

# Daiwa's View

## Life insurers returning to yen-bonds due to rising hedging costs / Foreign JGB investment

- Presence of overseas investors is likely to increase in superlong JGB zone

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Daiwa Securities Co. Ltd.

### Presence of overseas investors is likely to increase in superlong JGB zone

### Life insurers returning to yen-bonds due to rising hedging costs / Foreign JGB investment

#### ◆ Life insurers returning to yen bonds

With life insurers being major players in the bond market, particularly the yen bond market, their investment plans attract a great deal of attention even during ordinary times. The level of interest in their FY22 plans is particularly high, in part due to current uncertainties in the bond market. With the start of the disclosure of their investment plans yesterday, one major Japanese life insurer indicated in its FY22 plan that it would increase yen bonds by Y550bn (sovereign: Y450bn; credit: Y100bn), and reduce foreign bonds by Y400bn (sovereign: -Y320bn; credit: -Y80bn). In anticipation of rising currency hedging costs, the life insurer indicated a policy of returning to yen bonds by adding investment in yen bonds at the beginning of the fiscal year for the first time since FY12, ten years ago.

The life insurer also projects the following ranges for major yields and end-FY22 levels: the 10-year JGB yield ranging between -0.1% and 0.25% (0.20% at end-FY22), the 20-year JGB yield ranging between 0.2% and 1% (0.70%), and the 10-year UST yield ranging between 2% and 3% (2.7%). The upper limit of the 10-year JGB yield is 0.25%, meaning that the firm does not assume adjustments to YCC parameters (lifting to around 0%) or widening of the trading band, which is a notable point. Although disclosure of life insurers' investment plans has just started, confirmation of policies that return to yen bonds and disclosure of investment plans that do not assume policy revisions by the BOJ may help to calm volatility in the yen bond market.

#### ◆ Increasing presence of overseas investors

That said, life insurers are likely to focus on mechanical purchases based on their investment plans, avoiding aggressive purchases that would push down JGB yield levels. Given anticipation of rising hedging costs due to the aggressive rate-hike stance of major overseas central banks, it is true that Japanese investors' stance of retuning to yen bonds is something that, in a certain respect, we could have expected. If unexpected disruptions are going to occur in the JGB market, trends with overseas investors will be key.

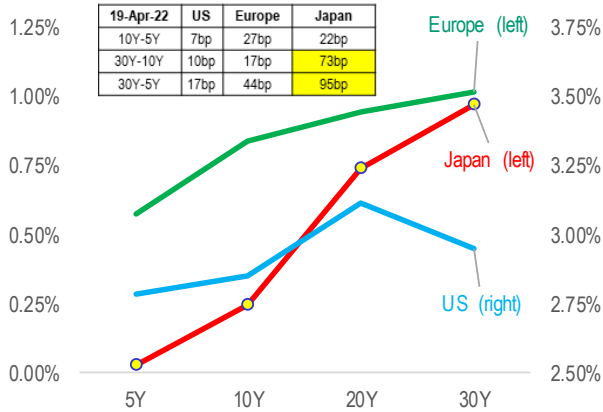
In that sense, we will be focusing on trends with overseas investors, particularly those regarding superlong JGBs, in March Trends in Bond Transactions, which is to be released by the Japan Securities Dealers Association this week. In previous data from [Trading Volume of Over-the-Counter \(OTC\) Bonds for February](#), Japanese investors indicated a cautious stance in the JGB superlong zone, but overseas investors posted net buying of superlong JGBs worth as much as Y596.1bn. This is almost equivalent to the amount of monthly average net buying by life/nonlife insurers in FY20. Currently, among advanced nations' bond markets, the JGB curve is continuing to be conspicuously steep, and flattening (negative yield) of the USD/JPY basis curve is deepening. This appears to be leading overseas investors to focus their investment preferences on the superlong zone.

**Superlong JGB Trading Volume in Feb 2022 (Y bn)**

	Life & Non-life Insurers			Foreigners		
	Buy	Sell	Net	Buy	Sell	Net
Feb-22	1,428.7	575.7	<b>853.0</b>	3,342.4	2,746.3	<b>596.1</b>
Jan-22	1,281.0	382.2	898.8	2,529.3	2,303.9	225.4
Oct-Dec 2021 Avg	1,048.6	411.4	637.2	2,517.8	2,355.3	162.5
FY20 Avg	942.4	365.5	577.0	1,951.1	1,733.0	218.1

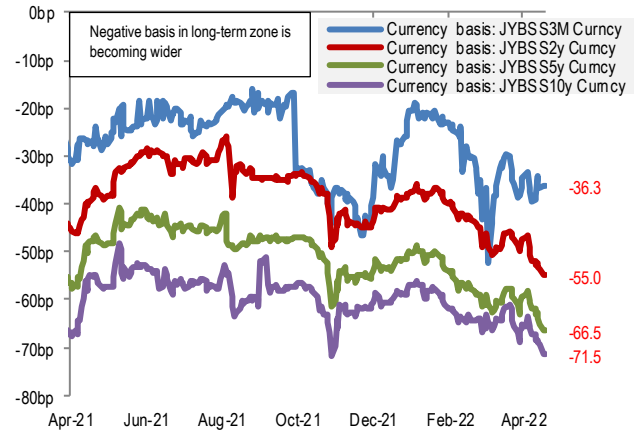
Source: JSDA; compiled by Daiwa Securities.

**Sovereign Bond Yield in Japan, US, Europe**



Source: Bloomberg; compiled by Daiwa Securities.

**USD/JPY Currency Basis**



Source: Bloomberg; compiled by Daiwa Securities.

Of course, with net selling of long-term debt securities worth Y2.1tn confirmed in data from March Portfolio Investment Liabilities (based on reports from designated major investors), substantial net selling by overseas investors is expected on an aggregate coupon-bearing bond basis. However, if overseas investors' continued preference for superlong bonds is confirmed in the March Trends in Bond Transactions data (which shows the breakdown of superlong, long-term, and intermediate bonds), the tendency towards an increasing presence of overseas investors in the superlong JGB zone can be confirmed, as well as that of life/non-life insurers.

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