

Bond trading trend in Jul

Foreign investors only halfway through buying back JGBs?

- JGB buying among domestic players remains low; some foreigners return to net buying

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JGB buying among domestic players remains low; some foreigners return to net buying

This report examines JGB trading trends contained in the Trading Volume of Over-the-Counter (OTC) Bonds (July) data released by the Japan Securities Dealers Association on 22 August.

(Y bn)	Total	Superlong	Long-term	Intermediate
Investor type				
Major banks	-152.3	-233.6	-364.6	445.9
Life & non-life insurers	432.0	459.0	-41.5	14.5
Regional banks (I+II)	-585.0	2.4	-483.4	-104.0
Trust banks	161.0	361.7	-106.5	-94.2
Foreigners	5,358.2	559.7	1,935.8	2,862.7

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

Switched to net-selling of long-term JGBs and net-buying of medium-term JGBs. They were net sellers of super-long JGBs for the seventh straight month. Moves to shorten durations for their JGB holdings possibly continued in July.

- Insurance companies

Purchased about Y780.0bn in super-long JGBs, down m/m. Meanwhile, the net selling amount was roughly halved, while the net buying amount, which had been declining since the beginning of the fiscal year, turned up. Although there appears to be deep-seeded concerns about rising interest rates, the fact that US interest rates have started declining since mid-June may have prompted a slight change in the stance held by insurance companies.

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

Purchase amounts declined m/m across all zones. Net-selling of long-term JGBs swelled to the largest amount since September 2020. Regional banks could be selling long-term JGBs to book profits.

- Trust banks

Trading volumes settled down from the previous month and net-buying of JGBs overall was also low. The International Transactions in Securities (MOF) confirmed that the foreign stock-buying/bond-selling trend had continued from the previous month and a similar trend can be seen for domestic assets as well.

- Foreigners

Foreigners were net buyers across all zones, returning to net buying of super-long and long-term JGBs. Indeed, the net-buying of JGBs by foreigners in July was the largest amount since 2004 when this data became available. Since late-July, spreads with JB366, which was the main target of speculators trying to force the BOJ to revise its yield curve control policy (YCC), have widened. This was one factor holding down 10-year JGB yields, but the buying back of positions by foreigners was also seen as another factor.

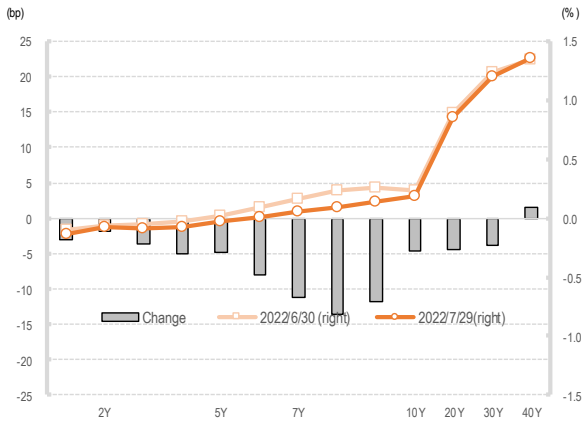
Summary

July JGB trading trends confirmed that yields, particularly medium/long-term JGB yields, declined at a time when overseas PMI fell below 50 and when foreigners, who had sold off positions during previous month in an attempt to force the BOJ to revise its YCC policy, bought back long-term JGBs. That said, the net purchase amount was only about half the net selling amount in June. Our focus is on whether this repurchasing trend continues from here. In addition, until around the beginning of July, there was noticeable weakness in the super-long-term zone, particularly for maturities beyond the 30-year JGB. The stance taken by insurance companies (still cautious about yield levels) may have contributed in part to that trend.

Currently, low-liquidity, flow-driven conditions have continued for the JGB market. Since the beginning of August, the JGB yield curve flattening trend has strengthened, contrary to the trends for overseas yields. At times, JGBs have performed stronger than overseas government bonds.

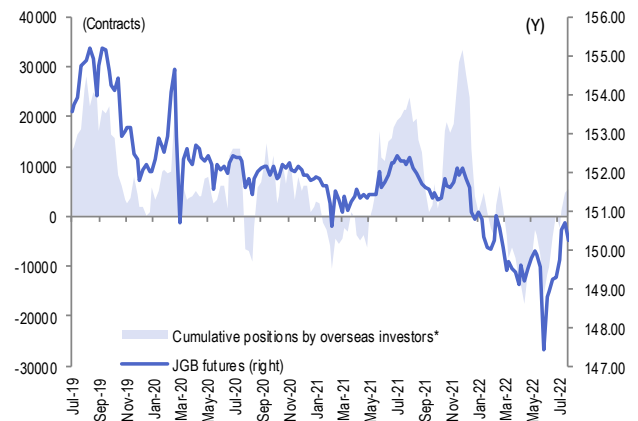
Looking at the current market trends, we expect that JGB trading in August has also turned sluggish due in part to the summer vacation season. We want to confirm the August data, focusing primarily on medium- and super-long JGB trends.

