

Japan Shows How Treasury Bonds Could Be a Weapon in Trump's Trade War

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Every country that owns a significant amount of Treasury debt has the option to sell it to push back against President Donald Trump's tariff policies. Japan just happened to say it out loud.

"It does exist as a card," said Japanese Finance Minister Katsunobu Kato, when asked in a Friday television interview if the country's current commitment not to sell U.S. Treasuries could be used as a negotiation tool in trade talks. "Whether we choose to use it or not would be a separate decision," he added, according to the [Associated Press](#).

Japan has long been the largest foreign holder of U.S. debt, currently owning \$1.13 trillion worth of Treasuries. China comes second at \$784 billion, followed by the U.K.

Kato didn't suggest that Japan is planning to sell Treasuries. But the fact that he referred to Treasuries as a trade-war tool amounts to an unusual threat from an ally. It highlights a willingness to take a more assertive stance. Japan's government has historically hesitated to signal any sales given the potential destabilizing effect on global financial markets.

"Japan's Kato (FinMin) playing a strong hand," Martin Whetton, head of financial market strategy at the Australian bank Westpac, wrote on [BlueSky](#) on Friday. Last month, Itsunori Onodera, chair of the governing Liberal Democratic Party's Policy Research Council, said Japan shouldn't intentionally use Treasuries as a tool for retaliation, according to a Reuters report.

A deep-pocketed investor like Japan selling U.S. Treasuries would be problematic for the U.S. bond market. It would increase the risk of volatility, cause yields to spike, and reduce global market liquidity. In an extreme case, the Federal Reserve would have to jump in as a lender of last resort to buy what Japan sold, though that would effectively run counter to the Fed's current policy of scaling back its balance sheet.

Selling Treasuries would also be a shot in the foot for Japan. With most of Japan's foreign reserves held as U.S. debt, preserving its value is in its best interest. Options to reinvest the money are limited. Converting dollars to yen to bring the cash back to Japan would increase the value of the yen, reducing the cost of imported goods. That would hurt Japan's efforts to exit three decades of deflation.

"Like a guy in a crime story, opening his coat to reveal a gun in the holster that was already known to be there. I think Kato was saying aloud the obvious but not that it would be used," Marc Chandler, a political economist and chief market strategist at Bannockburn Capital Markets, told Barron's.

So far, data have shown no real signs that foreigners have stepped up sales of Treasuries. So-called allotment data, the most definitive way to assess the performance of U.S. Treasury auctions, showed strong buying of the two most important tenors, the 10- and 30-year debt, in April. Data from the Ministry of Finance of Japan showed Japanese investors sold a net \$17.6

billion of longer-dated Treasury securities in the week when Trump announced tariffs, but they have been net buyers in the last two weeks.

The comments from Japan's finance minister have put an intense spotlight on next week's sales of Treasury debt. The department is auctioning \$42 billion in 10-year notes on Tuesday and \$25 billion worth of 30-year bonds on Thursday. The Federal Reserve's rate-setting committee is meeting on Tuesday and Wednesday.

Weak demand at the bond auctions could overshadow the Fed meeting, especially given that Chair Jerome Powell is widely expected to leave interest rates unchanged.

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