Reminder: Devaluing The Dollar Is A Feature Not A Bug

- ***Trump Tariff Terrors - Europe Addition Round 2***
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Trump Tariff Terrors - Europe Addition Round 2

Trump wants Greenland. Greenland is not for sale & they told him so.
Trump threatens Europe with higher tariffs. Some silly European leaders threaten the 'nuclear option'.
No, not nuclear war… selling US treasuries!

Don't bite. It would be a self-detonation if Europe central banks did that.
Cue *Kathleen Tyson who helped build this treasury/payment system for Europe*:

> ***"US could take the hit much better than Europe could withstand retaliatory selling of gilts, bunds, and tresors! The potential for blowback in European rates and volatility is massive, systemically disruptive."***

However, that doesn't stop individual banks/pensions/funds from selling US Treasuries. And we saw news of that today.

Ben Hunt @EpsilonTheory

$25 billion public pension fund exiting US Treasury holdings.

Danish Pension Fund AkademikerPension to Exit US Treasuries

By Frances Schwartzkopff
01/20/2026 08:35:31 [BN]

(Bloomberg) -- The Danish pension fund AkademikerPension is planning to exit US Treasuries by the end of the month, amid concerns that the policies of President Donald Trump have created credit risks too big to ignore.

8:55 AM · Jan 20, 2026 · **179.8K** Views

I also talked about these recent events premarket today with Jason of volland-dealer-positioning:

Market Moves with Vol.Land

From these Trump tape bombs each weekend, to this expected Tuesday weakness post Friday’s OpEx to our expectation markets retrace back up after the Supreme Court decision is released Wednesday and with it VIX expiration/stabilization potential.

Then I jumped into my live trading room & gave reminded clients $SPX $6807 for target short today. Jason was closer; he gave $6795 as overshoot level & we closed at 6796.86!!

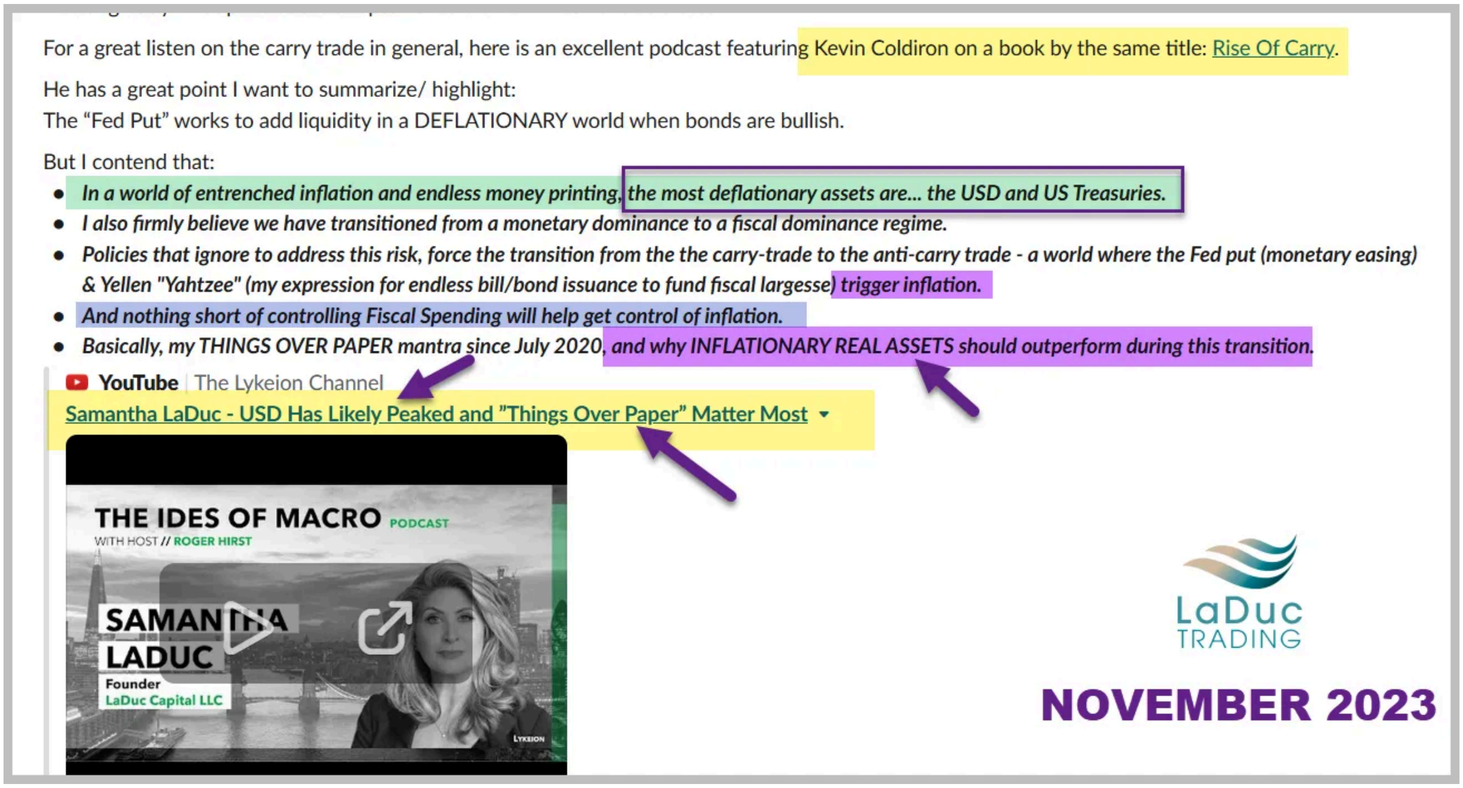
Reminder: Devaluing The Dollar Is A Feature Not A Bug

