

Bond trading trend in Feb

Reduced trading activity

- Deposit-taking institutions, foreign investors cautious before BOJ's March meeting

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Deposit-taking institutions, foreign investors cautious before BOJ's March meeting

This report examines JGB trading trends contained in the Trading Volume of Over-the-Counter (OTC) Bonds (February) data released by the Japan Securities Dealers Association on 20 March 2023.

February Trading Volume of Coupon JGBs

(Y bn)	Total	Superlong	Long-term	Intermediate
Major banks	215.4	-61.7	375.8	-98.7
Life & non-life insurers	190.5	219.3	-20.4	-8.4
Regional banks (I+II)	-61.1	-39.4	-48.9	27.2
Trust banks	1,381.9	746.2	511.8	123.9
Foreigners	103.1	-302.6	-593.3	999.0

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.

Review of market trends

Super-long JGB yields declined sharply compared to the end of January. Yields fell at the start of the month and again at the end of the month. The decline at the end of the month was apparently due to the sizable impact of big duration extensions. During the month of February, there were reports that Kazuo Ueda would be appointed the next BOJ governor. However, there was no major change in the market's outlook for monetary policy, perhaps because the final Monetary Policy Board meeting under current BOJ Governor Haruhiko Kuroda will take place in March. That is why there was very little movement in the long-term zone in February.

Summary

Trading activity in February was a bit slower compared to the previous month, in line with our prior impressions. There was no Monetary Policy Board meeting scheduled for February and, as mentioned above, it was difficult for investors to trade based on expectations for policy revisions. Market liquidity was also low. As such, the amount of trading in the long-term zone by deposit-taking institutions and foreign investors apparently declined from the previous month. As for the super-long zone, where yields have fallen significantly from the previous month, trust banks were large net buyers, while buying amounts among insurance companies remained at a low level. Demand for JGBs among insurance companies tends to increase just before the end of the fiscal year, but their net buying amounts seem to suggest that investment needs are not increasing at the moment.

In March, after the BOJ meeting passed with no policy changes, JGB yields declined significantly, mainly in the long-term zone. Also, the ongoing financial uncertainty originating from the US has shaken markets. Japan yields fell sharply from the beginning of the month as the prospect of an FF rate hike receded. Under the current situation, prices of various assets are moving significantly and market volatility is increasing. As such, we want to carefully inspect the next JSDA report to confirm investment trends among the various investor groups amid such conditions.

Trading trends by investor category

- Major banks

In the long-term zone, where expectations for policy revisions have smoldered, major banks became net buyers for the first time since November 2022. Trading in February was tepid across all zones, especially the medium-term zone, where trading levels were significantly lower than the previous month and the average for the Oct-Dec 2022 quarter.

- Insurance companies

While the buying of super-long JGBs came to around Y1.0tn, the selling amount was also high. As a result, the net buying amount was below the average for the Oct-Dec 2022 quarter. However, most of the selling appears to have involved super-long JGBs with shorter remaining maturities, so we can probably point to insurance companies as a generator of yield curve flattening pressure.

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

Similar to major banks, regional bank trading across all zones was lower compared to the previous month. This was probably due to the lack of market shocks after the new BOJ governor was selected, coupled with a wait-and-see approach ahead of the BOJ’s March meeting.

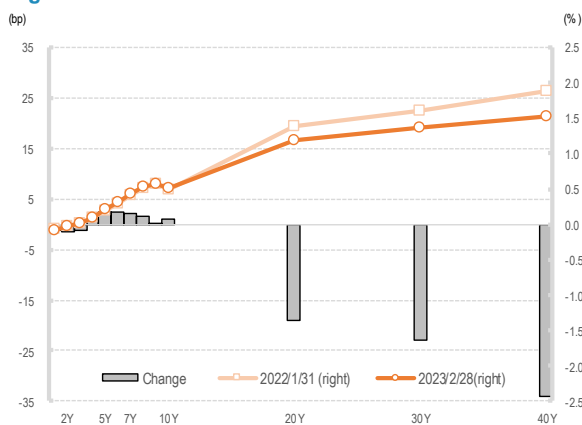
- Trust banks

Trust banks were net buyers across all zones. In particular, the net buying amount for long-term JGBs reached its highest level for FY22. At the end of February, there were indications that trust banks may have purchased JGBs along with lengthening durations. This net buying seems to support such indications.

