

# Daiwa's View

FICC Research Dept.

## FY26 JGB yield outlook

- The long-term yield is expected to rise to the mid-2% range
- Superlong yields are also expected to rise, but there is scope for a decline of about 40bp if trust in government fiscal policy improves
- FY26 will be a year in which investors seek excess returns while preparing for rising yields and high volatility



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Daiwa Securities Co. Ltd.

We would like to express our sincere gratitude for your regular reliance on our research. I am pleased to announce that I will be serving as Chief Strategist starting FY26. I have been involved in the bond market for nearly twenty-five years. Based on my practical experience in areas such as trading and sales, I will offer theoretical analysis in order to provide timely perspectives that contribute to investment decisions. I look forward to your continued support.

## FY26 JGB yield outlook

Our department has published our outlook focused primarily on JGB yields for the coming year. As we enter the new fiscal year, I would like to present [our yield outlook](#), updated on 30 March, and explain the background behind it and our thoughts about it. Based on the premise that the BOJ will proceed with rate hikes, we project that the long-term yield will rise into the mid-2% range in FY26, reaching 2.40% at the end of the calendar year, and 2.45% at the end of the fiscal year. However, the yield could decline into the low 2% range if we were to see growing sentiment that rate hikes were coming to an end. While we expect to see an underlying upward trend with superlong yields, we forecast that there is scope for a decline of about 40bp if trust in government fiscal policy improves.

Chart 1: FY26 JGB Yield Outlook by Daiwa Securities' FICC Research Dept.

(%)	Apr-Jun		Jul-Sep		Oct-Dec		Jan-Mar	
	Rrange	Term-end	Rrange	Term-end	Rrange	Term-end	Rrange	Term-end
Policy rate		1.00		1.00		1.25		1.25
2yr	1.15 ~ 1.55	1.35	1.20 ~ 1.60	1.40	1.25 ~ 1.65	1.45	1.30 ~ 1.70	1.50
5yr	1.50 ~ 2.00	1.75	1.55 ~ 2.05	1.80	1.60 ~ 2.10	1.85	1.65 ~ 2.15	1.90
10yr	2.00 ~ 2.60	2.30	2.05 ~ 2.65	2.35	2.10 ~ 2.70	2.40	2.15 ~ 2.75	2.45
20yr	2.90 ~ 3.50	3.20	2.95 ~ 3.55	3.25	3.00 ~ 3.60	3.30	3.05 ~ 3.65	3.35
30yr	3.30 ~ 3.90	3.60	3.35 ~ 3.95	3.65	3.40 ~ 4.00	3.70	3.45 ~ 4.05	3.75

Source: Compiled by Daiwa.

## Long-term yield forecast

Our main scenario assumes there will be two 25bp rate hikes, one in the Apr-Jun quarter and another in the Oct-Dec quarter. Determining the terminal rate is crucial for projecting the level of the long-term yield. [The BOJ's latest estimates of the natural rate of interest](#) indicate a maximum of 0.53%, a minimum of -0.935%, and an average of -0.194% across six models. While the estimates themselves should be interpreted while allowing for a certain degree of latitude, it seems reasonable to view the natural rate as slowly rising in shallow negative territory. Assuming a natural rate between -0.5% and 0.0%, as well as inflation at 2%, the nominal equilibrium interest rate can be projected to be 1.5% to 2.0%. For the time being, we would like to be cautious about upside risks, regarding 1.5% as a point of reference for the terminal rate. At a pace of two rate hikes per year, the policy rate would reach 1.5% in the first half of FY27. Furthermore, if we were to assume that the BOJ would double the pace of hikes (to four times a year) due to a heightened risk of a rise in inflation from supply shocks, the rate would reach 2% in the first half of FY27.

Chart 2: Estimated Natural Rate of Interest (avg of six models)



Source: BOJ; compiled by Daiwa.

Chart 3: 2yr-forward 1yr OIS Rate



Source: Bloomberg; compiled by Daiwa.

Frankly, bond investors would find it hard to build meaningful long positions in bonds in a situation in which it was difficult to determine the terminal point during a time of rate hikes. While the yield uptrend is likely to continue in FY26 as well amid unstable speculation about the terminal rate, we expect to have a clearer picture of the terminal point from the second half of FY26.

In our *Daiwa's View* report on 31 March<sup>1</sup>, we modeled the JGB yield curve using the Nelson-Siegel model, and projected the fair value of the long-term yield by extrapolating the yield level and slope. Furthermore, in a report in December 2025<sup>2</sup>, our strategist Kazuya Sato attempted to grasp the general level of the long-term yield by running a regression of the long-term yield over the past 35 years against the policy rate and the 10-year US yield. Using the latter model, if we assume Japan's policy rate is 1.50% and the long-term equilibrium level of the US long-term yield is 4% (= longer-run GDP growth rate projection of 2.0% plus the 2% inflation target based on the FOMC's Summary of Economic Projections), the implied value in the matrix would be 2.26%. And, if we assume a rate hike up to 2%, the long-term yield would become 2.63%. Moreover, if the US yield remains high at 4.50%, the point of reference for the long-term yield would be 2.84%.

