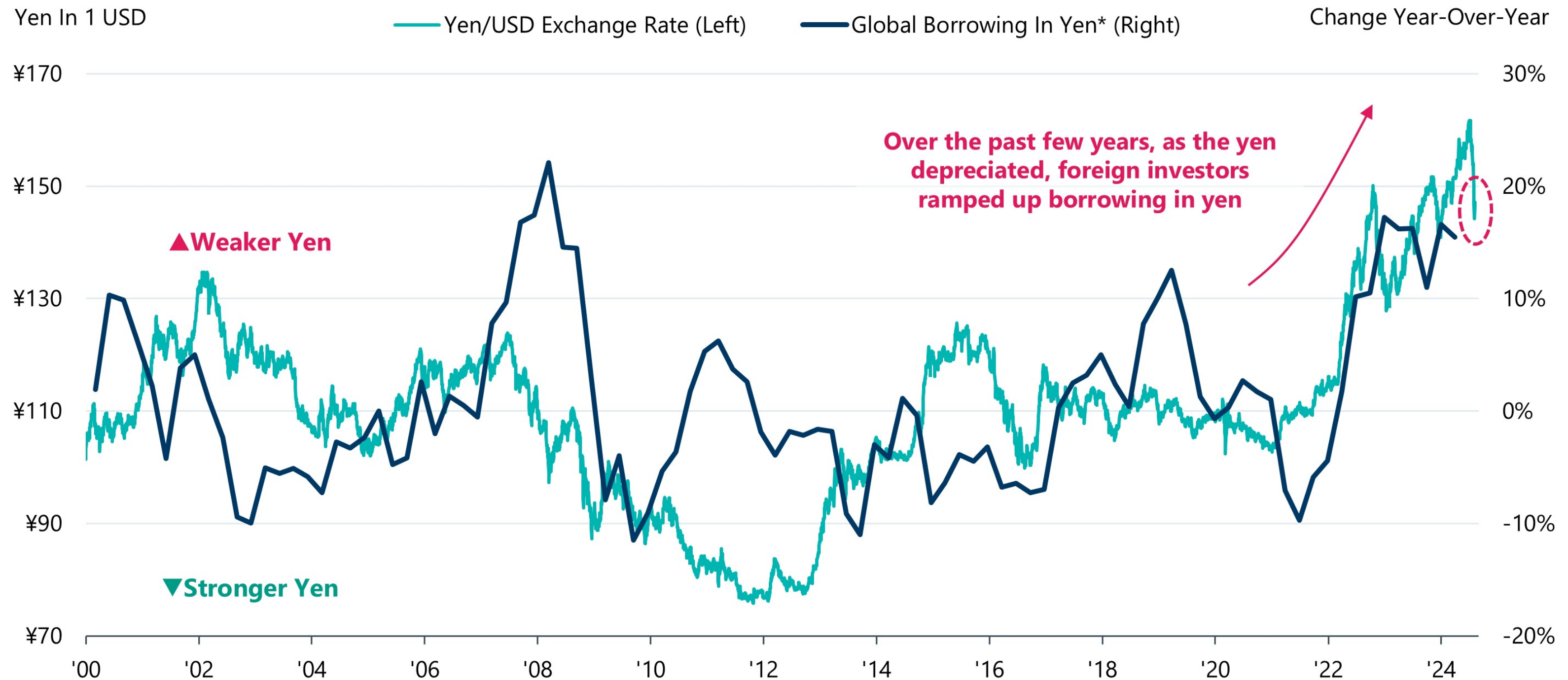


## Carried Away

Global Borrowing Denominated in Yen Versus Yen/USD Exchange Rate

For The Week Ending 08/09/2024



Source: Bank for International Settlements, Bloomberg

\*Credit extended by all (foreign and domestic) lenders to non-financial corporations, general government, households, and nonbank financial institutions outside of Japan

When market turmoil erupts, investors demand an explanation—or, more often, someone to blame. Central bankers serve as easy targets for such ire. "Blame the Fed," many investors say. "They're obviously behind the curve." We don't think the story is so clear-cut. One might blame the Bank of Japan (BoJ). After all, while the Fed held rates steady last week, the BoJ hiked. Why does that matter? Decades of low rates and a weaker yen made borrowing in the yen attractive (since it's cheaper) to global investors. We have seen the yen-carry trade play out before (e.g., 2006-2008). This time, tech stocks, global bonds, and crypto may have been destinations for the levered capital. Unwinding positions all at once might explain the global cascade of financial market movements. What doesn't explain the turmoil? The U.S. labor market. Data this week showed the largest drop in layoffs over a week this year. Don't get *carried away* blaming the Fed.