

## Ominous Signals From Japanese Bond Yields

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Japanese Government Bond (JGB) yields have been testing key technical levels over the past day or so. On Tuesday, the 10-year yield hit a five-month high of 1.48%, up sharply from 1.25% at the beginning of October. The yield failed to break higher on Wednesday, but I am watching resistance (or support in price terms) at this level to determine the next move. Higher yields would appear to reflect growing concerns about Japan's colossal debt burden, which the IMF sees at 227% of GDP in 2010.



Also noteworthy is that Japan's five-year credit default swap (CDS) spread is now the highest among developed states, having widened through Italy over the past week or so. Japan's 5-year CDS spread is now trading at 76 basis points, compared to 73 bps for Italy, and more than double the 37 bps it was trading at in mid-September (when the new government of Prime Minister Yukio Hatoyama took over from the Liberal Democratic Party after 55 years). Significantly, Japan's CDS is also now wider than several emerging markets, such as the Czech and Slovak Republics and Chile.

Japan's rising debt should be giving government officials sleepless nights. As I mentioned previously, I see no happy way out of this mess. At some point, something has got to give.