Europe will likely retaliate by increasing tariffs and aligning closer with China in response to this “America First/America Alone” agenda.
Both should drive the continued trend of US dollar de-dollarization.

Say what you want about Carney, but he summed it up extremely well in a speech at Davos today:

> ***"American hegemony in particular helped provide public goods, open sea lanes, a stable financial system, collective security … this bargain no longer works. Let me be direct. We are in the midst of a rupture, not a transition … recently, great powers have begun using economic integration as a weapon. Tariffs as leverage … "***

I've been on this theme for awhile now:


For a great listen on the carry trade in general, here is an excellent podcast featuring Kevin Coldiron on a book by the same title: Rise Of Carry.

He has a great point I want to summarize/ highlight:
The "Fed Put" works to add liquidity in a DEFLATIONARY world when bonds are bullish.

But I contend that:

- *In a world of entrenched inflation and endless money printing, the most deflationary assets are… the USD and US Treasuries.*
- *I also firmly believe we have transitioned from a monetary dominance to a fiscal dominance regime.*
- *Policies that ignore to address this risk, force the transition from the the carry-trade to the anti-carry trade - a world where the Fed put (monetary easing) & Yellen "Yahtzee" (my expression for endless bill/bond issuance to fund fiscal largesse) trigger inflation.*
- *And nothing short of controlling Fiscal Spending will help get control of inflation.*
- *Basically, my THINGS OVER PAPER mantra since July 2020, and why INFLATIONARY REAL ASSETS should outperform during this transition.*

YouTube | The Lykeion Channel
Samantha LaDuc - USD Has Likely Peaked and "Things Over Paper" Matter Most

March 7, 2025: **BALANCE OF TRADE IS THE END GAME**

> ***"Central to that agenda is for the overvalued USD to fall - by a lot - if US exporters are to have a real fighting chance at competing abroad and incentive to invest in US production to support a major policy agenda of forcing US consumers to spend locally not globally.*** Tariffs are part-and-parcel to this investment & spending regime change."

