

APOLLO

10-year JGBs above 1% likely to dampen Japanese demand for US Treasuries

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Apollo Global Management

June 2024

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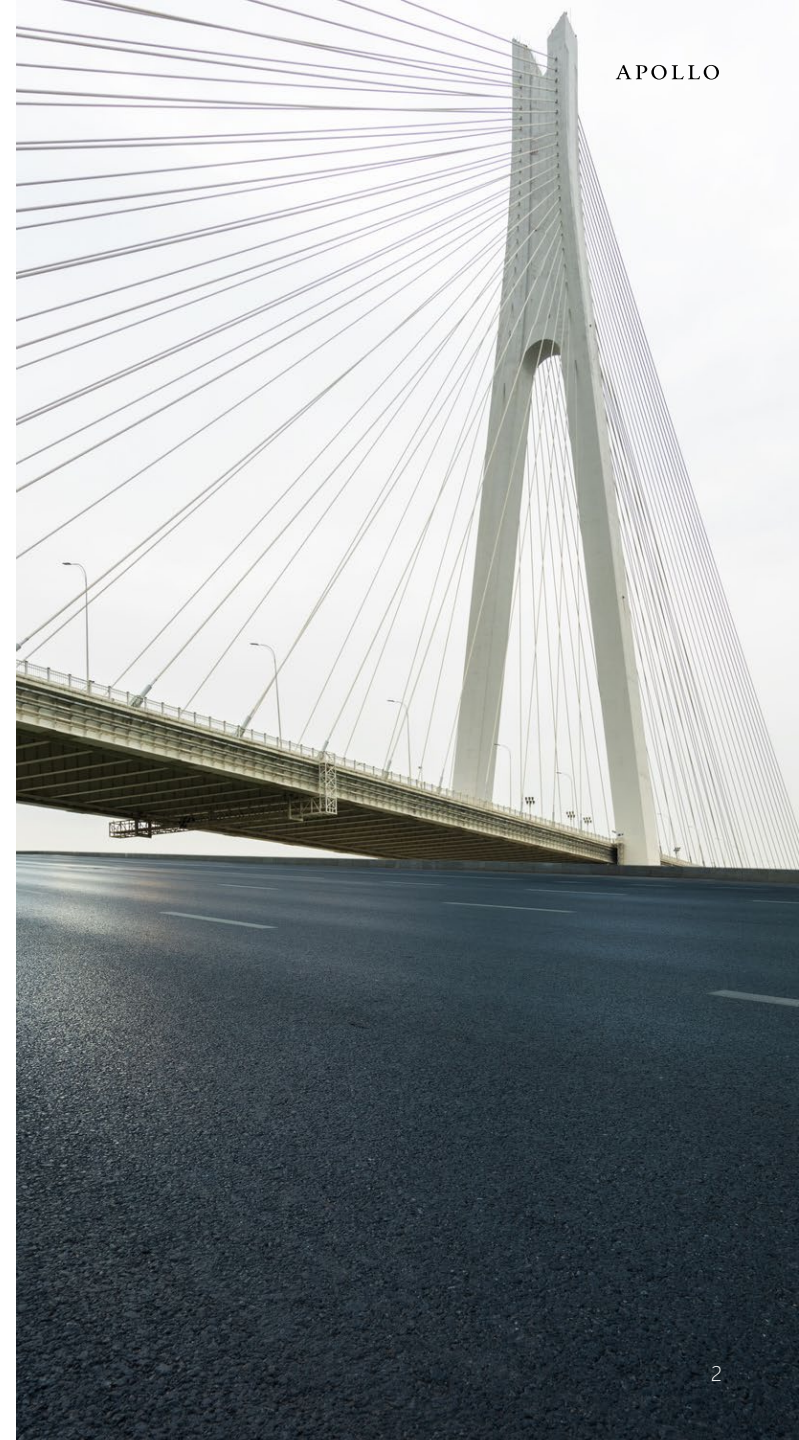
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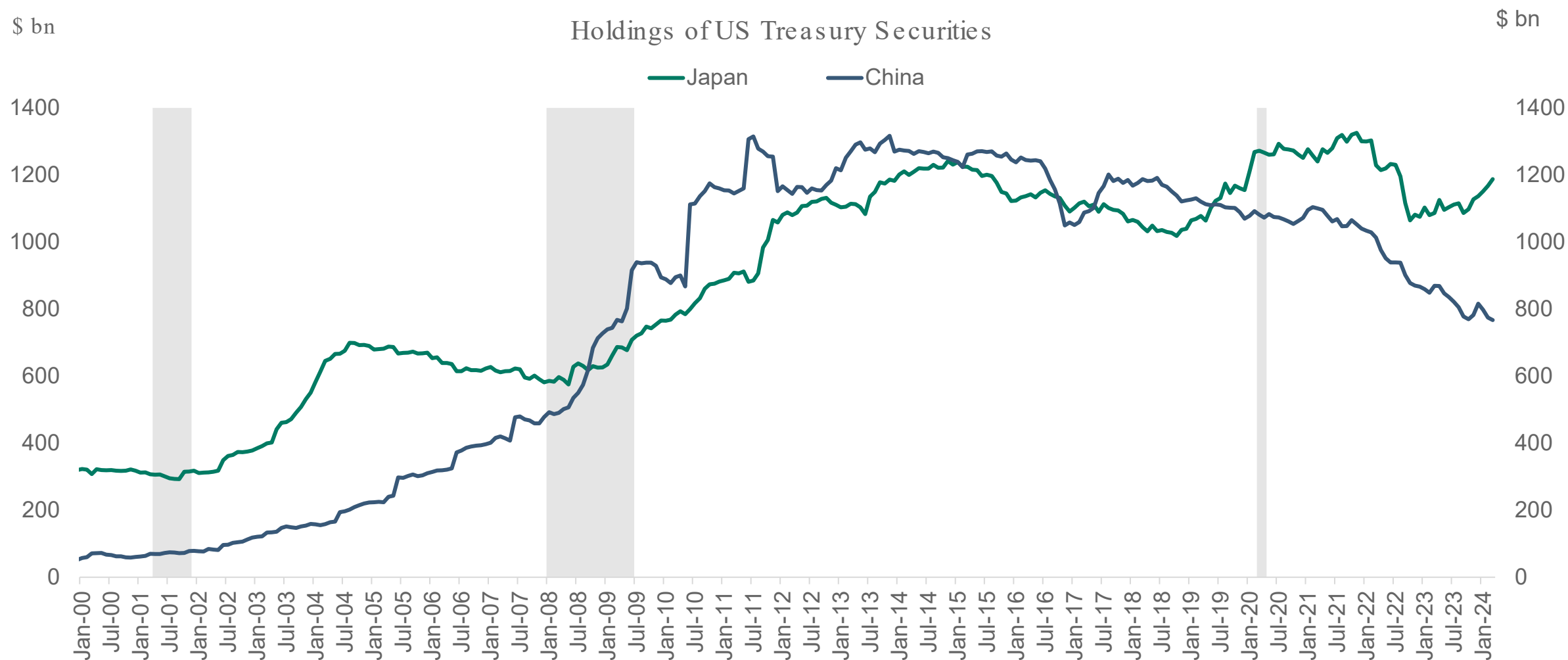
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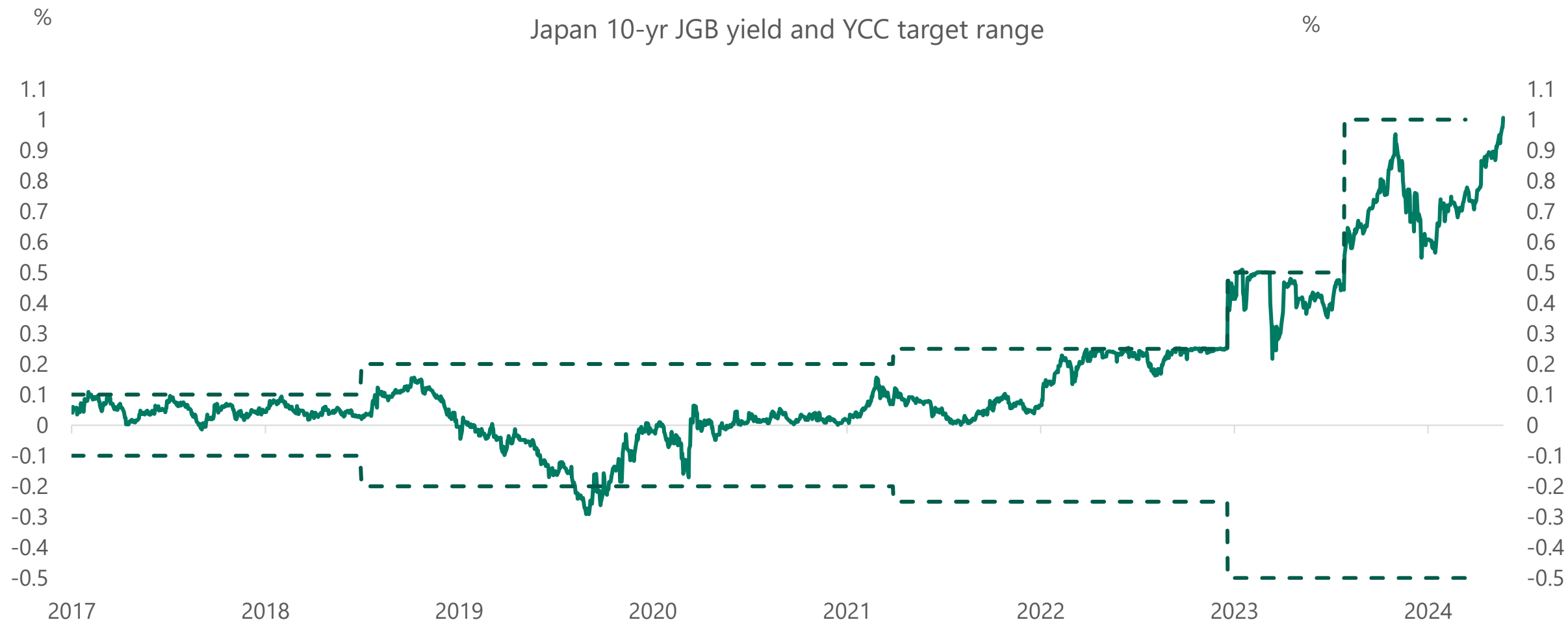


