

Bond trading trend in Jan

Difference in domestic, foreign investor stances again apparent

- Buying by foreigners down sharply, but pronounced buying of medium-term JGBs, particularly by major banks

Strategic Memorandum DSTE452
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This report examines JGB trading trends contained in the Trends in Bond Transactions (Jan) report released by the Japan Securities Dealers Association on 21 February.

(Y bn) Investor type	Total			
		Superlong	Long-term	Intermediate
Major banks	1,744.8	-146.5	763.5	1,127.8
Life & non-life insurers	965.0	898.8	53.9	12.3
Regional banks (I+II)	929.0	126.8	756.4	45.8
Trust banks	582.0	-28.0	814.8	-204.8
Foreigners	205.1	225.4	-371.3	351.0

Source: Japan Securities Dealers Association (JSDA); compiled by Daiwa Securities.

Note: Figures in shaded columns indicate turning from net buying or net selling from previous month.

- Major banks

Since the start of 2022, yields for a wide range of maturities in the medium to super-long zone have risen. During this period, major banks switched to net buying of medium/long-term JGBs. Meanwhile, major banks were net sellers of super-long JGBs and their gross trading volume remained small. Apparently, there is some caution regarding the super-long zone, which is not targeted by the BOJ's yield curve control (YCC) policy.

- Insurance companies

Purchases of super-long JGBs grew sharply from the previous month to Y1.3tn. As of January, we could see that the purchase amounts were consistent with the super-long zone yield increases and accompanied by the reshuffling of positions.

- Regional banks (incl. second-tier regional banks)

Net buying in the long-term zone grew sharply, reaching the highest level since May 2015. Similar to major banks, buying apparently increased as the 10-year JGB yield moved closer to the upper end of its 2021 trading range.

- Trust banks

Purchase amounts for all zones (long-term zone in particular) grew m/m. Because trust banks shifted to net selling of Japan equities since December, we could see that their trading flow reverted to selling stocks and buying bonds in January.

- Foreigners

Selling amounts increased in all zones. Net purchases of coupon-bearing JGBs remained at a low level due to a sharp reduction in medium/long-term zone net buying. On a gross trading basis, we think foreigners traded aggressively during the rising yield phase since the start of 2022.

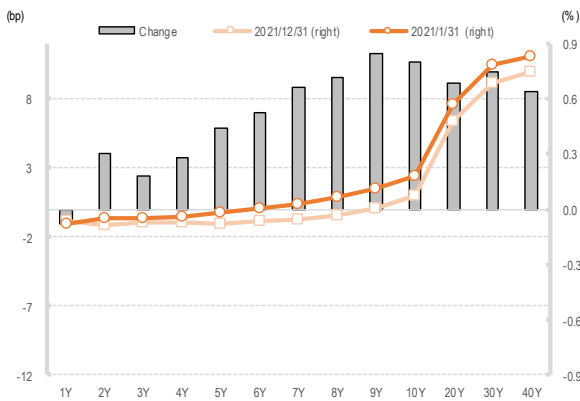
Summary

Trading volume trends for January confirmed increased buying among banks and insurance companies with yields rising as overseas central banks took hawkish stances, which in turn sparked concerns that the BOJ could likewise change its policy stance. Also, net buying by trust banks and the “others” category clearly increased. Meanwhile, buying by foreigners contracted sharply m/m.

The JGB yield curve significantly bear steepened up until around mid-February. Recently, JGB yields have started moving more in lock step with not only US Treasury yields, but core European yields as well. Indeed, upward momentum for super-long JGB yields strengthened after the February European Central Bank meeting, at which ECB President Christine Lagarde made an unexpected hawkish shift. Modest downward pressure was applied to the 10-year JGB yield when the BOJ conducted a fixed-rate purchase operation for the 10-year JGBs on 14 February. However, the market remained soft for maturities beyond the 10-year. There was the impression that the market picked up somewhat after the 17 February 20-year JGB auction. However, the tense situation involving Ukraine has become a major theme for global markets. The market environment remains volatile, with various news reports causing both hope and anxiety.

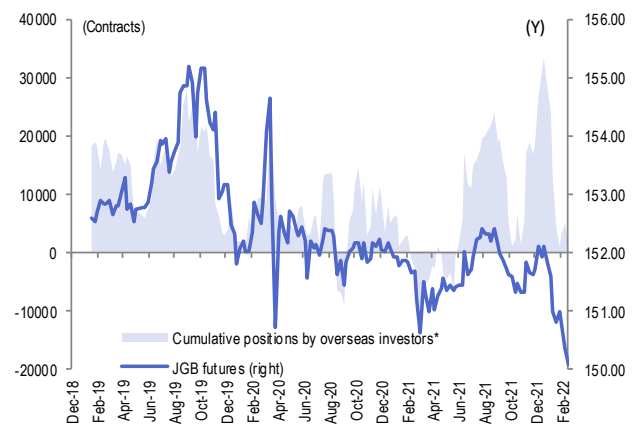
In the next Trends in Bond Transactions report, our focus will be on how the trends for super-long JGB yields since early February were triggered, as well as differences in the stances taken by each investor group.

