

# Bond trading trend in Dec

## Acceleration of trends seen in Nov

- Overall net selling of JGBs by major banks rose to highest level since Apr 2016; contrasting results for Japan banks, foreigners

Strategic Memorandum DSTE451  
FICC Research Dept.

Strategist  
**Kazuya Sato**  
(81) 3 5555-8773  
kazuya.sato@daiwa.co.jp



Daiwa Securities Co. Ltd.

This report examines JGB trading trends contained in the Trends in Bond Transactions (Dec) report released by the Japan Securities Dealers Association on 20 January.

(Y bn)	Total			
		Superlong	Long-term	Intermediate
Major banks	-1,581.8	264.1	-978.3	-867.6
Life & non-life insurers	529.7	570.6	-17.1	-23.8
Regional banks (I+II)	-197.8	192.7	-393.8	3.3
Trust banks	-452.7	14.6	-587.3	120.0
Foreigners	4,359.6	51.8	1,754.9	2,552.9

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

Japan and foreign bond yields fell further in December following reports in late-November about the emergence of the coronavirus Omicron variant in South Africa. However, major banks were heavy net sellers of medium/long-term JGBs. Indeed, net selling by major banks rose to the highest level since April 2016. We want to consider this in conjunction with the major bank call market balance (lenders) increasing to an average of roughly Y1.1tn for December.

- Insurance companies

Purchases of super-long JGBs decreased from the previous month to Y914.2bn. Purchase amounts declined as yields were lower compared to October. Net buying was below the Jul-Sep average.

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

As was the case in November, net selling of long-term JGBs increased. Low yields apparently led to selling amid the market rally.

- Trust banks

Purchase amounts across all zones declined from the previous month, which resulted in the first net selling overall since June 2020. In December, trust banks bought foreign equities and sold foreign bonds. Buying of domestic equities was also confirmed. As such, we could see the emergence of a buy equities/sell bonds trend in Japan.

- Foreigners

Foreigners meaningfully increased their purchases of medium/long-term JGBs, the exact opposite of the approach taken by major banks. Indeed, their overall net buying rose to the highest level since December 2018. Foreigners were apparently dealing mainly in swaps for super-long JGBs based on the LCH-JSCC spread.

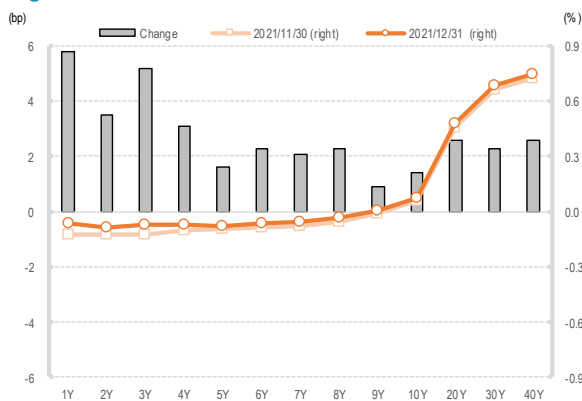
## Summary

Trading volume trends for December confirmed increased domestic bank selling of medium/long-term JGBs and overseas investor buying of medium/long-term JGBs, an acceleration of the trends seen in November. Compared to November, there was increased downward pressure on both foreign and domestic bond yields due to the emergence of the Omicron variant.

Since the start of 2022, medium/long-term JGB yields have risen to their highest levels since March 2021 for a host of reasons including the recent FRB's hawkish turn, foreigners liquidating bond future long positions built up until now, and concerns about the BOJ's policy stance. The JGB yield curve has meaningfully bear flattened and the yield on the 5-year JGB briefly rose to its highest level since the BOJ introduced its negative interest rate policy.

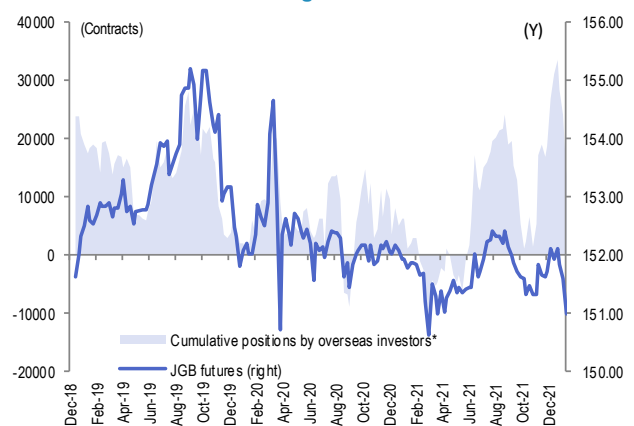
The market has remained volatile since the start of 2022. We want to use the next Trends in Bond Transactions report to confirm how Japanese investors have reacted to this volatility.