July 8, 2025: **A CURRENCY IS ONLY AS GOOD AS THE ASSETS IT BACKS**

> ***"DB is out saying the dollar needs to weaken 30-35% to correct Net International Investment Position (NIIP) and Current Account imbalances."***

Because the US runs a trade deficit of size with foreign trading partners, financed by debt, foreign liabilities greatly exceed foreign assets held.
Changes in asset prices (like stocks and real estate) and exchange rates can significantly impact NIIP, but the largest affect to NIIP comes from currency valuation.

When Trump talks of balancing our trade deficit through tariffs - - like he did again today - he is trying to drive the value of the US dollar lower.

As ***Geoffrey*** and I have discussed and posted for many months, Trump's plan of devaluing the dollar is a feature, not a bug, of his plain to maintain US exceptionalism through isolationism.

The end game is to avoid a US dollar & sovereign debt collapse.

Japan Caused A VAR SHOCK Not Greenland

It was more than trade war escalation with Europe...

- Dollar Down
- Bonds Down
- Equities Down
- Bitcoin Down
- Gold Up 4%
- VIX Up 27%

Many may not realize there was a **severe dislocation in Japanese bond markets**, that lead to 6 standard deviation move (as per Secretary Bessent), causing global yields to spike.

And it was the spiking JGB yields which spiked gold.

Weston Nakamura asks a good question:

> "what if Japanese capital no longer wants to be hoarding neither useless cash nor junk-sovereign bonds?"

He tries to answer it in his post:
How politics, Takaichi fiscal policy, MOF short-term JGB issuance and JPY will shape market history in 2026.

But I want to highlight an important section to make sure you don't miss it!

> **Global impact and spillover risk**
>
> A front-end JGB problem does not stay domestic because the holders and the plumbing are not domestic-only.
>
> Foreigners own more than half the share of bills and front-end paper outstanding. Even if the motive is collateral, repo usage, or liquidity management, that ownership base cares about volatility, haircuts, and functioning auctions. If front-end yields gap and funding stress becomes persistent, collateral behavior changes, repo behavior changes, and risk limits change. ***That is how "local funding" becomes "global de-risking.***

