

Bond trading trend in Dec

Seems to be all selling, but . . .

- Pronounced market environment change since Dec BOJ meeting, but investment activity among main investor groups seems sparse

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This report examines JGB trading trends contained in the Trading Volume of Over-the Counter (OTC) Bonds (December) data released by the Japan Securities Dealers Association on 20 January.

December Trading Volume of Coupon JGBs

(Y bn)	Total	Superlong	Long-term	Intermediate
Investor type				
Major banks	-444.6	-14.1	-119.6	-310.9
Life & non-life insurers	386.4	407.5	-46.2	25.1
Regional banks (I+II)	39.2	-13.9	-36.9	90.0
Trust banks	-524.7	-186.1	-455.6	117.0
Foreigners	-2,988.3	232.9	-2,488.1	-733.1

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.

Review of market trends

The JGB yield curve saw higher yields overall compared to end-November, particularly for the 7-to-10-year zone. The market picture was very different before and after the BOJ's December Monetary Policy Board meeting. During the first half of the month, super-long JGB yields were relatively firm amid low government bond yields overseas. However, medium-term and super-long JGB yields moved higher following media reports speculating that the government and BOJ will revise their 2013 joint statement (to overcome deflation, achieve sustainable economic growth with price stability). At the December meeting, the BOJ expanded its permissible 10-year JGB yield trading range. Following that meeting, yields on not only the 10-year JGB, but also on the 7-to-9-year JGBs, moved much higher.

Summary

Looking at only net trading, the December trading trends seem to be almost exclusively selling. However, a closer inspection reveals that trading activity among the major investment groups was somewhat sparse. While major banks were heavy sellers of medium-term JGBs, regional banks increased their purchases in the medium/long-term zone and there may have been some buying on dips. As for the trust banks, apparently the yen's appreciation and falling equities after the BOJ's December meeting, rather than the rising yield trends, contributed to their selling of JGBs. We suspect that moves by foreign investors probably coincided with the timing for building up new short positions. Even if the speculation about the future of Japan's monetary policy is unanimous, the reactions (investment behavior) by each of the main investor groups will probably differ significantly.

Since January there has been a reemergence of attacks on the BOJ's yield curve control (YCC) policy, so we expect more active trading than in December. The market environment has changed sharply since the start of 2023. We plan to continue confirming the activities of each investment group under the current circumstances.

Trading trends by investor category

- Major banks

Trading in the long-term and super-long-term zones shrank meaningfully, while medium-term zone trading volume grew. Major banks were net sellers of medium-term JGBs for the first time in six months. The lack of heavy net selling of long-term JGBs suggests that major banks had already prepared for higher yields in this zone.

- Insurance companies

The amount of super-long JGBs bought declined. The net buying amount fell and reached the lowest level since June 2022. One reason for the modest purchases may be that the yield level at the long end of the market was less attractive compared to October and November.

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

Apparently regional banks, just like major banks, were prepared for a rise in long-term JGB yields as their selling of long-term JGBs was not particularly large. However, buying of medium/long-term JGBs grew m/m and we suspect some regional banks were buying on dips.

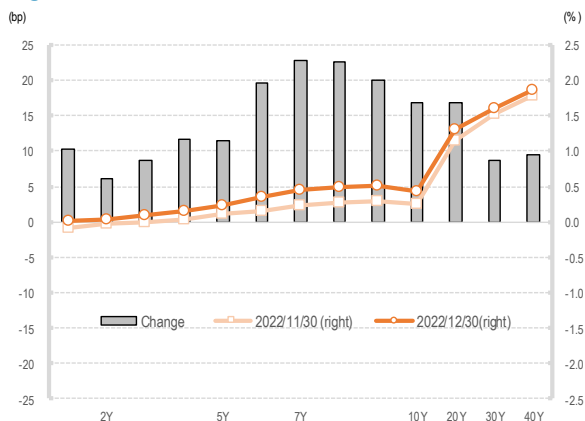
- Trust banks

The amount of selling increased across all zones and trust banks switched to net selling of interest-bearing JGBs overall. The stronger yen/weaker equities trend accelerated since the BOJ's December meeting. We assume the resulting devaluation and rebalancing of foreign currency assets led to JGB selling.