### Change in JGB Yield Curve: 30 Nov vs. 31 Dec



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
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
Nov-21	176.0	265.4	-89.4	633.3	1,183.1	-549.8	1,712.6	951.6	761.0	2,521.9	2,400.1	121.8
CY21 3Q Avg	434.2	674.3	-240.1	1,045.7	1,065.4	-19.7	1,317.3	361.3	956.0	2,797.2	2,101.0	696.2
FY20 Avg	403.4	472.5	-69.1	830.0	602.9	227.1	1,021.3	815.4	205.9	2,254.7	1,890.8	363.9

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
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
Nov-21	1,017.4	433.4	584.0	56.9	166.5	-109.6	103.6	163.7	-60.1	1,177.9	763.6	414.3
CY21 3Q Avg	803.8	167.3	636.5	72.2	73.4	-1.2	83.3	91.0	-7.7	959.4	331.7	627.6
FY20 Avg	978.0	372.1	605.9	64.2	103.2	-39.0	82.3	72.9	9.4	1,124.4	548.1	576.3

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
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
Nov-21	291.4	176.4	115.0	291.4	403.6	-112.2	13.1	24.3	-11.2	595.9	604.3	-8.4
CY21 3Q Avg	462.3	244.3	218.0	238.8	262.0	-23.2	16.1	30.3	-14.2	717.2	536.7	180.6
FY20 Avg	413.3	190.3	223.0	333.6	264.1	69.5	25.5	31.2	-5.7	772.5	485.6	286.9

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
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
Nov-21	1,701.8	1,003.2	698.6	1,510.0	1,426.4	83.6	1,639.5	1,473.9	165.6	4,851.3	3,903.5	947.8
CY21 3Q Avg	1,511.0	947.1	563.9	1,296.5	1,166.7	129.8	1,584.6	1,408.9	175.8	4,392.1	3,522.6	869.5
FY20 Avg	1,491.9	1,294.6	204.0	1,353.1	1,338.0	15.1	1,421.2	1,210.1	211.1	4,266.2	3,842.8	430.1

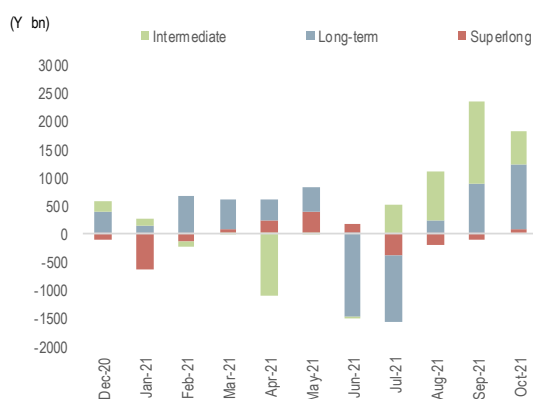
Source: JSDA; compiled by Daiwa Securities.

## Foreigners (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
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
Nov-21	2,837.9	2,288.1	549.8	3,943.6	2,648.7	1,294.9	3,870.5	2,797.2	1,073.3	10,652.0	7,734.0	2,918.0
CY21 3Q Avg	2,449.0	2,005.6	443.4	4,026.3	3,105.4	920.9	3,290.9	2,431.5	859.4	9,766.3	7,542.6	2,223.7
FY20 Avg	2,004.4	1,760.6	243.8	3,251.7	3,137.3	114.4	3,387.2	2,901.2	486.0	8,643.3	7,799.2	844.2

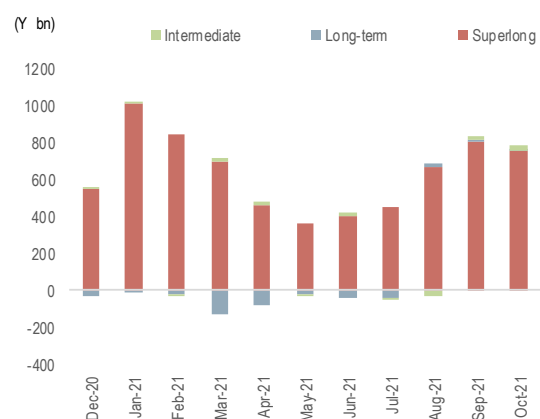
Source: JSDA; compiled by Daiwa Securities.

