

Daiwa's View

Inflow of overseas funds increased, as expected

- Will inflow of overseas funds to long-term debt securities continue?

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Daiwa Securities Co. Ltd.

Will inflow of overseas funds to long-term debt securities continue?

Inflow of overseas funds increased, as expected

At the beginning of this week, I pointed out that *International Transactions in Securities* (weekly; based on reports from designated major investors) during 5-11 July would be [this week's point to watch for](#), and this was announced yesterday. The data confirmed that investment in Japanese bonds by overseas investors has turned around from the downtrend thus far. Specifically, net buying of long-term debt securities by overseas investors came in at Y749.6bn vs. substantial net selling last week (Y746.5bn, 28 Jun-4 Jul) and the week before last (Y1,393.9bn, 21-28 Jun).

Chart: Investment in Debt Securities by Overseas Investors: Change in Overseas Investor Trend?

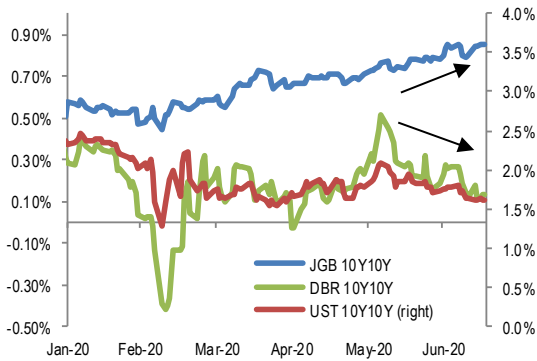
(Y bn)	Bond investment by non-residents	Short-term bond investment by non-residents
	JSIHBOND Index	JSIHSOR Index
10-Jul-20	749.60	1,058.10
03-Jul-20	-746.50	2,274.70
26-Jun-20	-1,393.90	344.00
19-Jun-20	261.40	1,235.20
12-Jun-20	-484.30	102.30
05-Jun-20	-738.80	3,221.50
29-May-20	157.90	2,523.00
22-May-20	551.10	137.90

Source: Bloomberg; compiled by Daiwa Securities.

Alongside the amount, the focus of attention is that investment in long-term debt securities has again increased. Of course, one week's data is not enough to conclude that the trend has turned around. In addition, we need to pay attention to the fact that this week's data, corresponding to the beginning of the month, includes the aspect of unwinding to adjust positions at the end of June. Meanwhile, we cannot ignore the fact that now (beginning of Jul) is the timing for overseas investors to start full-scale investments in the second half of the year (Jul-Dec).

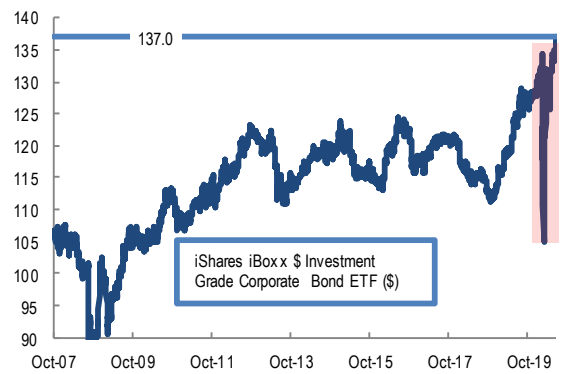
Turning to the trends of overseas markets, the steepening of US and European yields has already let up and they are entering [a new phase of flattening](#). In addition, the financial environment is accommodative due to a rebound of business sentiment from the shortest recession in history and a plunge in the real interest rate. Under the circumstances, the S&P 500 Index has almost recovered to the pre-pandemic level and the iShares iBoxx \$ Investment Grade Corporate Bond ETF has set record highs for consecutive days. In other words, overseas markets are staging across-the-board buying, rather than rotating from bonds to stocks. Investors are rapidly hunting out yields of safe assets.

Chart: 10Y-forward 10Y Yield Trend in Japan Largely Diverged from Trend in US and Europe



Source: Bloomberg; compiled by Daiwa Securities.