Overview

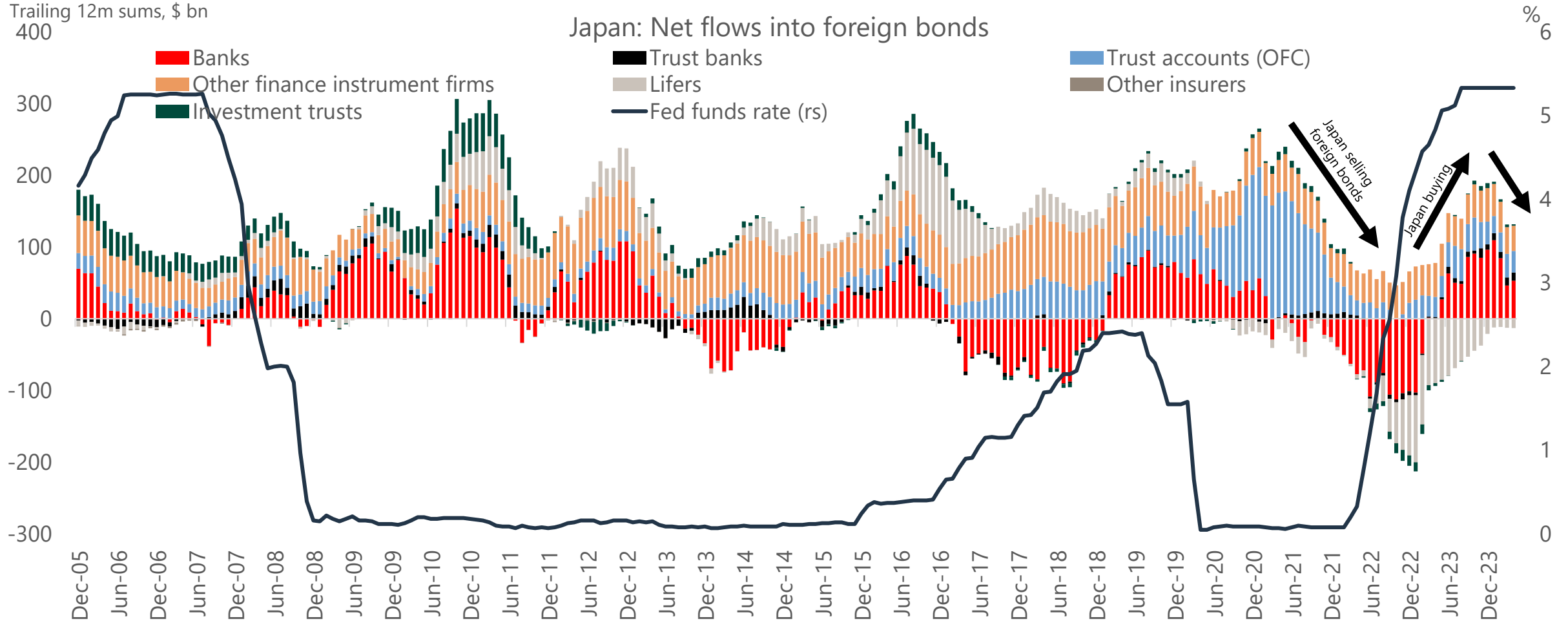
Japan owns \$1.2trn in US Treasuries. China owns \$770bn.



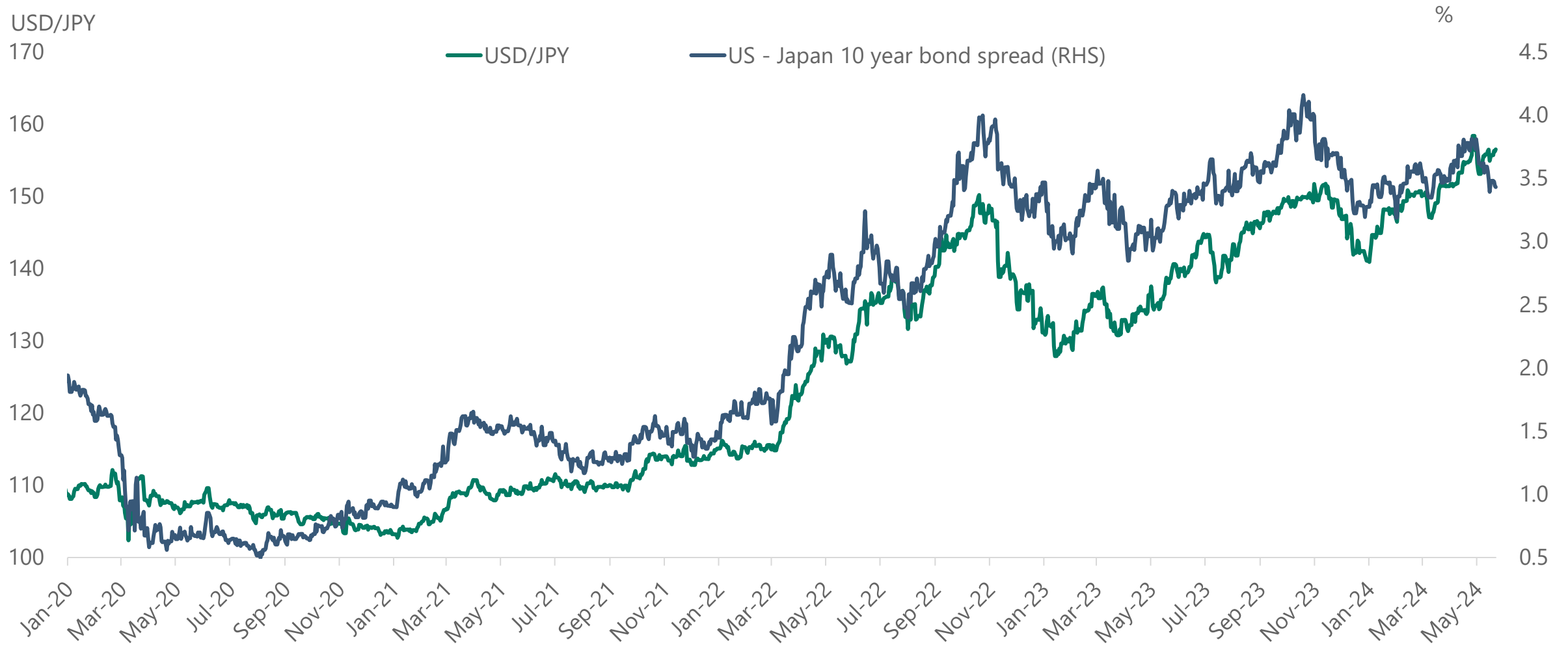
Japanese 10-year yield



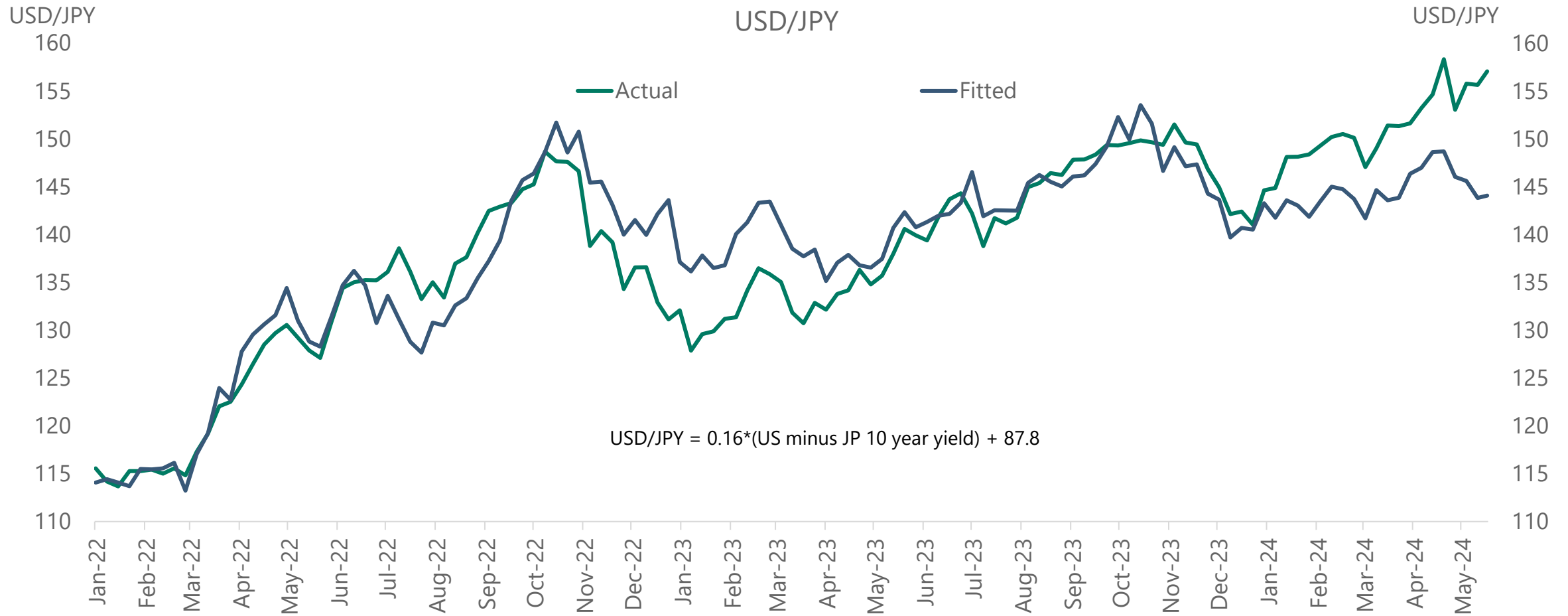
Japan: Net flows into foreign bonds are sensitive to interest rates



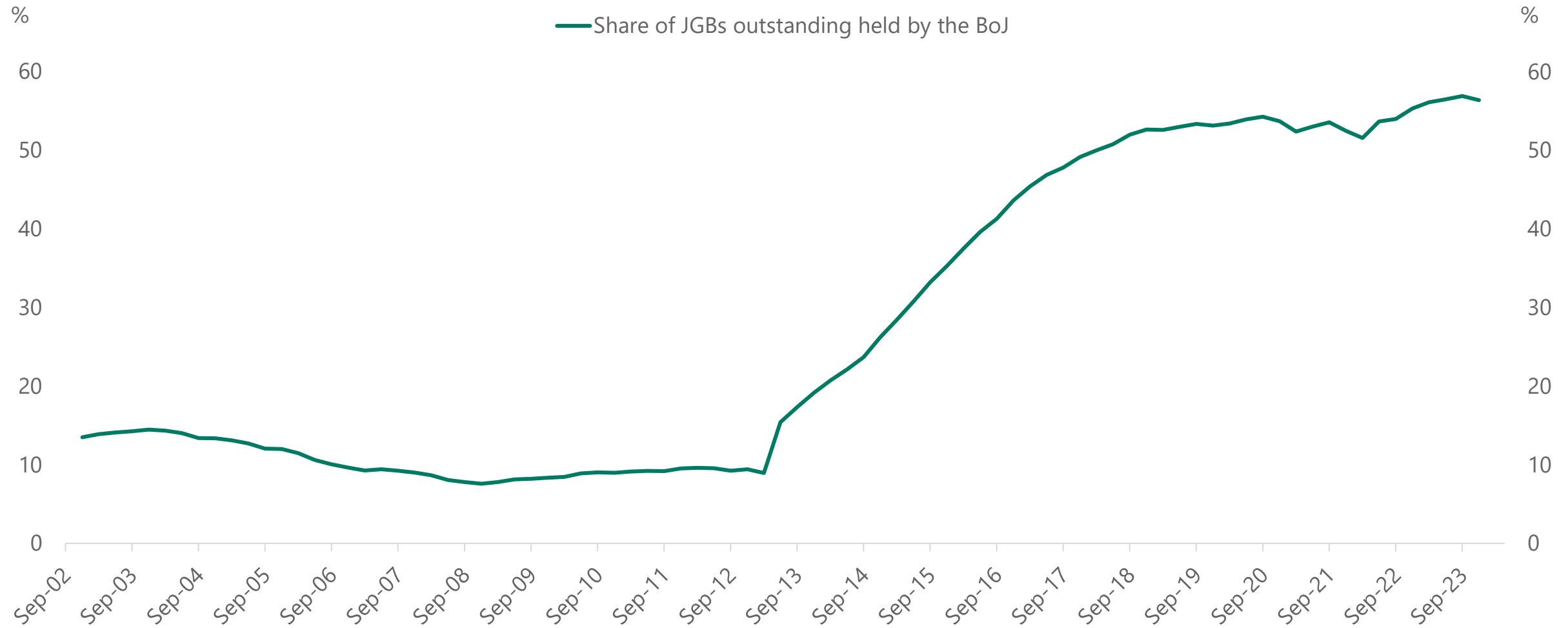
When Japanese 10-year interest rates move up then USDJPY moves down