## Major Banks: JGB Trading Volume



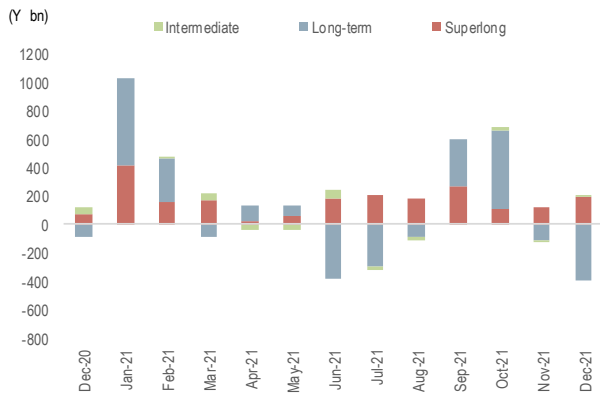
Source: JSDA; compiled by Daiwa Securities.

## Life &amp; Non-life Insurers: JGB Trading Volume



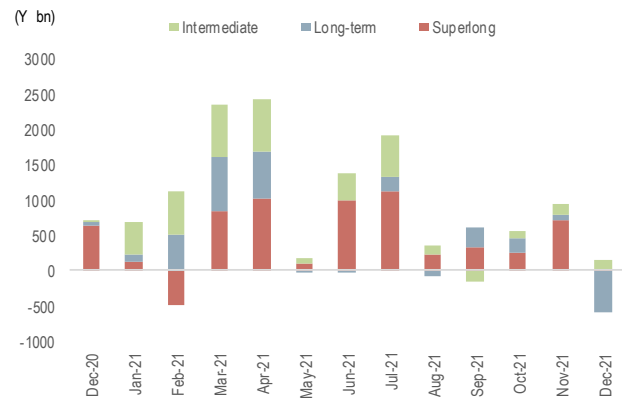
Source: JSDA; compiled by Daiwa Securities.

**Regional Banks: JGB Trading Volume**



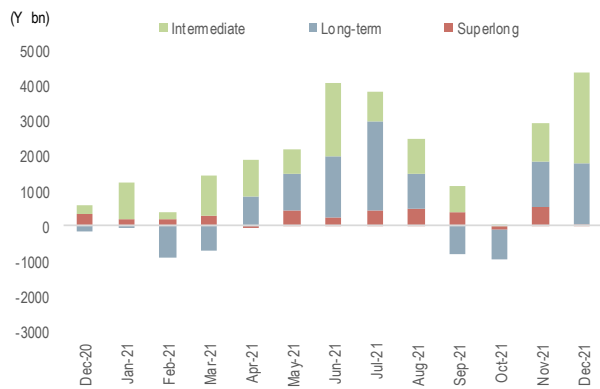
Source: JSDA; compiled by Daiwa Securities.

**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	
Nov-21	-20.9	160.3	109.6	90.3	1,114.0	286.0	1,295.1	-119.5	134.8	-131.0	
Oct-21	-45.5	60.5	-290.5	-39.1	5.1	136.9	-47.8	-380.5	105.8	167.7	
Sep-21	21.6	416.0	-56.5	-78.6	-25.5	-8.9	66.5	-410.3	-13.9	-43.1	
CY21 3Q Avg	295.5	294.5	62.8	-27.0	437.6	48.4	1,315.2	-53.1	135.1	-57.8	
CY20 Avg	386.6	185.7	-97.2	-30.6	48.5	41.9	181.1	-438.2	92.9	-153.1	
CY19 Avg	186.5	176.1	-35.6	-26.4	41.2	10.1	950.3	61.0	-36.0	-170.5	

Source: MOF; compiled by Daiwa Securities.

**IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

**Ratings**

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

**Target Prices**

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

**Disclosures related to Daiwa Securities**

Please refer to [https://lzone.daiwa.co.jp/l-zone/disclaimer/e\\_disclaimer.pdf](https://lzone.daiwa.co.jp/l-zone/disclaimer/e_disclaimer.pdf) for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

**Explanatory Document of Unregistered Credit Ratings**

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

<https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

**Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law**

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- 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

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association