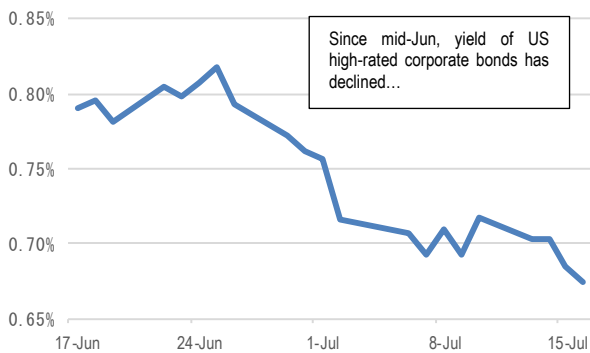
Chart: US Investment Grade Corporate Bond ETF Continuing to Set Record Highs



Source: Bloomberg; compiled by Daiwa Securities.

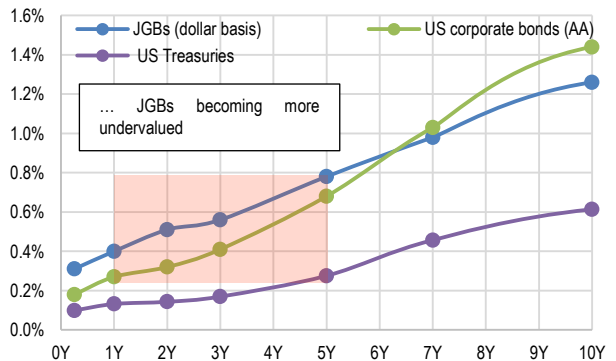
In fact, due to the search for yields, the yield of AA-rated US corporate bonds with residual maturity of five years has declined from the 0.8% level to the 0.6% level. In such a situation, the balance of relative value appears to be changing to a direction to highlight the cheapness of JGBs from the viewpoint of overseas investors (chart below). If we continue to see a decline in US corporate bond yields and a rise in JGB yields (more undervaluation), overseas money in search of yields is likely to flood into the JGB market at some point. The fact that investment in Japanese debt securities by foreigners in July was the highest since March implies that such investment has already started. The correlation between investment in Japanese debt securities by foreigners on a cumulative basis and yields of short-term and intermediate JGBs has been confirmed to some extent, and thus our eyes are on whether the inflow of overseas funds will continue.

Chart: Yield of US Corporate Bonds (AA+, AA, AA-, 5Y BVAL)



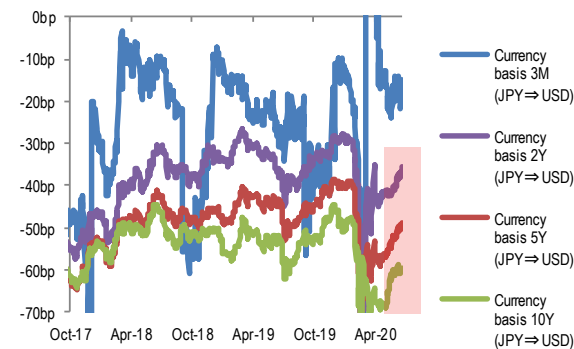
Source: Bloomberg; compiled by Daiwa Securities.

Chart: Yields of US Treasuries, US AA-rated Corporate Bonds, Dollar-denominated JGBs



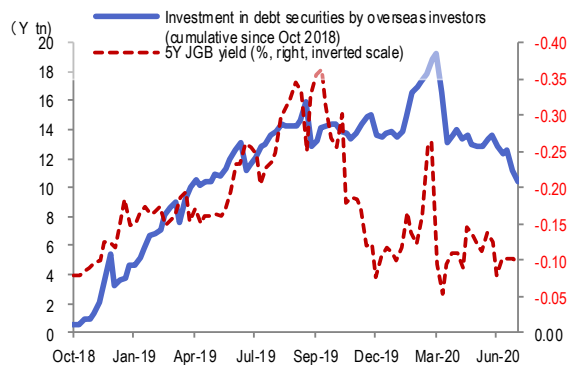
Source: Bloomberg; compiled by Daiwa Securities.

Chart: Negative Spreads on USD/JPY Currency Basis Continuing to Narrow



Source: Bloomberg; compiled by Daiwa Securities.

Chart: Cumulative Investment in Debt Securities by Overseas Investors and 5Y JGB Yield



Source: Bloomberg; compiled by Daiwa Securities.

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- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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- 2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITs: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).
- 3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.
- 4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.
- 5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).
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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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