Yen has depreciated 13 points more than predicted by US/JP interest rate differentials

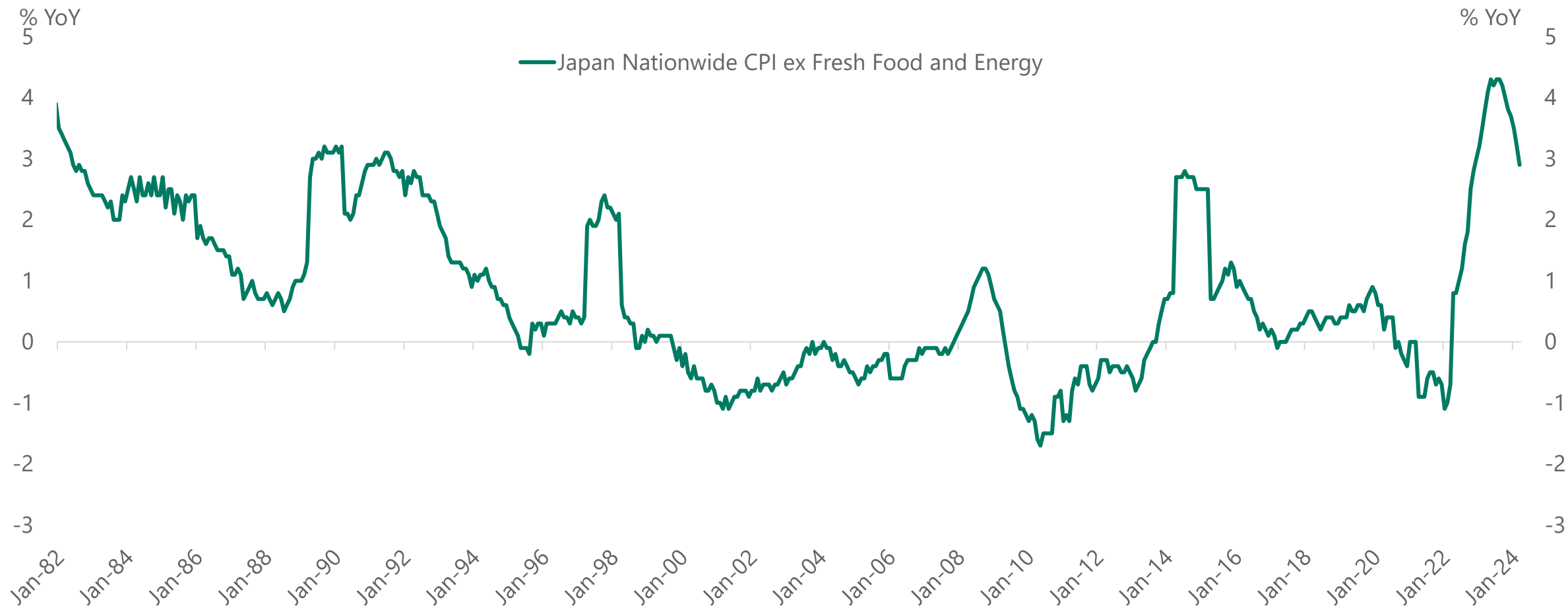


The BoJ owns almost 60% of Japanese government bonds outstanding

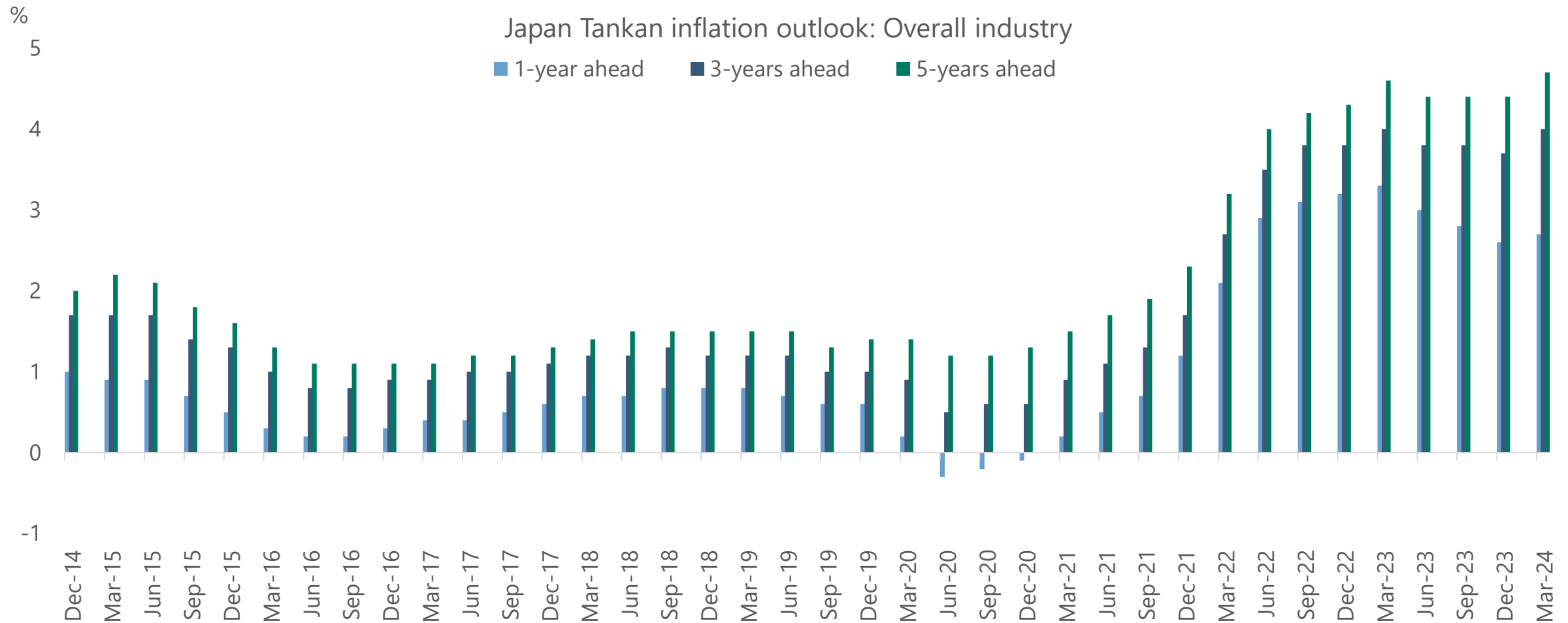


Macro background

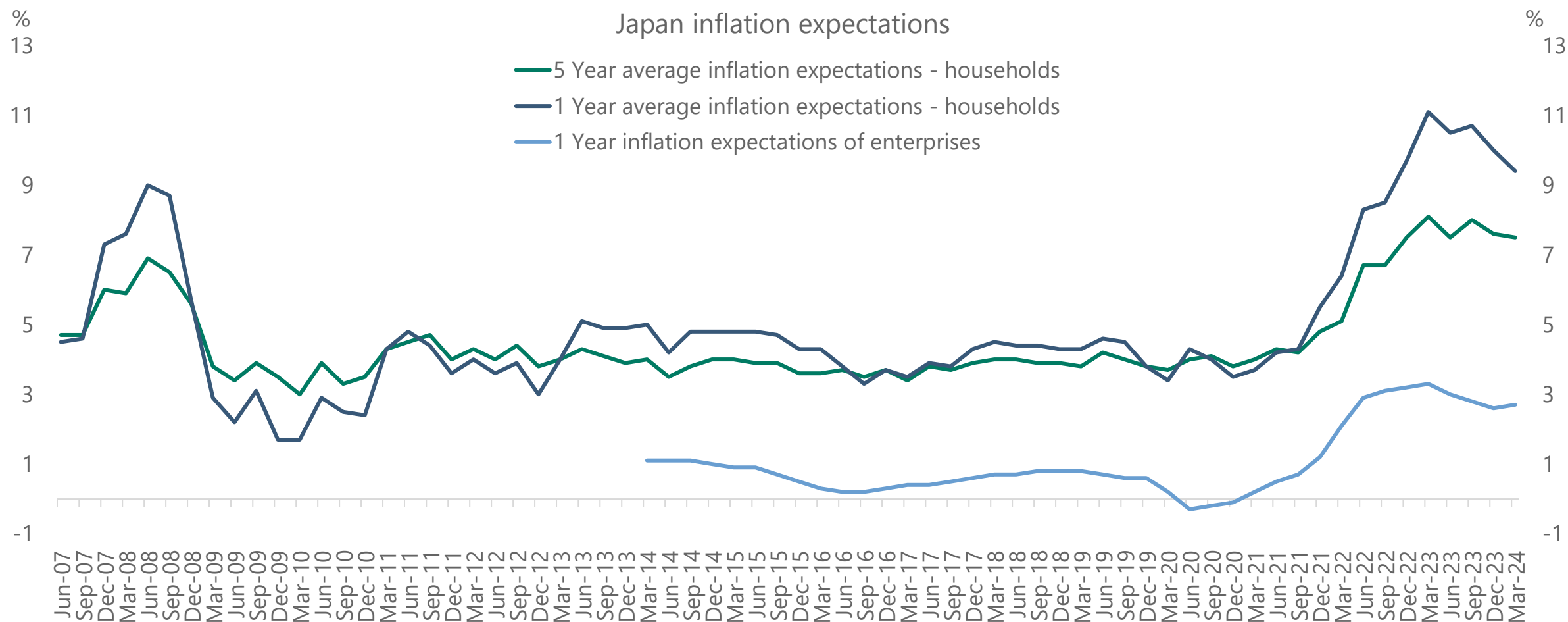
Japan core inflation above 2% but coming down



