

Daiwa's View

Decoupling has started

- US, UK vs. Europe, Australia—where is Japan?

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Daiwa Securities Co. Ltd.

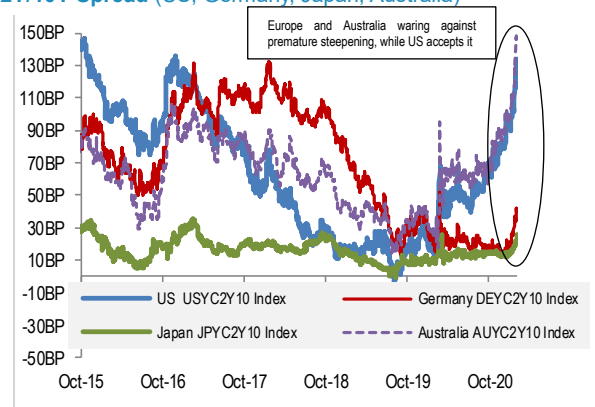
US, UK vs. Europe, Australia—where is Japan?

Decoupling has started

The situation appears to be changing from “a simultaneous rise in global yields” to “yield fluctuations in line with each nation’s economic conditions.” Yesterday, the US long-term yield rose by around 1bp, while German and Australian long-term yields fell by 7bp and 25bp, respectively. In the US, Fed governor Lael Brainard maintained a stance of accepting higher yields in her speech yesterday. Meanwhile, ECB executive board member Isabel Schnabel said that “the ECB may need to add support if rise in yields hurt growth.” François Villeroy de Galhau, governor of the Banque de France, stated that the ECB “can and must react” against unwarranted tightening. The ECB’s stance is clear as its officials have been consistently warning against premature steepening since last week’s remarks by President Christine Lagarde.

In addition, the Australian central bank (Reserve Bank of Australia [RBA]), which is adopting the yield curve control (YCC) policy, took concrete action, such as irregular purchases of 3-year government bonds and doubling of purchases of 5- to 7-year government bonds. The RBA is scheduled to announce its operational guideline of monetary policy at 12:30 today (JST). Given the series of measures immediately before the meeting, we can learn the RBA’s decisive resolutions to protect the YCC policy.

2Y/10Y Spread (US, Germany, Japan, Australia)



Source: Bloomberg; compiled by Daiwa Securities.

◆ Leaked news also in Japan

Yesterday, there was a media report whose source was “those in the know” in Japan—“BOJ focusing on trading band of long-term interest rate of 0.2%, excessive rise may be restrained even before policy assessment.” Thus far, the topics of leaked news had been mainly ETFs and negative interest rates. However, we saw a warning against moves in the steepening direction for the first time in Japan. Last night, JGB futures in the evening trading session closed at Y150.95 (up Y0.14), despite the rise in US yields. This appears to have been influenced by the media report.

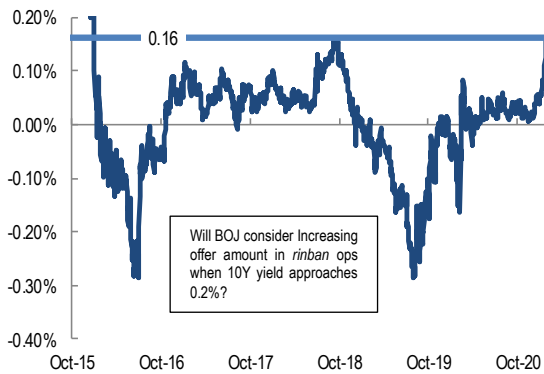
The contents of yesterday's news itself is not new because it just reconfirmed that the BOJ would act in accordance with the current directive. If we dare mention a point to be noted, it would be the clear statement that “there is a possibility that the BOJ will take suppressive action by conducting JGB purchase operations before the yield reaches 0.2%.” However, this appears to just point to a matter of course—i.e., the offer amount in *rinban* operations is increased when the long-term interest rate approaches the upper limit of the current band (chance tiny regarding fixed-rate purchase operations at level of below 0.2%).

That said, even if the news is not new, it would have a substantial effect, depending on the timing. What is important is context under the global trends. Now is a sensitive timing when the stances of major central banks have started to be decoupled (US, UK vs. Europe, Australia). The leaked dovish news at this point is effective in warning against current market recognition that the BOJ is leaning toward a hawkish stance.

Last week's historically weak auction for 7-year US Treasury bonds¹ triggered high volatility in the bond market. The reconfirmation of the current BOJ's stance immediately before today's [10-year JGB auction](#), for which it is difficult to take an aggressive stance due to strong uncertainty about the BOJ's policy assessment, has an effect to warn against a resurgence of wild swings in the JGB market. Recently, corporate bond issuers have become concerned about the speed of rising yields and uncertainty of the BOJ's policy assessment. Therefore, the reconfirmation of the current stance served as a reassuring factor also for Japan's economy, in our view.

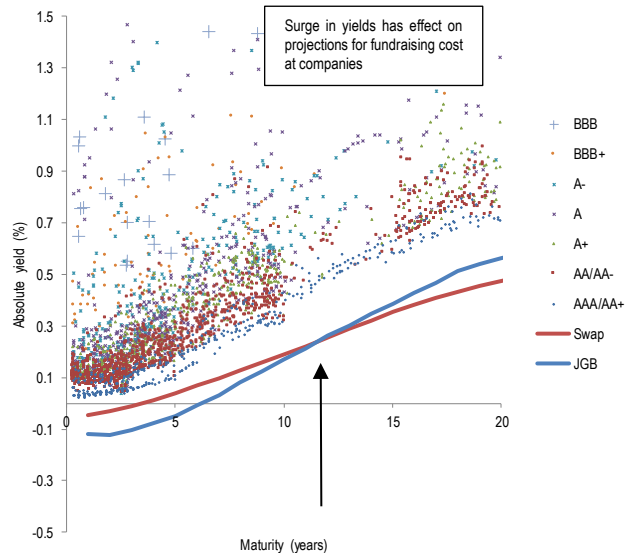
Each nation's yields should reflect their economic conditions. “Bumpy moves in line with moves in the US where the economy may overheat due to President Joe Biden's fiscal plan” does not necessarily mean “exhibition of market functions.” It would be more natural to see a certain degree of decoupling of central banks' stances.

10Y JGB Yield



Source: Bloomberg; compiled by Daiwa Securities.

JGB Yields (as of end-Feb)



Source: Japan Securities Dealers Association, Bloomberg; compiled by Daiwa Securities.

¹ Tail of 4.4bp, bid-to-cover ratio of 2.04X (lowest since 2009), dealers' accepted ratio of 39.8% (highest since 2013).

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

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The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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[Fitch]

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Other Disclosures Concerning Individual Issues:

- 1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies. As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.
- 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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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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