Change in JGB Yield Curve:30 Jun vs. 29 Jul



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
Jul-22	38.2	271.8	-233.6	563.8	928.4	-364.6	1,065.3	619.4	445.9	1,667.3	1,819.6	-152.3
Jun-22	90.6	218.9	-128.3	1,546.4	1,212.0	334.4	983.7	2,491.1	-1,507.4	2,620.7	3,922.0	-1,301.3
CY22 2Q Avg	185.1	396.6	-211.5	2,078.8	999.6	1,079.2	1,574.1	1,622.9	-48.8	3,838.1	3,019.1	818.9
FY21 Avg	391.6	429.1	-37.5	959.1	882.2	76.9	1,206.0	799.3	406.7	2,556.6	2,110.5	446.1

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
Jul-22	781.2	322.2	459.0	72.9	114.4	-41.5	112.9	98.4	14.5	967.0	535.0	432.0
Jun-22	1,055.8	746.7	309.1	219.7	151.5	68.2	149.7	115.1	34.6	1,425.2	1,013.3	411.9
CY22 2Q Avg	1,038.9	706.4	332.5	128.5	117.5	11.0	114.9	101.0	13.9	1,282.3	924.9	357.4
FY21 Avg	996.1	391.3	604.8	81.8	112.0	-30.1	93.8	98.9	-5.1	1,171.8	602.2	569.6

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
Jul-22	464.8	462.4	2.4	99.4	582.8	-483.4	50.0	154.0	-104.0	614.2	1,199.2	-585.0
Jun-22	488.7	476.1	12.6	506.7	423.8	82.9	130.1	12.3	117.8	1,125.5	912.2	213.3
CY22 2Q Avg	479.1	446.3	32.8	408.1	276.3	131.7	83.1	70.4	12.7	970.3	793.1	177.2
FY21 Avg	410.8	283.0	127.7	370.6	322.3	48.3	54.5	25.9	28.6	835.8	631.2	204.7

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
Jul-22	1,573.5	1,211.8	361.7	1,470.1	1,576.6	-106.5	1,254.0	1,348.2	-94.2	4,297.6	4,136.6	161.0
Jun-22	1,638.6	1,981.4	-342.8	2,012.9	2,672.3	-659.4	2,117.5	2,378.9	-261.4	5,769.0	7,032.6	-1,263.6
CY22 2Q Avg	1,900.1	1,913.5	-13.3	1,946.1	2,045.3	-99.2	2,277.9	1,924.9	353.0	6,124.2	5,883.7	240.4
FY21 Avg	1,665.0	1,220.0	445.0	1,454.9	1,304.2	150.8	1,728.2	1,455.8	272.6	4,848.1	3,979.9	868.4

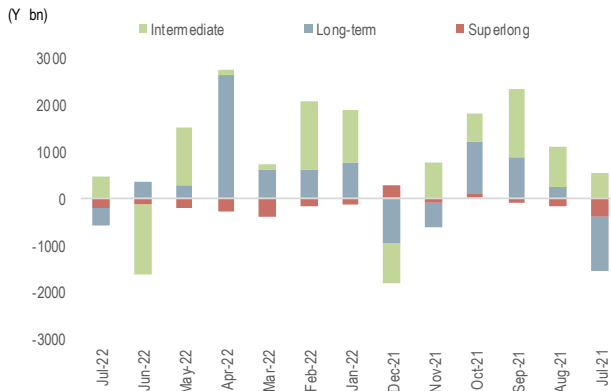
Source: JSDA; compiled by Daiwa Securities.

Foreigners (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Jul-22	3,678.7	3,119.0	559.7	4,968.2	3,032.4	1,935.8	5,278.2	2,415.5	2,862.7	13,925.1	8,566.9	5,358.2
Jun-22	4,464.7	4,570.4	-105.7	8,028.7	12,612.6	-4,583.9	6,439.8	4,044.2	2,395.6	18,933.2	21,227.2	-2,294.0
CY22 2Q Avg	3,987.6	3,568.1	419.5	5,753.2	8,246.4	-2,493.3	5,316.1	3,569.2	1,746.9	15,056.8	15,383.7	-326.9
FY21 Avg	2,636.7	2,328.7	308.0	4,155.3	3,635.6	519.7	3,847.3	2,872.5	974.7	10,639.3	8,836.8	1,802.4