- Foreigners

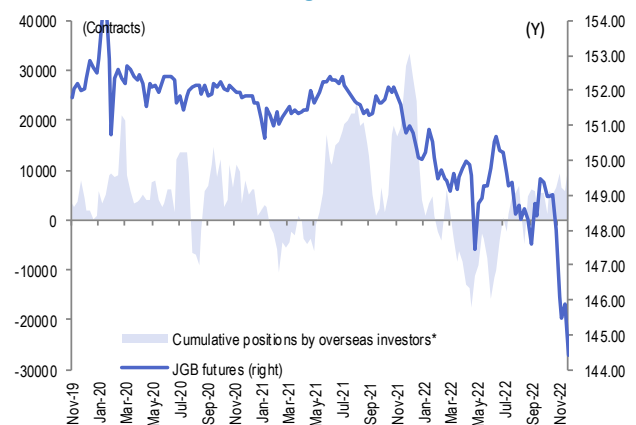
Foreigners shifted to heavy net selling of medium/long-term JGBs. There appears to have been fairly active trading despite the quiet year-end holiday season. The amount of selling in the long-term zone increased meaningfully and foreigners potentially started building up new short positions after the BOJ's December meeting.

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



Source: Bloomberg; compiled by Daiwa Securities.

Positions of JGB Futures: Foreigners



Source: Bloomberg, JPX; compiled by Daiwa Securities.

*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-22	251.4	265.5	-14.1	175.5	295.1	-119.6	2,370.4	2,681.3	-310.9	2,797.3	3,241.9	-444.6
Nov-22	796.7	608.8	187.9	465.3	383.5	81.8	1,217.6	1,205.7	11.9	2,479.6	2,198.0	281.6
CY22 3Q Avg	161.6	313.6	-152.0	717.8	680.9	37.0	1,187.7	892.1	295.6	2,067.1	1,886.6	180.5
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
Dec-22	893.7	486.2	407.5	113.8	160.0	-46.2	119.3	94.2	25.1	1,126.8	740.4	386.4
Nov-22	1,046.5	471.7	574.8	84.2	83.7	0.5	73.3	69.6	3.7	1,204.0	625.0	579.0
CY22 3Q Avg	927.1	332.5	594.6	101.1	98.9	2.2	104.6	94.9	9.7	1,132.8	526.3	606.5
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
Dec-22	319.3	333.2	-13.9	233.1	270.0	-36.9	157.0	67.0	90.0	709.4	670.2	39.2
Nov-22	481.4	475.1	6.3	142.5	288.8	-146.3	102.0	97.3	4.7	725.9	861.2	-135.3
CY22 3Q Avg	328.1	439.0	-110.9	321.8	350.5	-28.6	92.3	70.3	21.9	742.2	859.8	-117.6
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
Dec-22	1,430.4	1,616.5	-186.1	1,739.8	2,195.4	-455.6	2,095.9	1,978.9	117.0	5,266.1	5,790.8	-524.7
Nov-22	2,362.5	1,585.7	776.8	1,463.8	1,507.3	-43.5	1,952.6	1,583.8	368.8	5,778.9	4,676.8	1,102.1
CY22 3Q Avg	1,723.2	1,226.7	496.4	1,672.5	1,535.8	136.7	1,286.2	1,299.4	-13.2	4,681.9	4,061.9	620.0
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

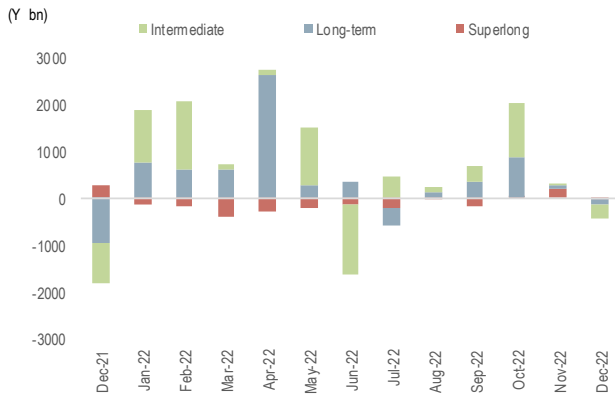
Source: JSDA; compiled by Daiwa Securities.