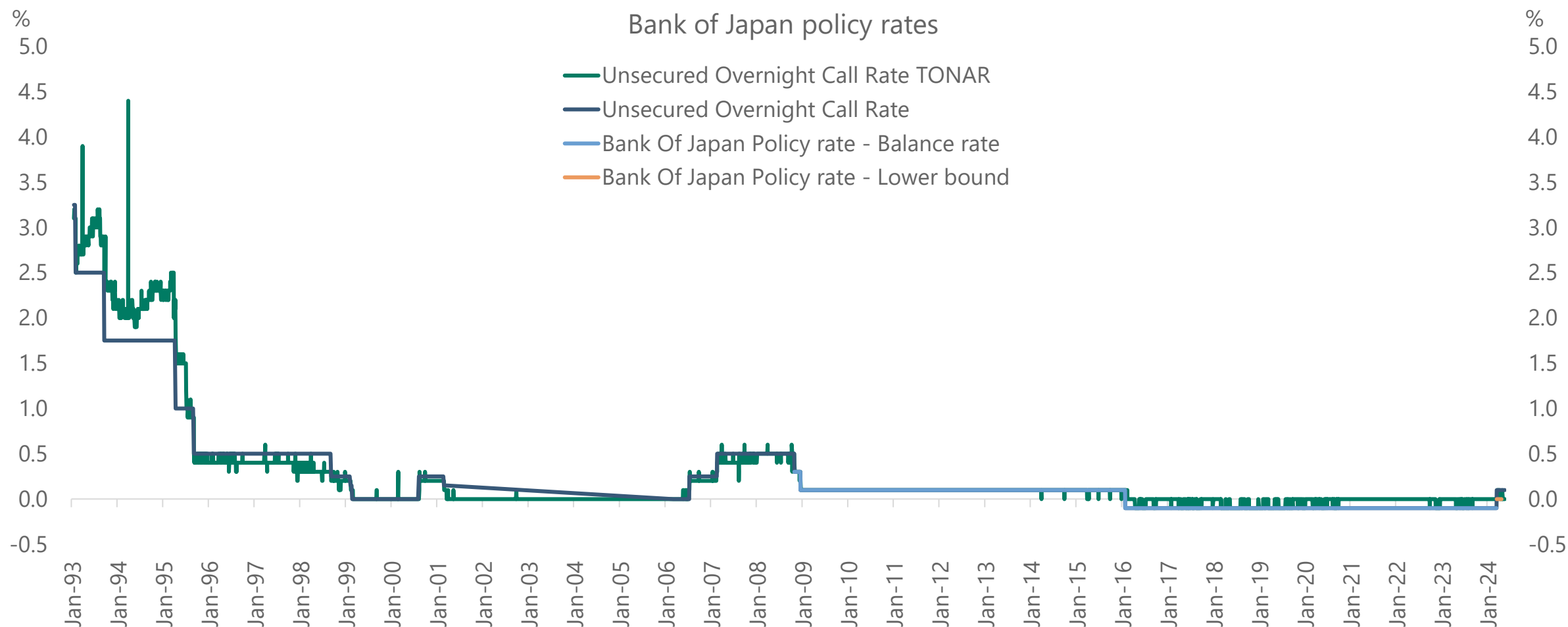
Japan: Long run inflation expectations rising. This is a problem for the BoJ.



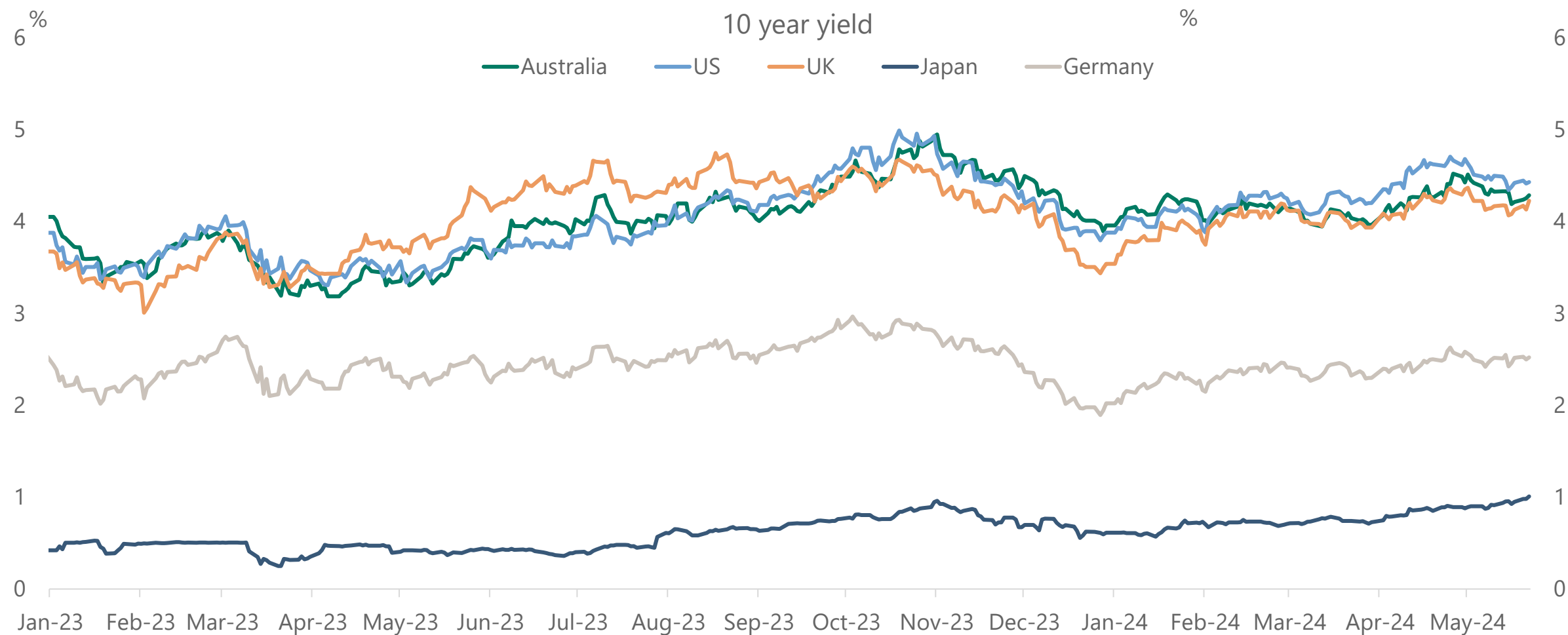
Japanese inflation expectations elevated and sticky



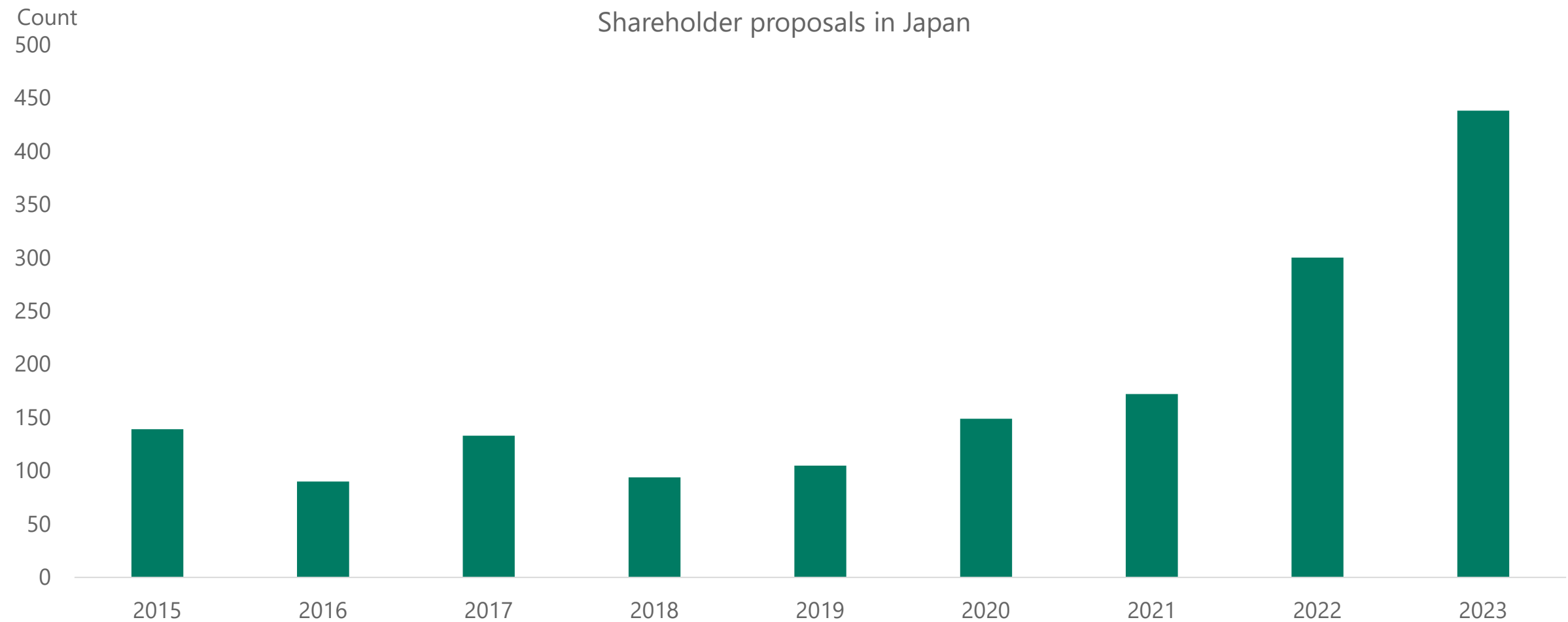
Japan: Interest rates have been essentially zero for 30 years



Japanese long-term term interest rates: JGB 10-year rates now above 1%



Shareholder proposals have increased in Japan

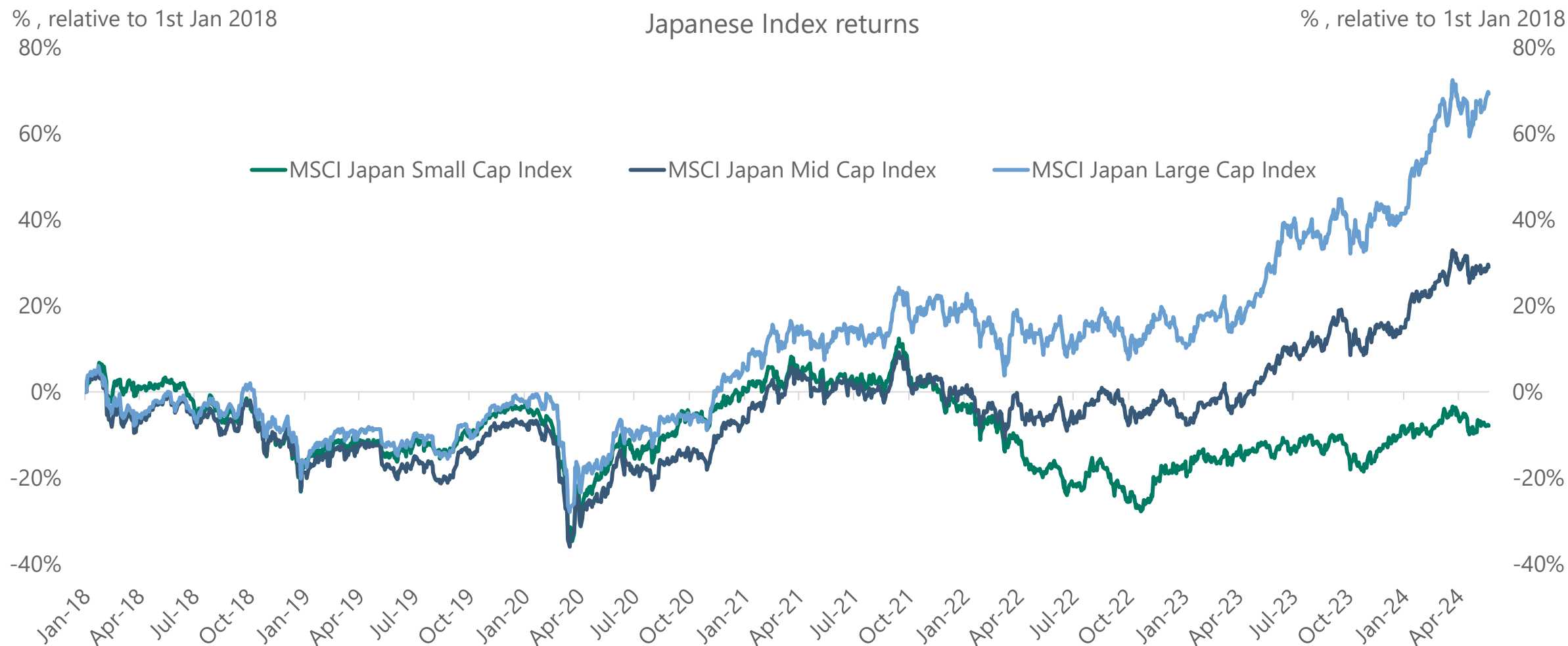


Source: Bloomberg, Apollo Chief Economist. Note: Shareholder proposals include Approve Name Change, Approve Statutory Auditor, Business Operations, Charter/Bylaw Amendment, Climate Change Risk, Decrease Authorized Stock, Director Compensation, Discharge Directors, Dividend/Profit Distribution, Elect Director, Extend Poison Pill (Shareholder Rights Plan), Methane/Greenhouse Gas Emissions, Other Auditor Related, Other Board Related, Other Capital Structure, Other Compensation, Other Governance, Remove Director, Remove Poison Pill (Shareholder Rights Plan), Share Repurchase Related proposals