The 2-year forward 1-year OIS rate, an indicator of the terminal rate, has already risen to the upper 1% range, indicating that the market is already pricing in rates being hiked to 2%. In this situation, our main scenario for the long-term yield is a rise into the mid-2% range. However, we should remain mindful that an opportunity for the yield to decline towards the low 2% range could arise if we were to see growing sentiment that rate hikes were coming to an end.

<sup>1</sup> Eiichiro Tani (31 Mar 2026). [Daiwa's View: Final report: Fair value analysis using Shiratsuka Chart, Nelson-Siegel model.](#)

<sup>2</sup> Shun Otani and Kazuya Sato (5 Dec 2025). [Daiwa's View: Market must be prepared for a rise above 2% / Long-term yield would reach the lower half of 2% range given a terminal rate of 1.5%.](#)

**Chart 4: Matrix of 10yr JGB Yield (Regression analysis using policy rate and US yield)**

Japan: Policy rate (%)		10yr US yield					
		3.00	3.50	4.00	4.25	4.50	5.00
0.75	1.29 (0.78~1.79)	1.5 (0.99~2)	1.71 (1.2~2.21)	1.81 (1.31~2.32)	1.92 (1.41~2.42)	2.13 (1.62~2.63)	
	1.47 (0.97~1.97)	1.68 (1.18~2.18)	1.89 (1.39~2.39)	2 (1.49~2.5)	2.1 (1.6~2.6)	2.31 (1.81~2.81)	
	1.65 (1.15~2.16)	1.86 (1.36~2.37)	2.07 (1.57~2.58)	2.18 (1.68~2.68)	2.28 (1.78~2.79)	2.5 (1.99~3)	
	1.84 (1.33~2.34)	2.05 (1.54~2.55)	2.26 (1.75~2.76)	2.36 (1.86~2.87)	2.47 (1.96~2.97)	2.68 (2.18~3.18)	
	2.02 (1.52~2.52)	2.23 (1.73~2.74)	2.44 (1.94~2.95)	2.55 (2.04~3.05)	2.65 (2.15~3.16)	2.86 (2.36~3.37)	
	2.21 (1.7~2.71)	2.42 (1.91~2.92)	2.63 (2.12~3.13)	2.73 (2.23~3.23)	2.84 (2.33~3.34)	3.05 (2.54~3.55)	

Source: Bloomberg; compiled by Daiwa.

### Levels of superlong yields

We expect superlong yields, such as 20- and 30-year yields, to rise in parallel with the 10-year yield. The 10-year forward 10-year yield is at 4.5%, and the 20-year forward 10-year rate exceeds 5%, suggesting that they are strongly undervalued in relative terms. Another supporting factor is the fact that the issuance of superlong JGBs is being gradually reduced, and is expected to decline by roughly 40% in FY26 from the FY22 peak. Despite this backdrop, the reason superlong yields remain elevated is likely a reflection of risk premiums, including concerns about fiscal deterioration and the BOJ falling “behind the curve,” in addition to supply/demand factors, such as declining investment demand from insurance companies.

The Takaichi administration, which took office last October, has advocated for “responsible expansionary fiscal policy” and proposed a consumption tax cut in the February lower house election. Furthermore, it has appointed two reflationists to the BOJ’s policy board. For the time being, we envision a rise in superlong yields in parallel with long-term yields amid a tug-of-war between cheapness and risk premiums.

In our report dated 17 March<sup>3</sup>, which modeled the 30-year yield, we presented a relationship in which the coefficient on the 10-year JGB term premium (TP) is 1.3, in other words, a relationship in which a 10bp rise in the term premium pushes up the 30-year yield by 13bp. We also confirmed that when the government debt-to-GDP ratio deteriorates by 1%, the term premium generally rises by about 1bp<sup>4</sup>. In the Cabinet Office’s [Economic and Fiscal Projections for Medium to Long Term Analysis](#) presented in January, in the “Projection of Past Trend Case,” in which potential growth rate remains limited at 0.5%, the government debt-to-GDP ratio stays almost flat from the current level, while in the “Transferring to a New Economic Stage Case,” in which the potential growth rate rises to 1.5%, the government debt-to-GDP ratio is projected to decline by about 30ppt, from the low-190% range in 2025 to 163% in 2035. If the market were to come to share the view that the growth strategy advocated by the Takashi administration will in fact lead to growth, this would be a factor lowering the 10-year and 30-year yields by 30bp and 39bp (= 30bp × 1.3), respectively.

<sup>3</sup> Shun Otani (17 Mar 2026). [Daiwa Memorandum: Fair value of superlong JGBs.](#)

<sup>4</sup> This is consistent with the findings in our 5 Nov 2025 [Daiwa's View: Impact of fiscal policy and QT on JGB term premium](#), as well as with Keigo Kameda (2014) “Budget deficits, government debt, and long-term interest rates in Japan” in *The Journal of Japanese and International Economies*.