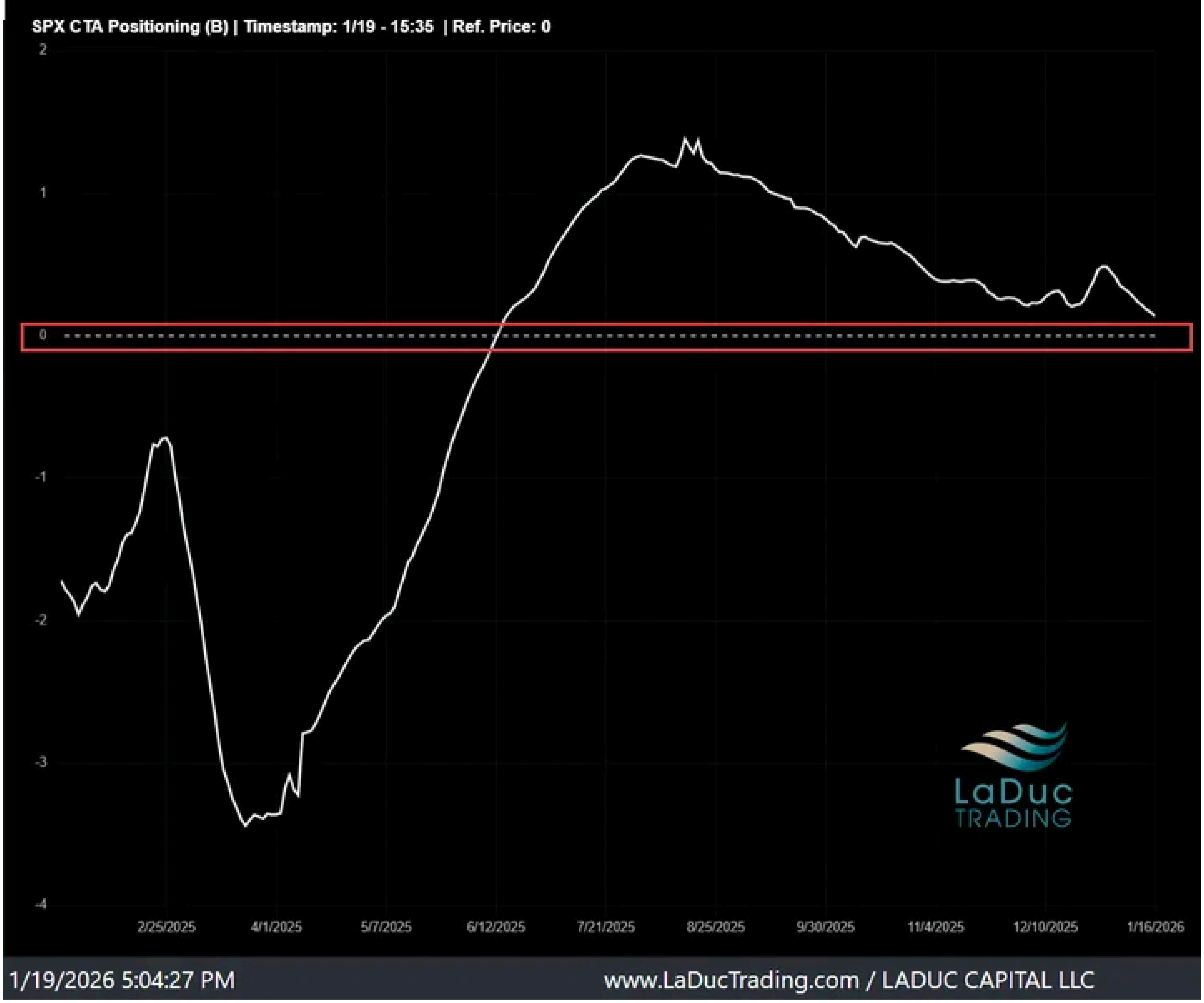
> *"*JPY is still a funding currency in risk positioning - the carry trade. A sharp move in JGB front-end yields can force changes in hedging costs, funding assumptions, and balance-sheet usage even without a clean, immediate spot JPY rally.
>
> Now - ***carry can unwind through vol and funding channels, not only through spot FX. So, if a hedged carry suddenly becomes expensive because front-end funding costs and hedging basis shift, positions can get reduced even if spot JPY does not instantly strengthen.***
>
> ***In other words, its entirely possible to see a carry trade unwind without much movement in spot JPY itself.***
>
> And if spot JPY does move violently, then we know what this movie looks like - global risk assets de-risk, credit widens, EM FX gets hit, and rates markets react because Japan remains one of the largest pools of duration and one of the largest potential sources of cross-border flow shifts.

Translation: it means USDJPY can move higher still… with global yields and gold.

6700 Line In Sand

Despite Trump's over-reach this weekend on Greenland & retaliatory EU tariffs (both directions), it would not surprise me if 6700 is a battle ground, SO protecting/defending there makes most sense to me, still.

I am stalking CTAs to see if they start selling, but we would need to get below 6700 for that to really trigger.



Until then, unless I see selling of size under the surface with follow through with FX/RATE/EQUITY volatility, CTAs are approaching an inflection point of buying or selling...and as price-insensitive quants, I can see the levels where danger enters or is averted, and likely that is that 6700 line.

I will be watching the levels for SPX, CTAs, and JGB - now expecting BOJ/MOF intervention to be the reason metals pull back, as clearly VIX spiking higher without yen is a tell that a funding spiral in JAPAN is in full view without admitting it while yield curve control approaches on the front-end while they simultaneously talk about rate hikes to the press.

It's a trap.

And the Japanese know it, which is why gold is better than hoarding neither useless cash nor junk-sovereign bonds.