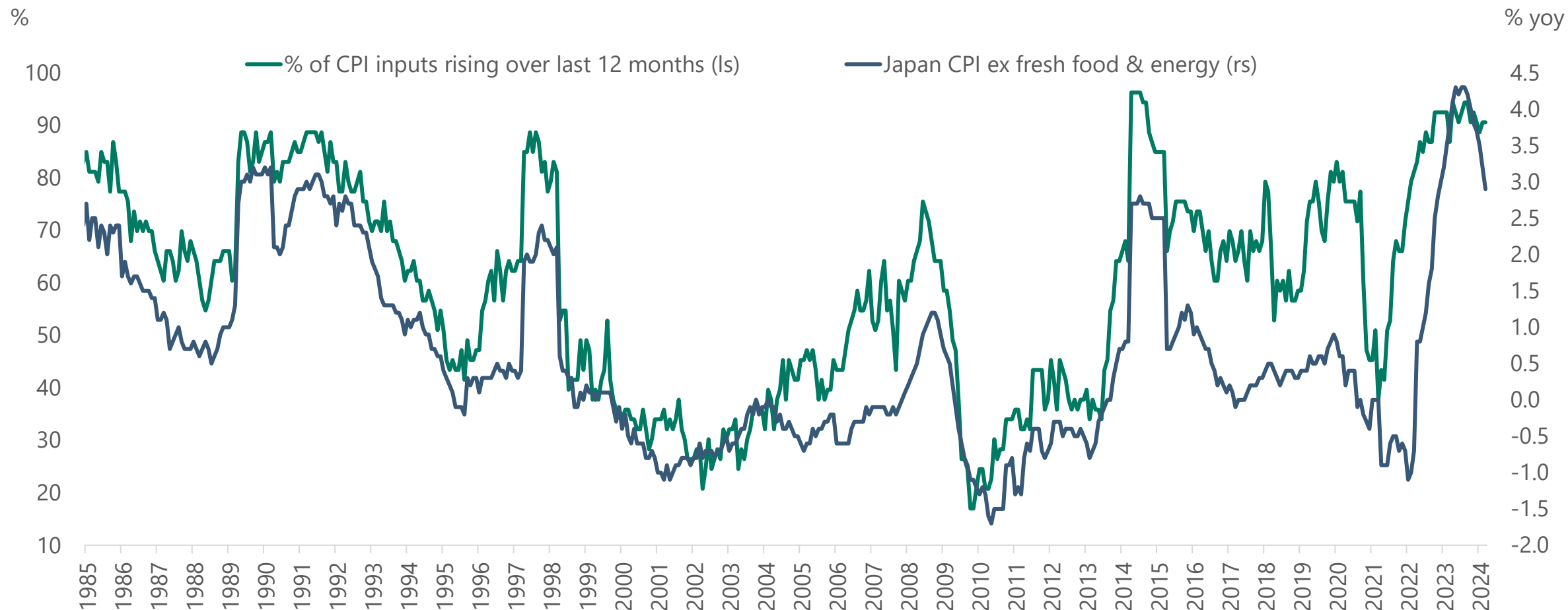
Concentration is also a big issue in the Japanese stock market



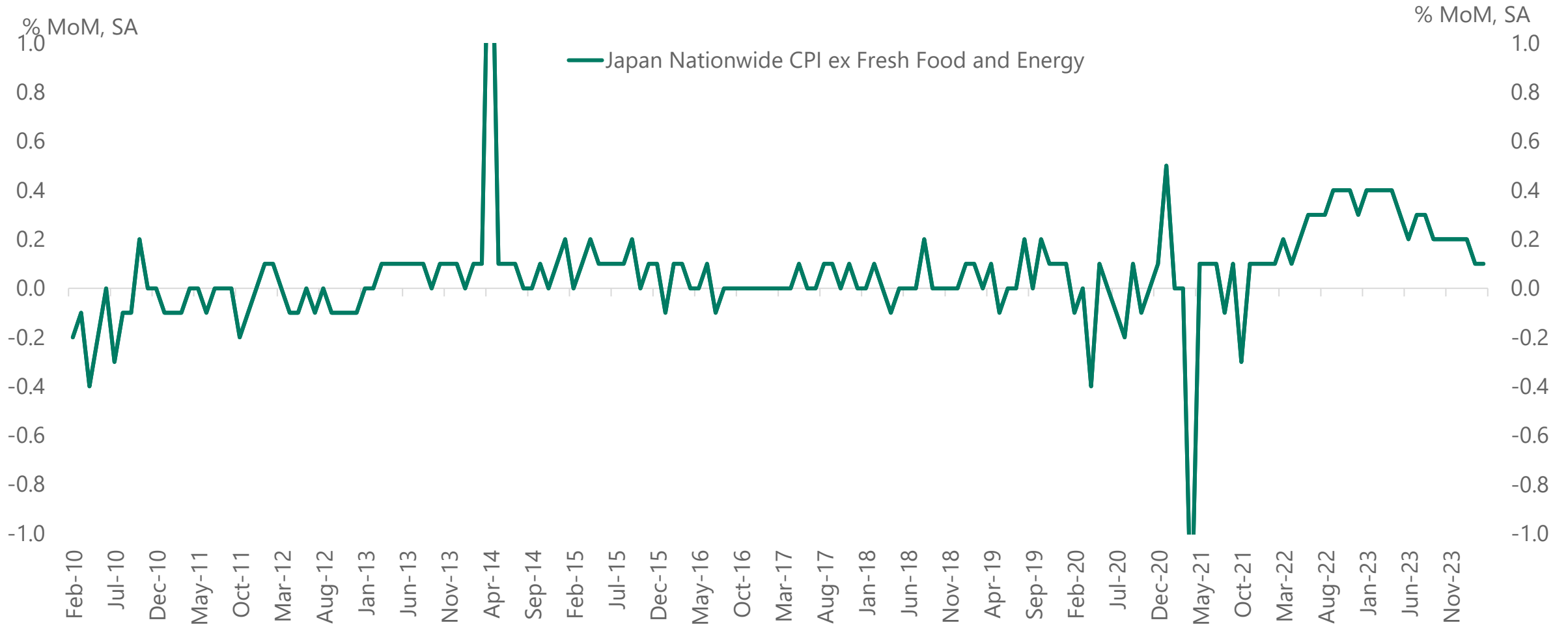
Large cap stocks outperforming in Japan



Japanese inflation still high but starting to come down



Japan: Core inflation starting to coming down

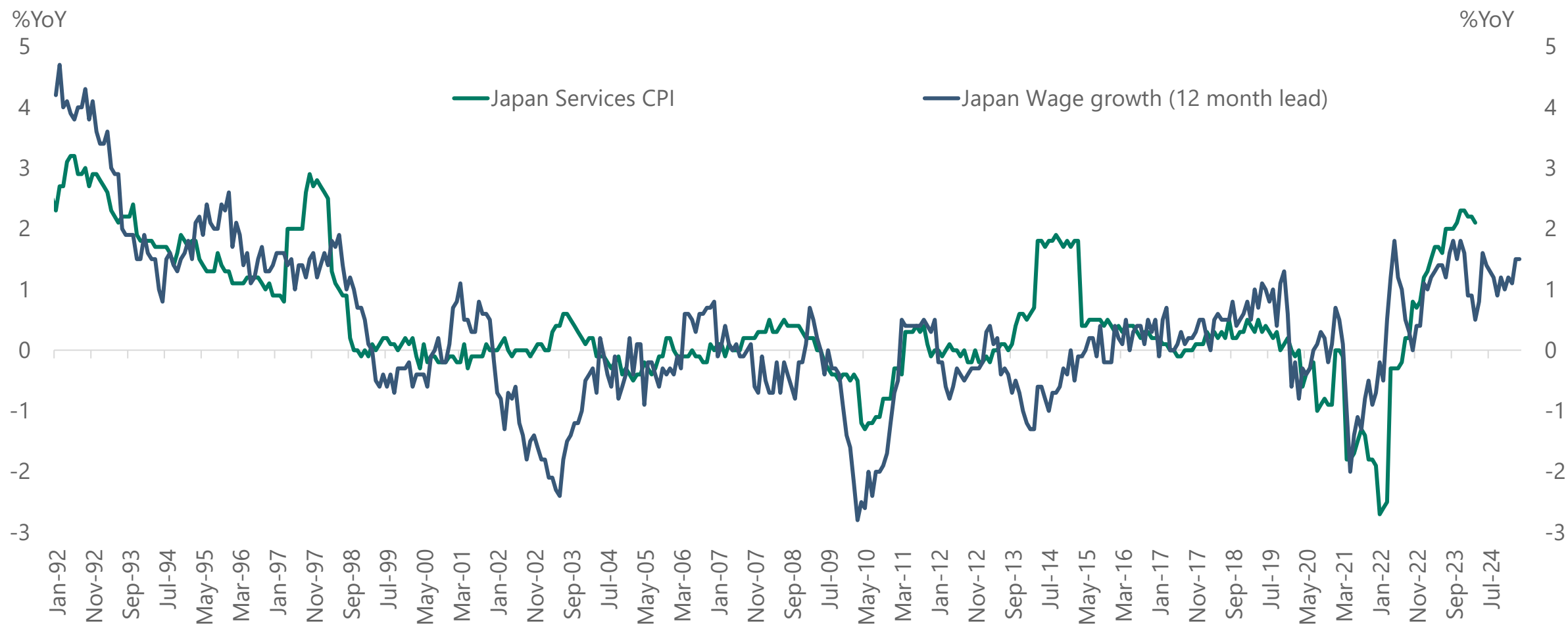


Japan: Wage inflation



Source: Bloomberg, Apollo Chief Economist (The BOJ has positioned wage growth of at least 3% as a prerequisite for stable achievement of its 2% inflation target.)