Foreigners (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Dec-22	3,222.2	2,989.3	232.9	5,292.2	7,780.3	-2,488.1	4,400.5	5,133.6	-733.1	12,914.9	15,903.2	-2,988.3
Nov-22	3,579.6	3,732.2	-152.6	5,568.1	4,484.2	1,083.9	5,321.8	4,423.1	898.7	14,469.5	12,639.5	1,830.0
CY22 3Q Avg	3,791.1	3,426.8	364.3	5,509.4	5,680.4	-171.0	4,910.7	3,664.1	1,246.6	14,211.2	12,771.3	1,439.9
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

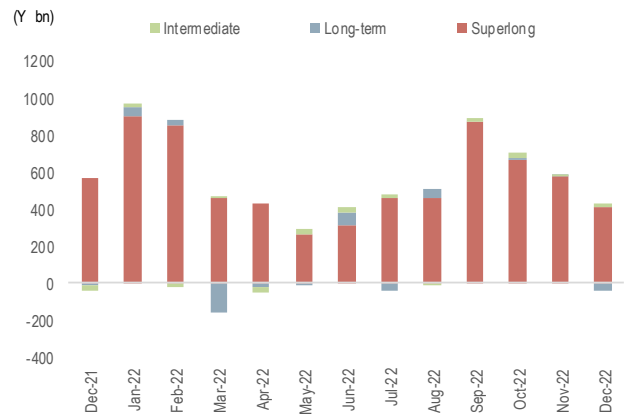
Source: JSDA; compiled by Daiwa Securities.

Major Banks: JGB Trading Volume



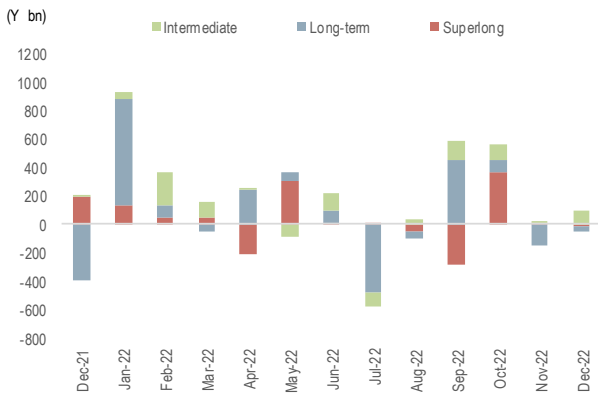
Source: JSDA; compiled by Daiwa Securities.

Life & Non-life Insurers: JGB Trading Volume



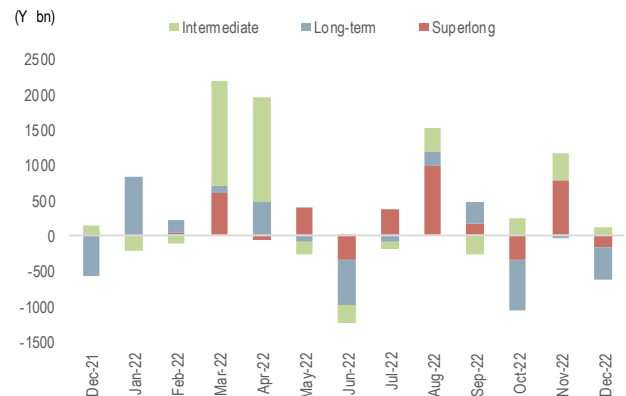
Source: JSDA; compiled by Daiwa Securities.

Regional Banks: JGB Trading Volume



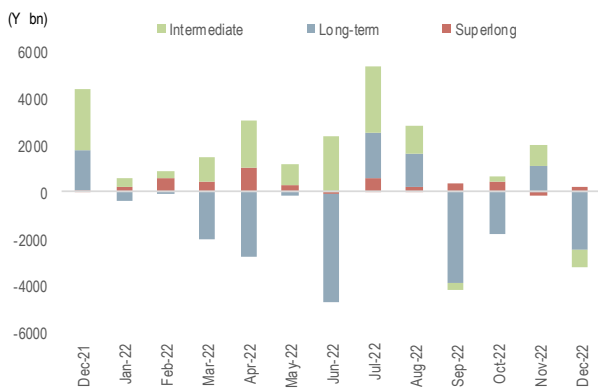
Source: JSDA; compiled by Daiwa Securities.

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	
Nov-22	-22.9	0.0	-54.0	48.5	1,041.5	169.1	36.4	379.9	-250.8	37.8	0.9
Oct-22	-626.3	-30.7	-63.3	-10.8	258.4	-2,529.9	163.6	-1,107.6	-1,128.6	-98.8	-345.2
Sep-22	454.1	-100.7	-574.1	-286.8	-654.2	-3,462.6	239.5	-1,873.8	-1,064.9	-103.9	-584.6
CY22 3Q Avg	176.3	-227.8	131.8	-98.2	214.9	264.2	144.2	833.5	-338.2	16.2	-311.1
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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