- Foreigners

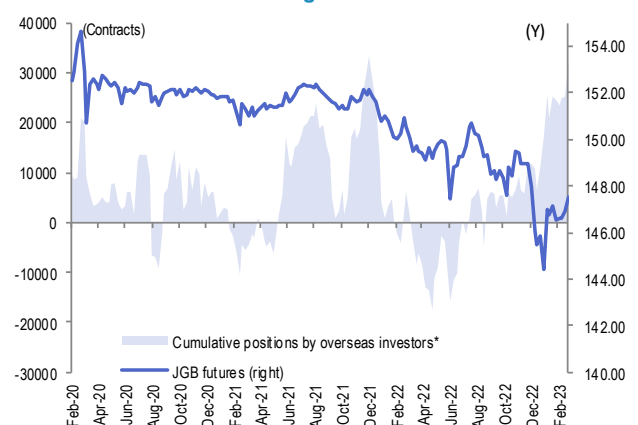
The net selling of long-term JGBs narrowed, while the net buying of medium-term JGBs exceeded the average for the previous fiscal year. As a result, foreigners became net buyers of coupon-bearing JGBs overall. We were left with the impression that policy revision-related catalysts strong enough to move the market were lacking in February and, as such, it is possible that trading was somewhat subdued.

Change in JGB Yield Curve: 31 Jan vs. 28 Feb



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
Feb-23	97.6	159.3	-61.7	419.7	43.9	375.8	323.0	421.7	-98.7	840.3	624.9	215.4
Jan-23	34.0	304.0	-270.0	178.3	399.5	-221.2	2,516.7	975.4	1,541.3	2,729.0	1,678.9	1,050.1
CY22 4Q Avg	524.9	460.5	64.3	590.2	315.4	274.9	1,721.9	1,440.2	281.7	2,837.0	2,216.1	620.9
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
Feb-23	1,038.9	819.6	219.3	45.8	66.2	-20.4	71.5	79.9	-8.4	1,156.2	965.7	190.5
Jan-23	1,112.0	1,558.2	-446.2	56.9	224.4	-167.5	125.6	82.6	43.0	1,294.5	1,865.2	-570.7
CY22 4Q Avg	972.2	423.6	548.6	102.8	113.4	-10.6	102.8	83.0	19.9	1,177.8	619.9	557.9
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
Feb-23	227.1	266.5	-39.4	73.7	122.6	-48.9	27.2	0.0	27.2	328.0	389.1	-61.1
Jan-23	432.3	783.3	-351.0	175.8	568.7	-392.9	111.1	17.0	94.1	719.2	1,369.0	-649.8
CY22 4Q Avg	479.5	361.8	117.7	228.8	260.4	-31.6	130.7	63.2	67.5	839.0	685.4	153.6
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
Feb-23	2,087.3	1,341.1	746.2	1,468.3	956.5	511.8	1,612.3	1,488.4	123.9	5,167.9	3,786.0	1,381.9
Jan-23	1,360.4	1,949.8	-589.4	1,893.8	2,666.5	-772.7	2,055.6	1,973.1	82.5	5,309.8	6,589.4	-1,279.6
CY22 4Q Avg	1,796.6	1,715.3	81.3	1,437.1	1,843.3	-406.2	1,933.7	1,695.3	238.4	5,167.5	5,254.0	-86.5
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

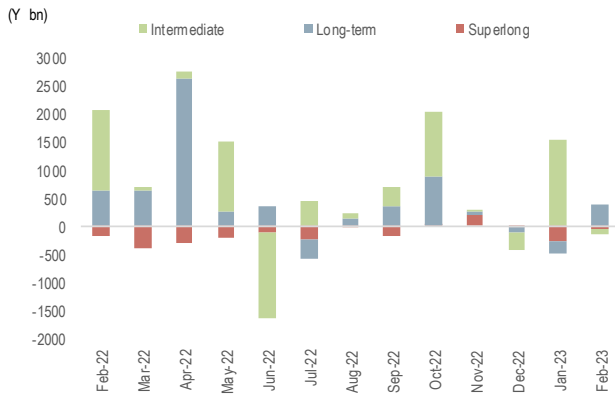
Source: JSDA; compiled by Daiwa Securities.