Japan wage growth indicating continued strength in services inflation



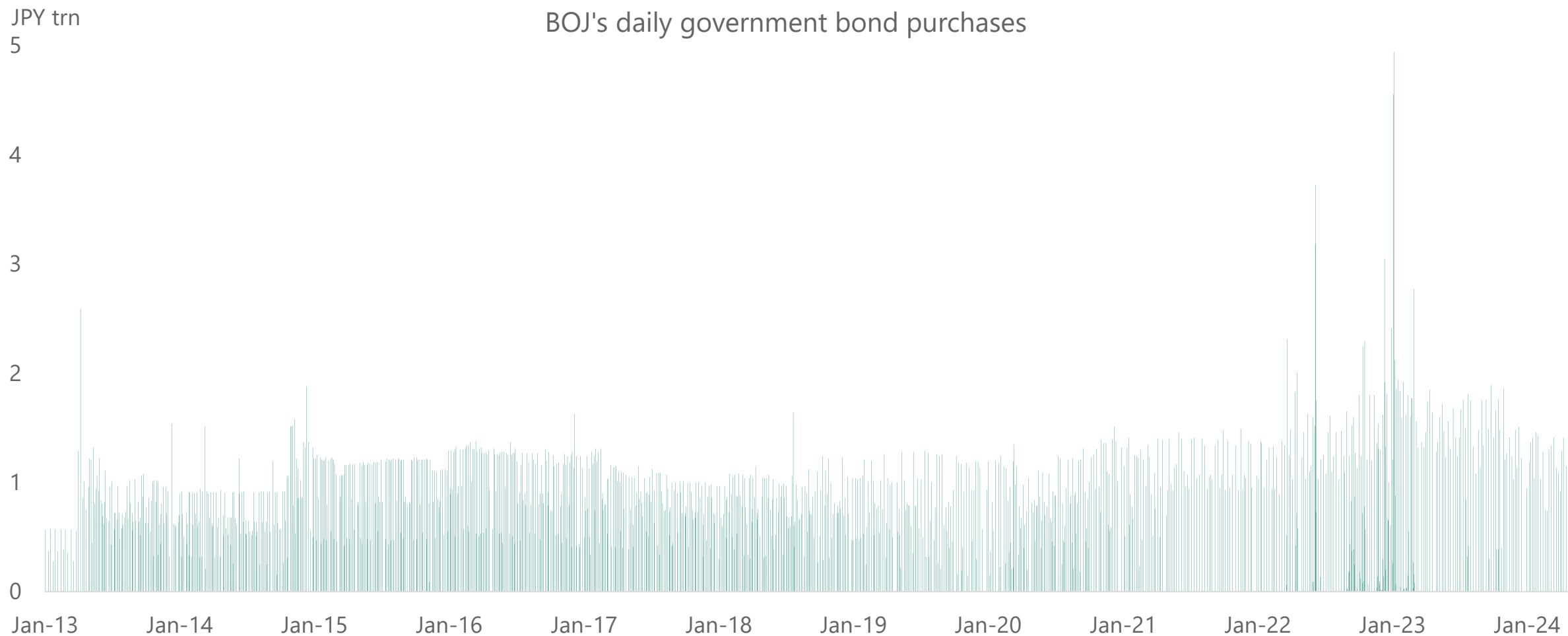
Japanese 10-year yield at highest level since the past decade



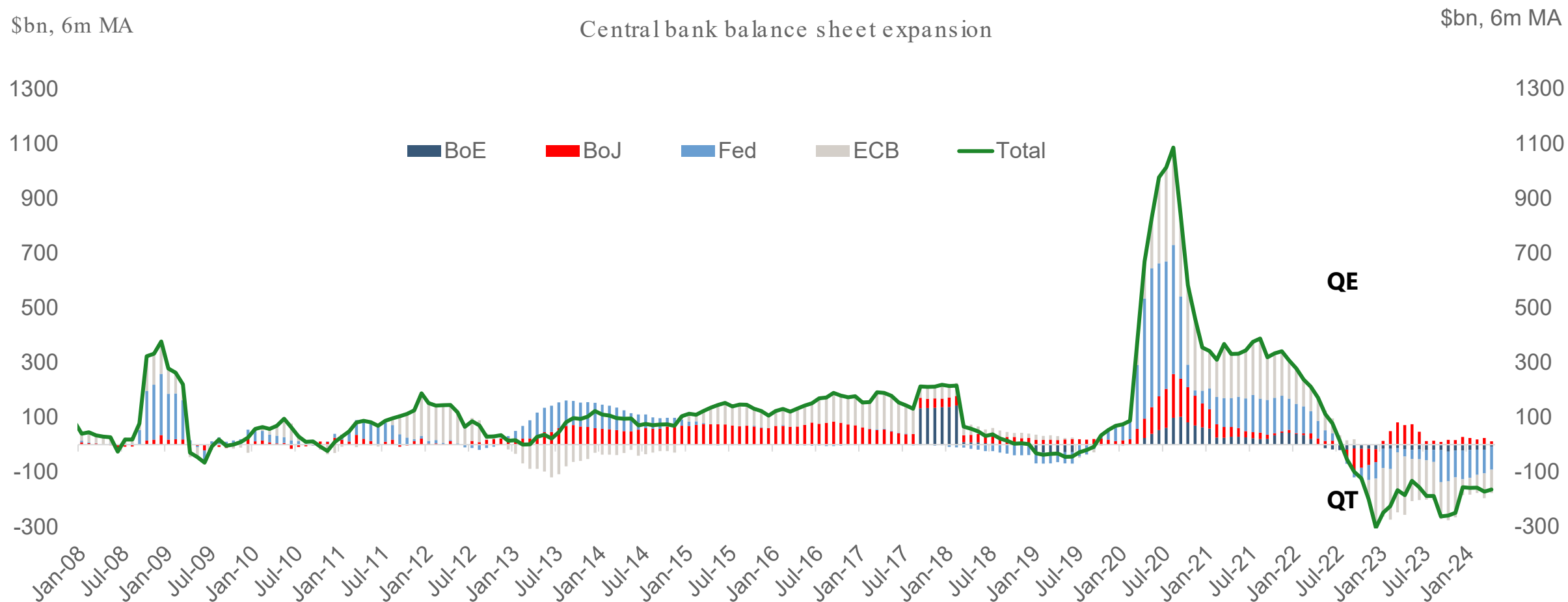


BoJ JGB purchases and holdings

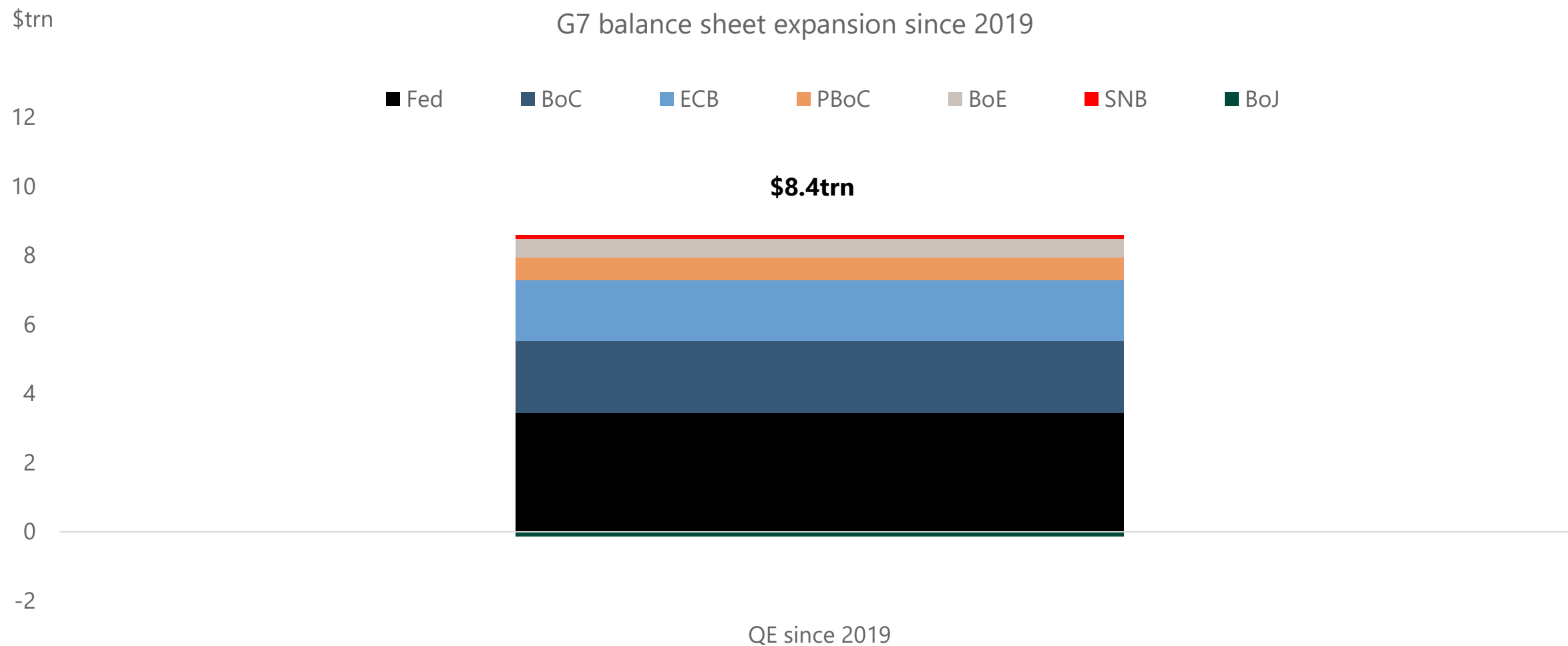
BoJ: Steady buying of JGBs for more than a decade