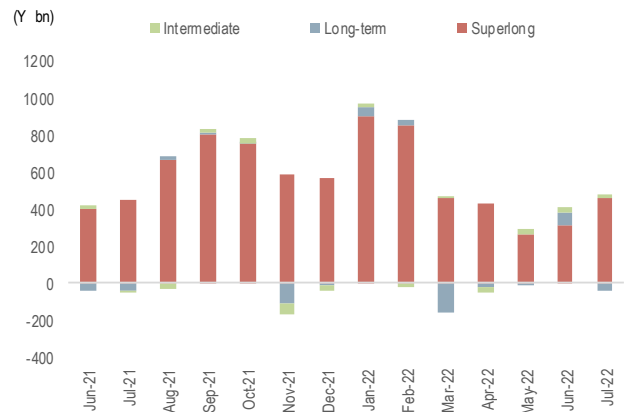
Source: JSDA; compiled by Daiwa Securities.

Major Banks: JGB Trading Volume



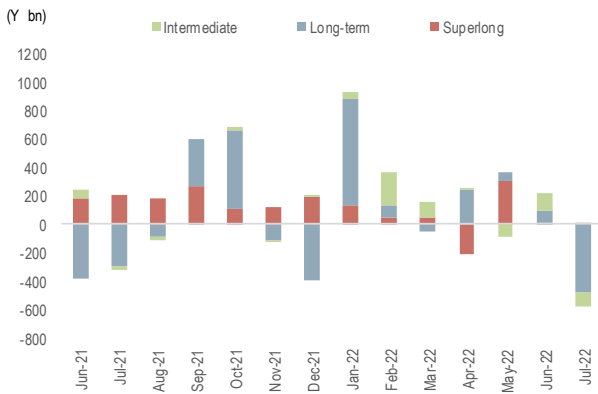
Source: JSDA; compiled by Daiwa Securities.

Life & Non-life Insurers: JGB Trading Volume



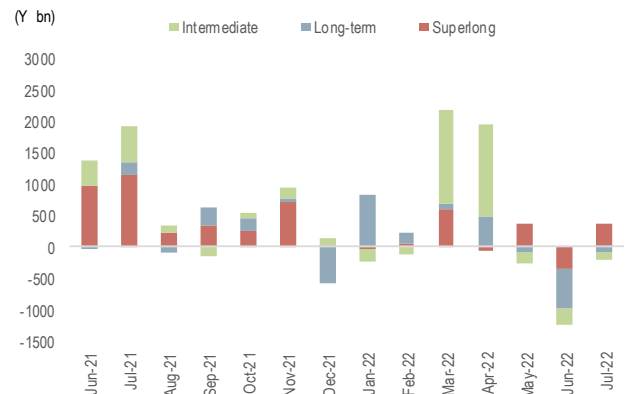
Source: JSDA; compiled by Daiwa Securities.

Regional Banks: JGB Trading Volume



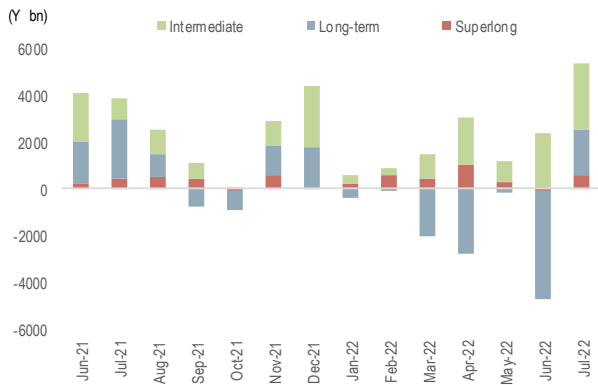
Source: JSDA; compiled by Daiwa Securities.

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)

	US	China	Singapore	Hong Kong	Cayman Islands	Europe					
						Germany	UK	France	Belgium	Luxembourg	
Jun-22	-557.7	7.3	49.6	-137.8	-72.2	-3,163.9	-69.5	-2,330.8	-367.6	-69.5	-417.0
May-22	-30.1	232.1	231.7	-30.2	226.1	28.3	50.2	168.2	-59.6	-48.4	-75.4
Apr-22	222.8	74.3	335.6	-92.7	-240.7	402.6	-125.9	42.1	37.7	82.5	320.6
CY22 1Q Avg	166.9	345.2	79.9	-136.7	-403.5	-822.9	33.9	-310.0	-422.9	54.2	-78.9
CY21 Avg	220.6	167.1	-10.3	-38.1	366.5	853.6	92.1	868.3	-85.4	144.1	-90.2
CY20 Avg	386.4	185.7	-97.2	-30.6	48.5	-327.9	41.9	179.8	-438.2	92.9	-153.1

Source: MOF; compiled by Daiwa Securities.

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