**Chart 5: Estimation Model for 30-Year JGB Yield**

Explanatory variables		Explained variable 30yr JGB yield (%)
Nominal GDP (%)		<b>0.032 ***</b> (0.000)
Daiwa JGB Term Premium (%)	gdp	<b>1.314 ***</b> (0.000)
30yr/5yr UST yield spread	dwjgtp	<b>0.225 ***</b> (0.000)
Issuance amount of superlong JGBs (Y tn)	US30y5y	<b>0.196 ***</b> (0.000)
BOJ's superlong JGB purchase amount (Y tn)	Issue	-0.039 (0.247)
Net purchase amount by life insurers/non-life insurers (Y tn)	BOJ	<b>-0.195 ***</b> (0.002)
Constant term	Insurance	<b>0.513 ***</b> (0.000)
	Intercept	(0.000)
Determination coefficient		0.892

Source: Compiled by Daiwa.

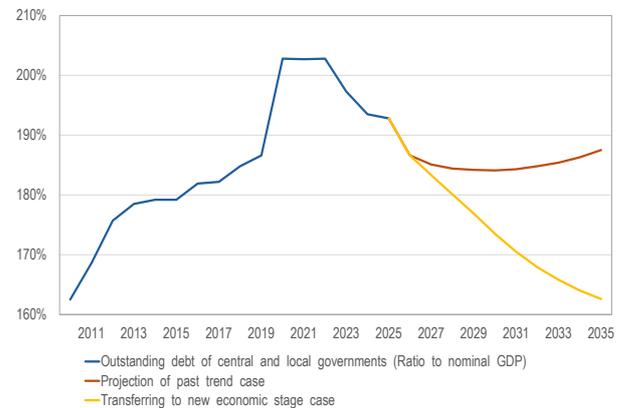
Notes: (1) One, two, and three stars (\*) indicate statistical significance at the 10%, 5%, and 1% level, respectively.

(2) P-value shown in parentheses.

(3) Monthly data from Apr 2004 to Dec 2025.

(4) 3-month backward moving average used for issuance amount of superlong JGBs.

**Chart 6: Debt-to-GDP Ratio in Medium- to Long-Term Projections**



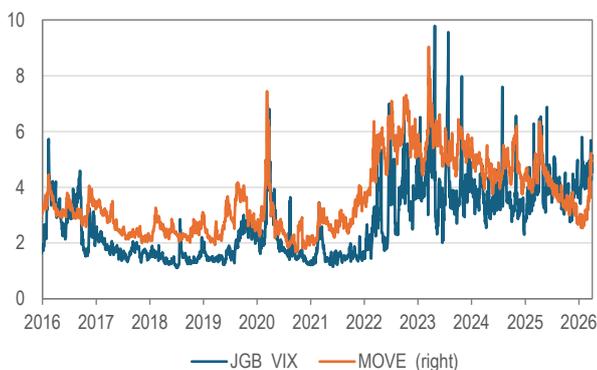
Source: Cabinet Office; compiled by Daiwa.

### Preparing for volatility

Since the start of the 2020s, the JGB market, long sheltered by massive monetary easing and the theory of secular stagnation, has been in the midst of a major structural change. This is driven by global trends, such as the shift to an inflationary economy following the COVID shock and a deteriorating geopolitical environment, exemplified by Russia's invasion of Ukraine and the unilateralism of the Trump administration in the US. As the BOJ proceeds with rate hikes and its exit strategy, and we enter a world with full-fledged positive interest, the presence of foreign investors has increased in the JGB market, making it more susceptible to influences from overseas markets.

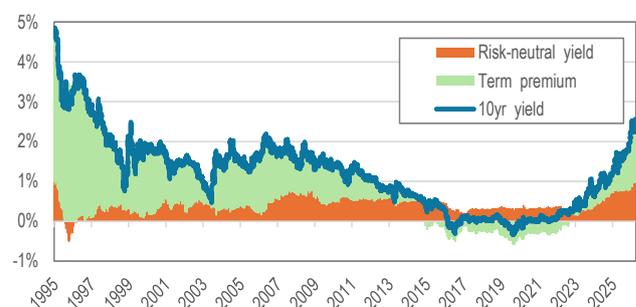
It is unlikely that we will return to the world of low volatility of the past. The Daiwa JGB Term Premium (10-year), estimated by our company, had been negative since the introduction of the Negative Interest Rate Policy (NIRP) and Yield Curve Control (YCC) in 2016. In other words, it was an environment in which excess returns (a premium) could not be expected from long-term bond investments. However, the current JGB term premium has risen to the levels it was at before the period of massive easing. FY26 will be a year in which investors seek opportunities to earn alpha ( $\alpha$ ) while preparing for rising yields and high volatility.

**Chart 7: Volatility-JGB VIX Index (JGBV), MOVE Index**



Source: Bloomberg; compiled by Daiwa.

**Chart 8: Daiwa JGB Term Premium (10yr)**



Source: Compiled by Daiwa.

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