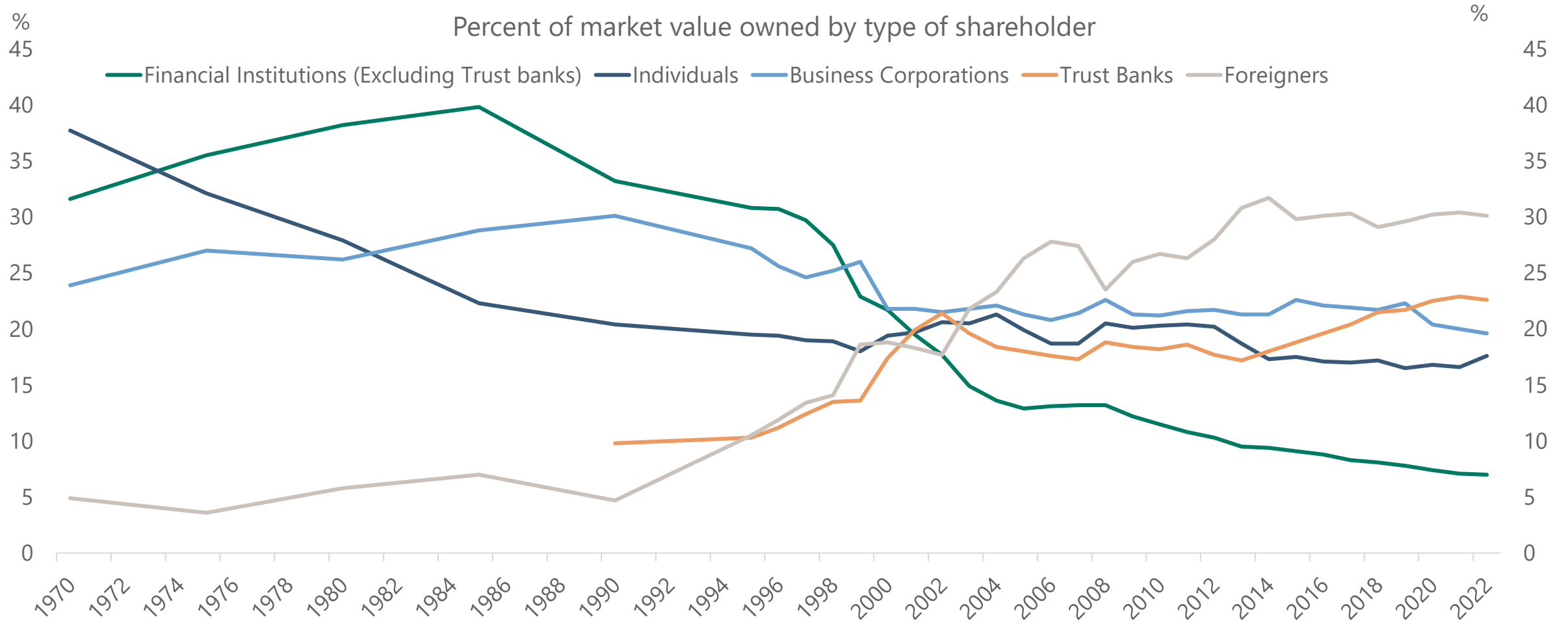
G4 central bank balance sheets



Central bank balance sheet expansions since 2019



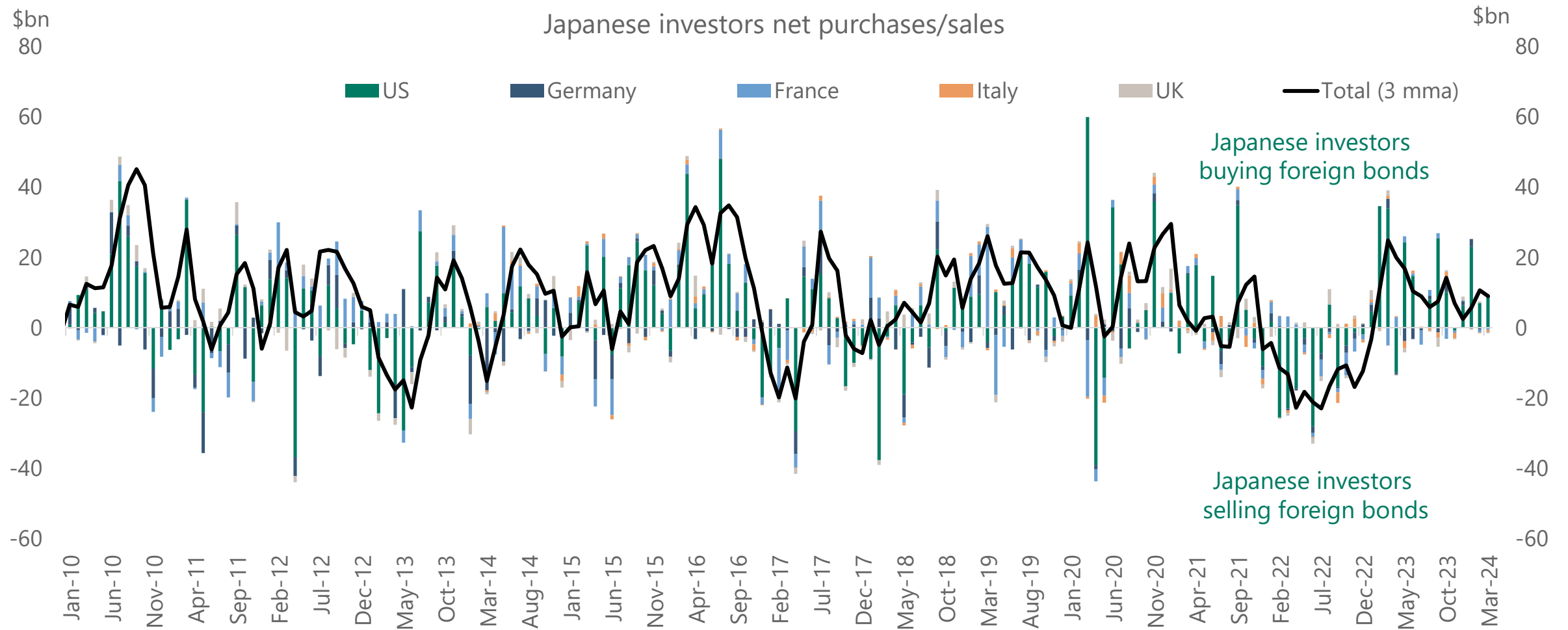
Foreign holdings of Japanese stocks rising



Source: Tokyo Stock Shareownership Survey, Apollo Chief Economist. Note: The number of Trust Banks are included in that of City & Regional Banks in and before 1985 Survey.