Change in JGB Yield Curve: 31 Dec vs. 31 Jan



Source: Bloomberg; compiled by Daiwa Securities.

Positions of JGB Futures: Foreigners



Source: Bloomberg, JPX; compiled by Daiwa Securities.
 Note: *Positions immediately after introduction of YCC regarded as 0.

JGB Trading Volume by Investor Type

Major Banks (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Jan-22	60.8	207.3	-146.5	1,004.1	240.6	763.5	1,468.8	341.0	1,127.8	2,533.7	788.9	1,744.8
Dec-21	466.6	202.5	264.1	642.2	1,620.5	-978.3	562.8	1,430.4	-867.6	1,671.6	3,253.4	-1,581.8
CY21 4Q Avg	277.2	196.3	80.9	911.8	1,036.8	-125.1	1,236.9	1,073.7	163.2	2,425.9	2,306.8	119.1
FY20 Avg	432.4	404.8	27.6	798.5	636.7	161.8	1,001.7	902.3	99.4	2,232.6	1,943.8	288.8

Source: JSDA; compiled by Daiwa Securities.

Life & Non-life Insurers (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Jan-22	1,281.0	382.2	898.8	135.7	81.8	53.9	105.8	93.5	12.3	1,522.5	557.5	965.0
Dec-21	914.2	343.6	570.6	77.2	94.3	-17.1	55.7	79.5	-23.8	1,047.1	517.4	529.7
CY21 4Q Avg	1,048.6	411.4	637.2	74.1	116.1	-42.0	94.2	115.6	-21.4	1,216.9	643.1	573.8
FY20 Avg	952.8	356.5	596.2	65.5	106.4	-40.9	82.4	73.1	9.3	1,100.6	536.1	564.6

Source: JSDA; compiled by Daiwa Securities.

Regional Banks (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Jan-22	391.3	264.5	126.8	955.6	199.2	756.4	71.3	25.5	45.8	1,418.2	489.2	929.0
Dec-21	278.0	85.3	192.7	266.3	660.1	-393.8	18.8	15.5	3.3	563.1	760.9	-197.8
CY21 4Q Avg	394.2	258.0	136.2	416.7	399.0	17.8	20.7	13.3	7.4	831.6	670.2	161.4
FY20 Avg	425.7	202.1	223.6	355.5	231.9	123.6	26.4	30.0	-3.7	807.5	464.1	343.5

Source: JSDA; compiled by Daiwa Securities.

Trust Banks (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Jan-22	1,442.8	1,470.8	-28.0	1,933.0	1,118.2	814.8	1,718.5	1,923.3	-204.8	5,094.3	4,512.3	582.0
Dec-21	1,277.2	1,262.6	14.6	776.7	1,364.0	-587.3	1,399.3	1,279.3	120.0	3,453.2	3,905.9	-452.7
CY21 4Q Avg	1,487.2	1,164.6	322.6	1,198.7	1,297.1	-98.3	1,389.6	1,267.4	122.3	4,075.6	3,729.1	346.5
FY20 Avg	1,578.6	1,293.8	291.5	1,416.7	1,333.2	83.5	1,517.4	1,215.9	301.5	4,512.7	3,842.8	676.5

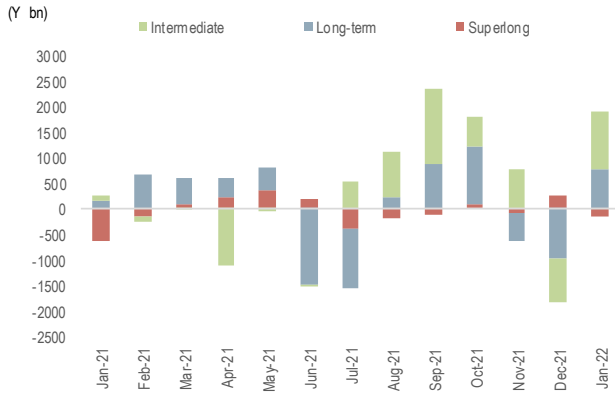
Source: JSDA; compiled by Daiwa Securities.

Foreigners (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Jan-22	2,529.3	2,303.9	225.4	4,679.1	5,050.4	-371.3	4,327.3	3,976.3	351.0	11,535.7	11,330.6	205.1
Dec-21	2,154.5	2,102.7	51.8	4,962.2	3,207.3	1,754.9	4,749.2	2,196.3	2,552.9	11,865.9	7,506.3	4,359.6
CY21 4Q Avg	2,517.8	2,355.3	162.5	4,135.2	3,396.3	738.9	4,031.4	2,801.4	1,230.0	10,684.4	8,553.0	2,131.4
FY20 Avg	2,048.0	1,811.2	236.8	3,347.3	3,138.8	208.6	3,412.2	2,782.1	630.1	8,807.5	7,732.1	1,075.4

