# FOREX FOCUS: S&P Puts Global Debt Back In Focus

27 Jan 2011, 13:45

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A DOW JONES NEWSWIRES COLUMN

LONDON (Dow Jones)--Who's next?

That was the question reverberating through the financial markets after Standard & Poor's unexpected announcement Thursday that it is downgrading Japan's credit rating to AA- from AA.

The announcement, prompted by the continued deterioration in Japan's fiscal position, suggests that rating agencies have now moved on from the sovereign-debt crisis in Europe and are starting to focus on the structural debt problems facing other major economies.

The ratings agencies aren't the only ones putting debt center-stage.

In his State of the Union address earlier this week, U.S. President Barack Obama launched plans to start putting a cap on the U.S. deficit, a big reversal from his administration's previous free-spending policies.

In the U.K., the cost of addressing the public deficit also came into sharp focus this week when GDP figures for the fourth quarter of last year showed a sharply contracting economy.

Although the credit agencies have already cut the ratings of many euro-zone debtors, in the case of some 'peripheral' countries all the way down to junk, there still remains the risk of further cuts.

Let's face it, current rescue plans are aimed at helping these euro-zone countries continue to service their debt, not necessarily reduce their overall levels.

S&P has had Japan on negative credit watch since this time last year.

With the country buckling under a debt-to-GDP ratio up at 170% even before the start of the recent financial crisis, and with deflation still posing a problem after years of easy monetary and fiscal policies, the Japanese economy hardly seems an attractive place to park money.

Nonetheless, the timing of the S&P news did come as a surprise, knocking the yen sharply lower across the board.

Over time, the move could well help to weaken the yen to around Y90 to the dollar, especially if the financial markets start to speculate on the need for even more easing of monetary policy by the Bank of Japan.

See how the dollar has fallen against the yen over the last few months:
http://www.dowjoneswebservices.com/chart/view/5354

For the moment, though, the impact on the yen should be limited as the Japanese currency simply isn't that vulnerable to international investment flows.

With only 5% of Japanese government bonds held by foreigners, there is little scope for a wholesale pullout from the country as there might be in the case of other debtors.

So, despite the jolt, the yen is still trading within its recent range against the dollar, with any further decline in the Japanese currency more likely to be triggered by positive news for the dollar.

Certainly, new trade data suggest that recent pressure on Tokyo to push the yen lower is subsiding. Exports rose by a much stronger-than-expected 13.1% in December from a year before, reflecting increased sales to China as well as the U.S. and suggesting that Japanese exporters remain highly competitive despite having to deal with what many consider a highly overvalued currency.

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| Bloomberg | TNI FRX POV |
| Reuters | USD/DJ |
| Thomson | P/1066 or P/1074 |

January 27, 2011 07:45 ET (12:45 GMT)