Gold price spiral and Japanese bond market selloff signal deepening financial turmoil

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The price of gold has surged to more than $5000 per ounce, up by a further 3.5 percent yesterday to reach $5,185, signalling a growing lack of confidence in the US dollar as the global currency.

As gold was powering through the $5000 mark to a new record high, another indication of growing global financial instability was the crash last week of the Japanese government market (JGB). The sell-off saw the yield (interest rate) on a 40-year bond rise by 0.25 percentage points in a single session. Under “normal” conditions, movements are usually a tiny fraction of that amount. There was also significant movement in shorter-dated bonds.

The gold price rise was accompanied by a 13.6 percent increase in the price of silver to $117 per ounce—a new record.

Gold has risen by more than 20 percent so far this year and all forecasts are that it has still further to go as investors shift out of the dollar and US assets. Much of the shift is by traders and financial speculators seeking a hedge against inflation, further falls in the value of the dollar and the rise of geopolitical risks resulting from the aggression of the Trump regime against allies and foes alike.

But central banks have also been major purchasers of gold in the recent period helping to send its price from $2,063 at the end of 2023 to above $5,000 today.

Last week the Polish central bank announced it was purchasing another 150 tons of gold—more than the entire holdings of Mexico and Brazil.

Artur Sobo?, a member of the management board of the Polish central bank, told Bloomberg: “Our primary goal is to build an appropriate portfolio for these unstable geopolitical times, one that will guarantee Poland stability, security and credibility. The price is not a primary consideration for us.”

The Polish central bank has been one of the major purchasers of gold but its concerns about instability are held by others.

The immediate cause of the Japanese bond market selloff—trading conditions were described as “chaotic”—is concern that the program of the Sanae Takaichi government to implement tax cuts and increased spending, for which it is seeking a mandate at the February 8 election, will be financed by increased debt.

Fears have been voiced this could lead to a mini version of the UK “Liz Truss moment” of September-October 2022. The Tory government she led sparked a bond market crisis when it sought to cut taxes for corporations and the wealthy by increasing debt. It was only resolved when the Bank of England intervened and Truss was forced to quit.

The events of last week did not come out of the blue but were a continuation of sharps shifts in Japanese markets over the past two years—most notably last July in response to uncertainty generated by Trump’s global tariff offensive in April as well as the Bank of Japan’s lifting of interest rates.

Basing itself on analysis by Arif Husain of T Rowe Price, a global investment management firm, a Bloomberg report described rising rates in Japan as a “financial San Andreas fault-line, with each tremor leading to feverish speculation over when the big one will come.”

It said the selloffs in the $7.3 trillion government bond market have been getting wilder and more frequent since the Bank of Japan moved away from its low-interest rate regime in March 2024. On nine occasions the movement has been worse than the average.

But even by that metric the selloff of January 20 stood out. In response to the election announcement by Takaichi, the rise in the yield on the 30-year bond was eight times the average daily trading range over the past five years.

The turmoil in the Japanese market has major implications for the US Treasury market and its capacity to keep funding ever-expanding US debt. It is now at $38 trillion and set to rise even further with the announcement by Trump that he is seeking a military budget of $1.5 trillion.

Japanese investors hold 13 percent of the US Treasury market debt. The fear is that at least some of this money will be returned home if Japanese interest rates rise sharply.

World markets and the US market in particular have been able to finance growing government debt at lower interest rates than would be justified by their deficits because of the availability of cheaper money from Japan.

One of the effects of the bond turmoil has been the lowering of the value of the yen which has sparked concern in US financial circles. Amid speculation that the government would intervene in the market to stabilise the yen, it emerged the New York Federal Reserve had contacted Japanese financial institutions about the yen's exchange rate—regraded as a sign that a joint intervention might take place.

On Monday, Atsushi Mimura, the currency chief at the finance ministry said: "We will continue responding appropriately against foreign exchange moves, working closely with US authorities as needed."

His comments followed remarks by Takaichi who said the government would take "all necessary measures to address speculative and highly abnormal movements."

In remarks reported on Bloomberg, Anthony Doyle, chief investment strategist at the global financial firm Pinnacle Investment Management, explained why a falling yen posed a problem for the US.

"If the yen slides hard, Japan has to defend it, and the fastest lever is selling reserves, including Treasuries. That's how a Japan problem turns into higher US yield at exactly the wrong moment," he said.

The Japanese government and the central bank are compelled to try to maintain the yen's value because a major fall increases costs for industry which relies heavily on imports for oil and many other raw materials as well as industrial components. It also increases the rate of inflation for consumers which has already started to rise.

As governments and financial authorities move this way to try to contain the immediate effects of mounting financial turbulence, the underlying problems which give rise to it remain.

They centre on the growing lack of confidence in the US dollar as the global fiat currency, reflected most sharply in the skyrocketing price of gold, and the growth of government debt in the US and around the world.

In remarks reported by the *Wall Street Journal,* Neil Shearing of Capital Economics in London described the Japanese bond market upheaval as a "red flag."

"It's another symptom of the vulnerabilities bubbling under the surface of advanced economies," he said.

At the centre of those vulnerabilities is the growth of debt. Total global public debt is expected to reach more than 100 percent of global GDP over the next three years, according to the International Monetary Fund.

There are two major components of the expected increase—rising military spending and increased interest payments. In the US, the annual interest bill is rapidly approaching $1 trillion, more than doubling over the last four years, with a similar increase in the cost of servicing debt on Germany and Japan.

No amount of financial manoeuvring can get around this problem.

The "solution" to this developing crisis from the standpoint of the ruling classes is a massive intensification of the onslaught against the working class, already well underway. There is no kind of "reformist" solution for the working class within the framework of capitalism. The only way forward is the development of a conscious political struggle for the abolition of the crisis-ridden capitalist system and the establishment of socialism.