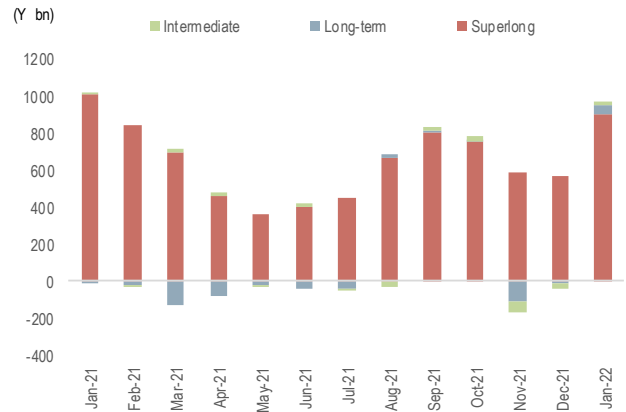
Source: JSDA; compiled by Daiwa Securities.

Major Banks: JGB Trading Volume



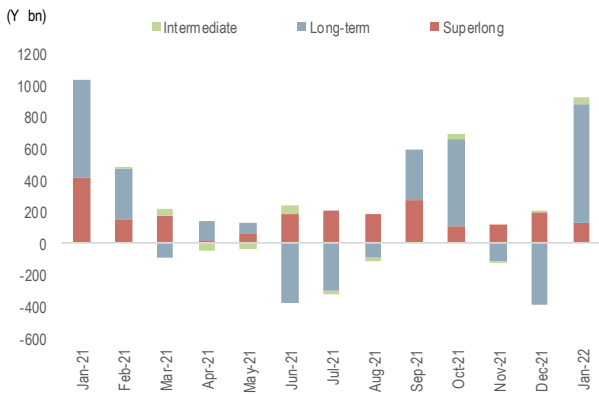
Source: JSDA; compiled by Daiwa Securities.

Life & Non-life Insurers: JGB Trading Volume



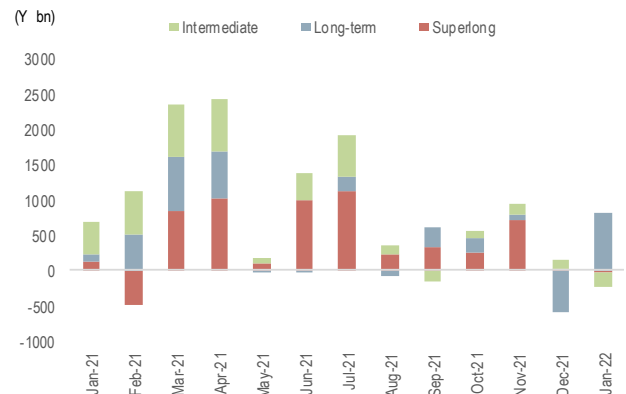
Source: JSDA; compiled by Daiwa Securities.

Regional Banks: JGB Trading Volume



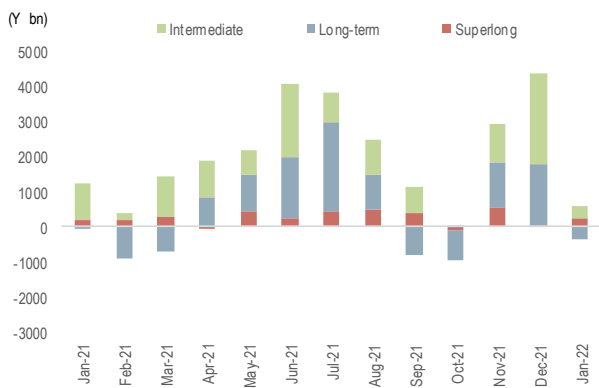
Source: JSDA; compiled by Daiwa Securities.

Trust Banks: JGB Trading Volume



Source: JSDA; compiled by Daiwa Securities.

Foreigners: JGB Trading Volume



Source: JSDA; compiled by Daiwa Securities.

Portfolio Investment Liabilities (Long-term debt securities, Y bn)

	Europe										
	US	China	Singapore	Hong Kong	Cayman Islands	Germany	UK	France	Belgium	Luxembourg	
Dec-21	127.7	1,041.1	-154.2	-72.2	1,185.4	1,485.0	129.9	1,790.8	-172.3	-27.4	-137.7
Nov-21	-20.9	160.3	109.6	90.3	1,114.0	1,445.8	286.0	1,295.1	-119.5	134.8	-131.0
Oct-21	-45.5	60.5	-290.5	-39.1	5.1	-59.1	136.9	-47.8	-380.5	105.8	167.7
CY21 3Q Avg	295.5	294.5	62.8	-27.0	437.6	1,323.0	48.4	1,315.2	-53.1	135.1	-57.8
CY21 Avg	220.8	220.8	220.8	220.8	220.8	220.8	220.8	220.8	220.8	220.8	220.8
CY20 Avg	386.6	185.7	-97.2	-30.6	48.5	-326.5	41.9	181.1	-438.2	92.9	-153.1

Source: MOF; compiled by Daiwa Securities.

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