Foreigners (Y bn)

	Superlong			Long-term			Intermediate			Total		
	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net	Buy	Sell	Net
Feb-23	2,756.5	3,059.1	-302.6	6,499.9	7,093.2	-593.3	5,064.6	4,065.6	999.0	14,321.0	14,217.9	103.1
Jan-23	3,778.2	4,023.8	-245.6	9,727.7	13,212.3	-3,484.6	4,510.7	4,899.4	-388.7	18,016.6	22,135.5	-4,118.9
CY22 4Q Avg	3,560.8	3,387.7	173.2	5,506.9	6,577.8	-1,070.8	4,568.6	4,452.5	116.1	13,636.4	14,418.0	-781.6
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

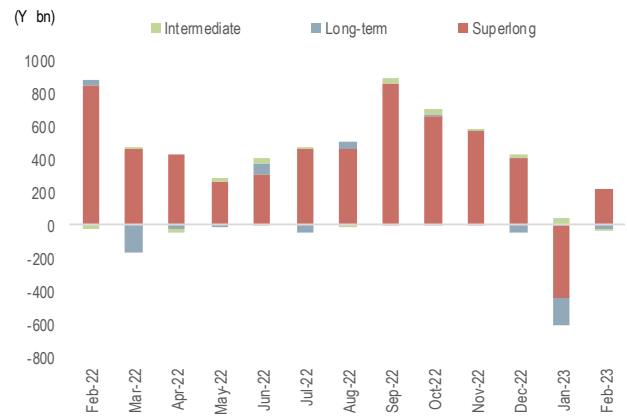
Source: JSDA; compiled by Daiwa Securities.

Major Banks: JGB Trading Volume



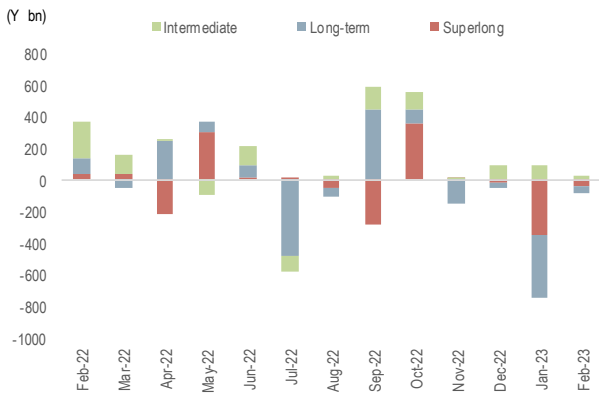
Source: JSDA; compiled by Daiwa Securities.

Life & Non-life Insurers: JGB Trading Volume



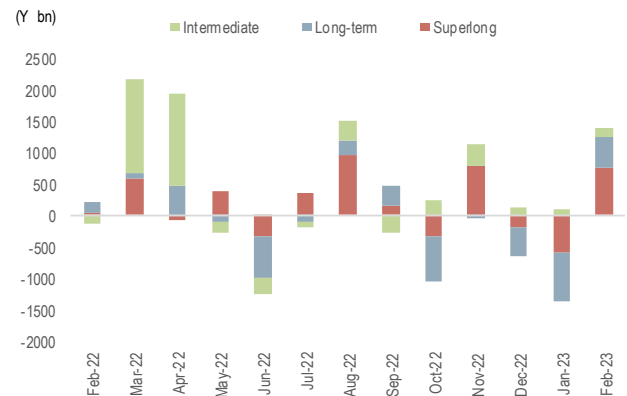
Source: JSDA; compiled by Daiwa Securities.

Regional Banks: JGB Trading Volume



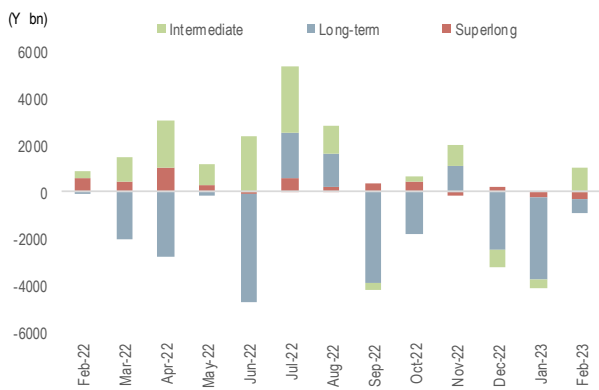
Source: JSDA; compiled by Daiwa Securities.

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	
Jan-23	597.7	-89.4	-485.0	6.3	-607.7	-3,211.7	-47.3	-3,039.6	-302.1	81.0	26.6
Dec-22	-202.1	-4.0	-383.7	-73.9	323.3	-5,164.9	99.9	-3,073.3	-1,100.7	-327.4	-542.7
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
CY22 4Q Avg	-283.8	-11.6	-167.0	-12.1	541.1	-2,508.6	100.0	-1,267.0	-826.7	-129.5	-295.7
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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