Bond flows in and out of Japan

Japanese investors buying foreign bonds

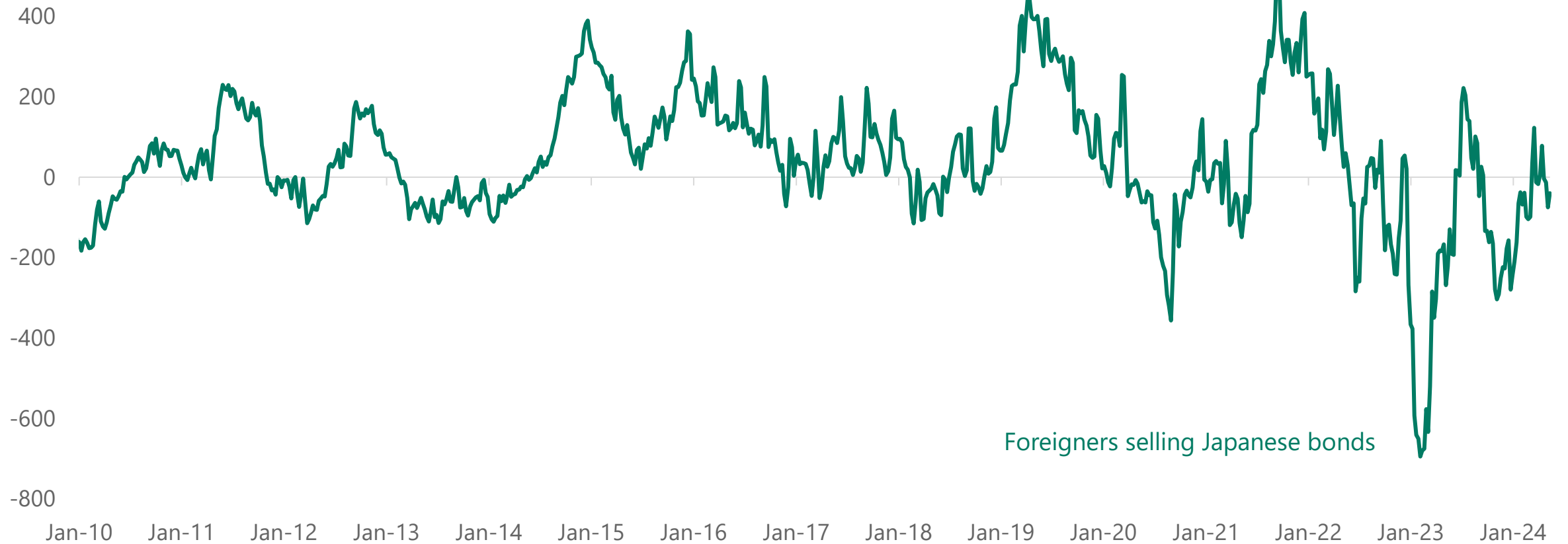


Foreign net purchases of Japanese bonds

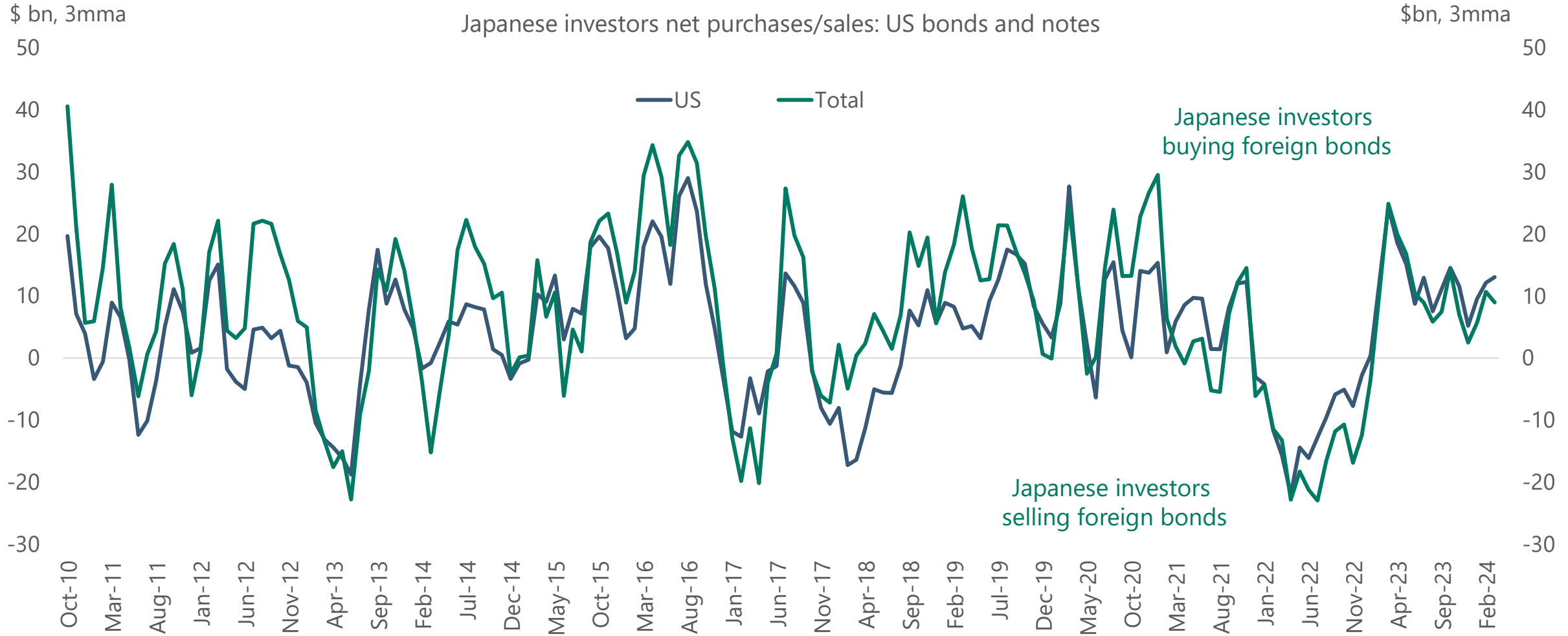
24 week MA, JPY bn
600

Non residents net investment in Japanese Bonds

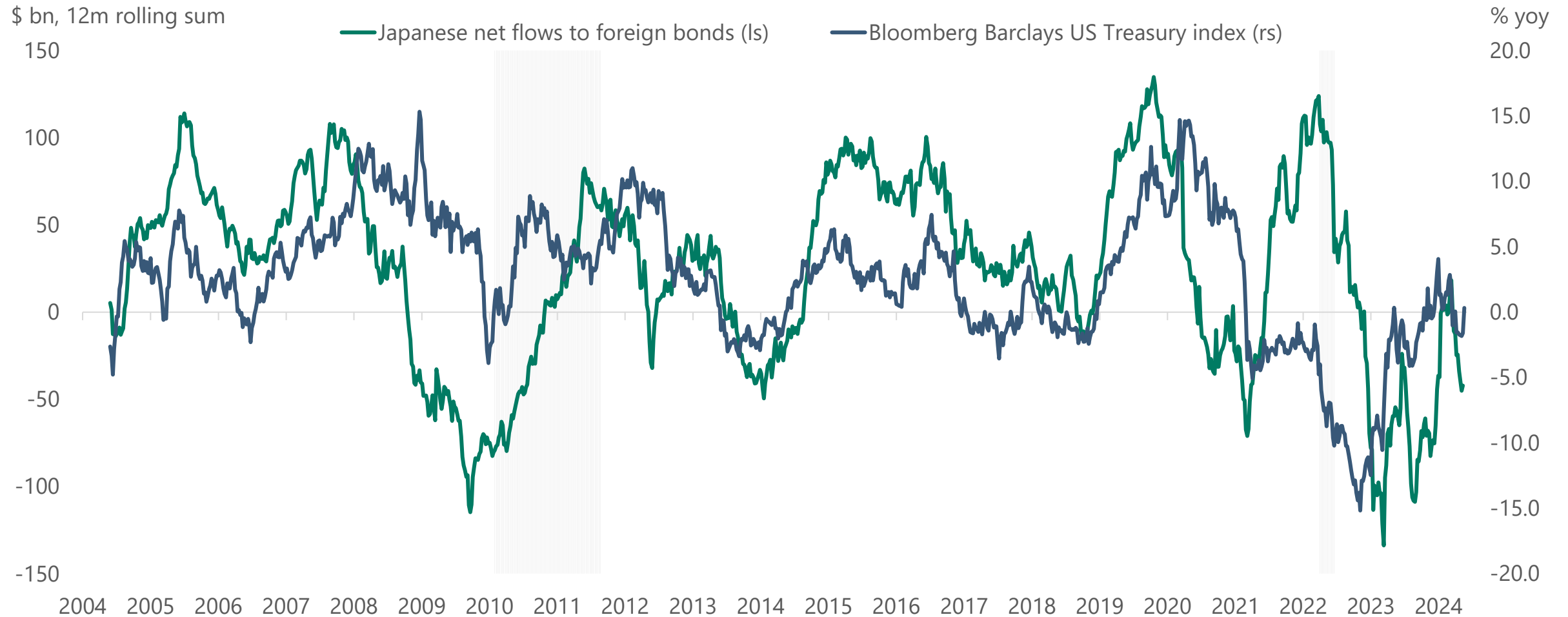
Foreigners buying Japanese bonds



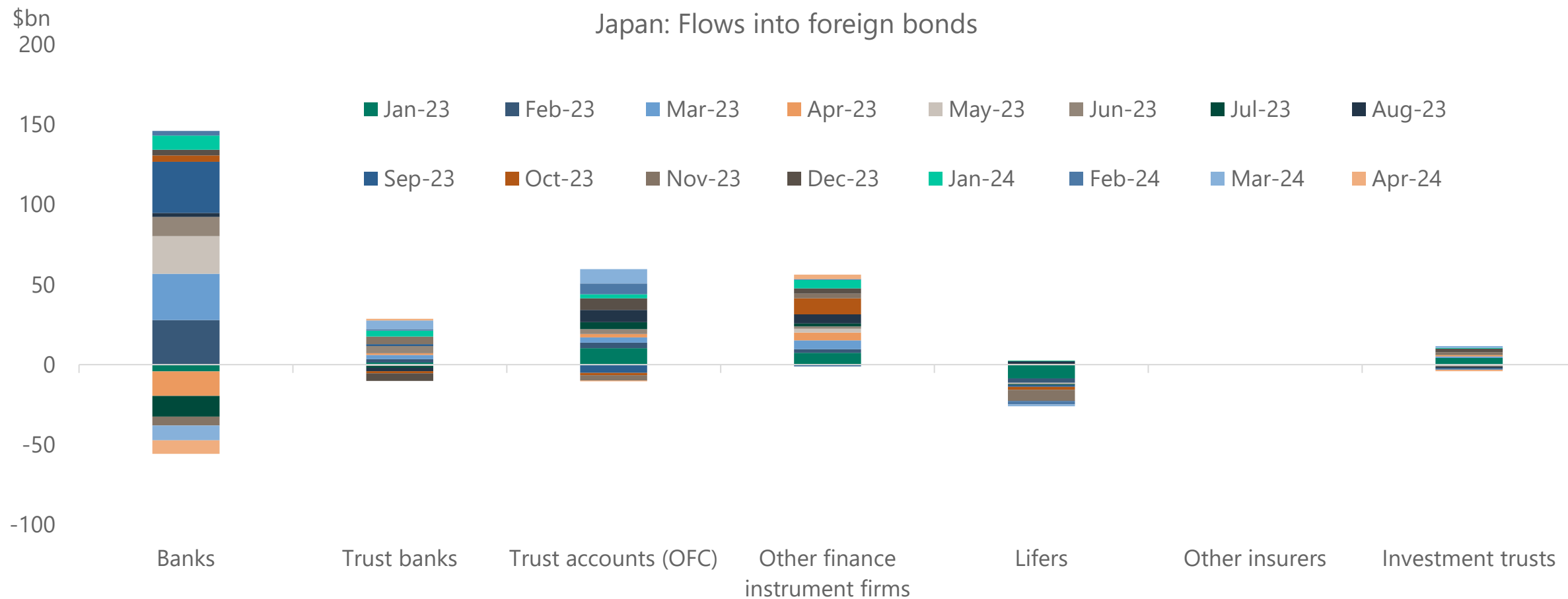
Japanese investors have been net buyers of US Treasuries recently



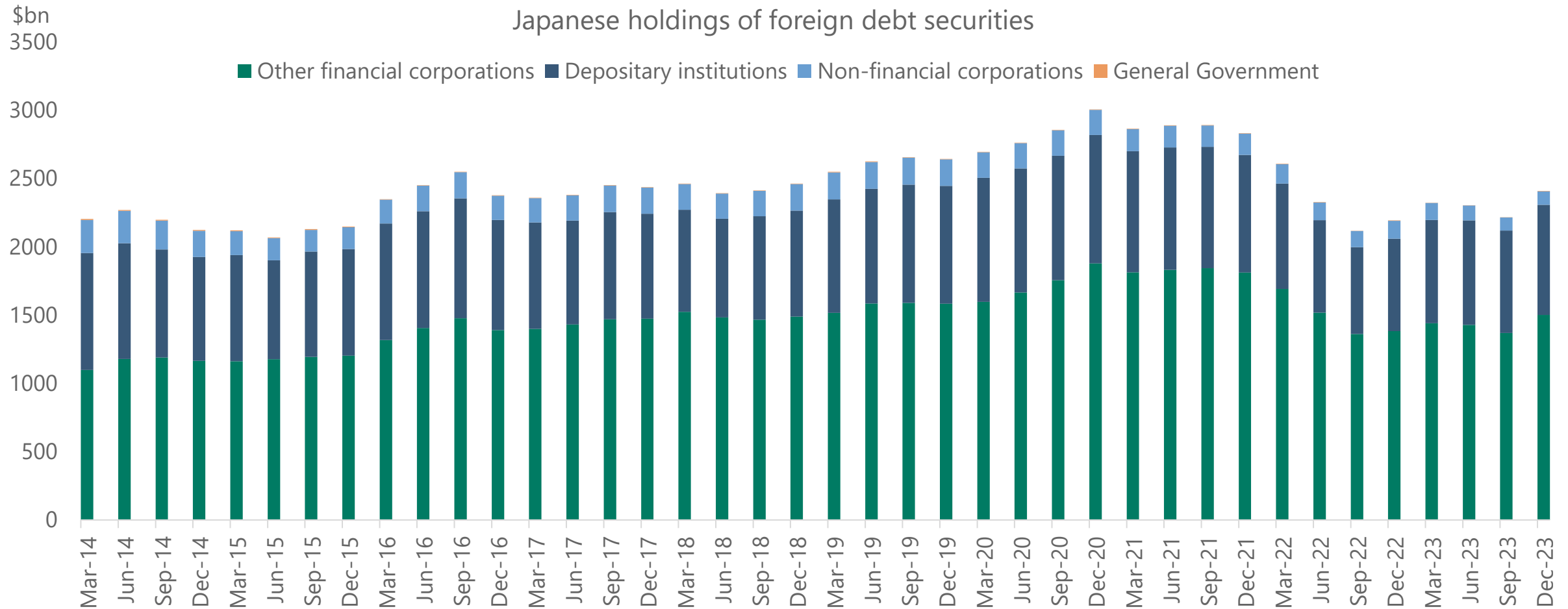
Initially, when US rates went up, Japanese investors started selling US fixed income. But more recently, Japanese investors have been coming back



Japan: Banks continue to buy foreign bonds

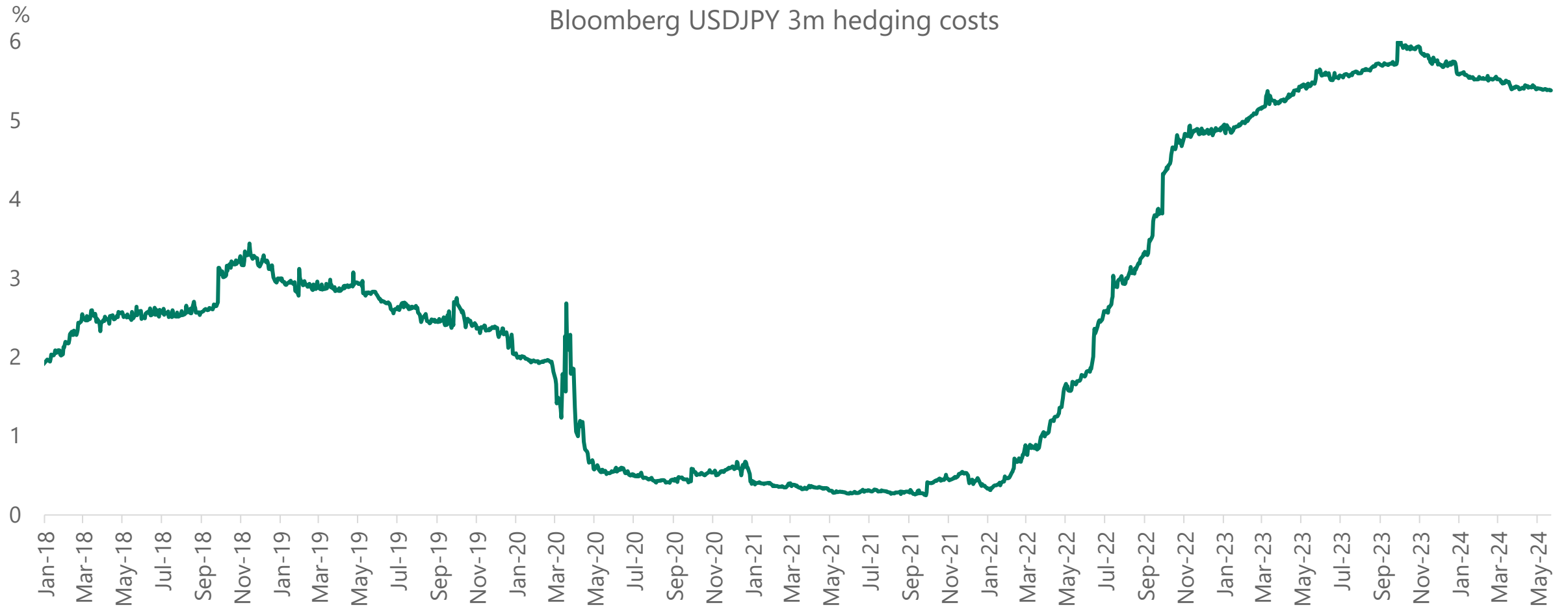


Other financial corporations hold the majority of foreign debt securities

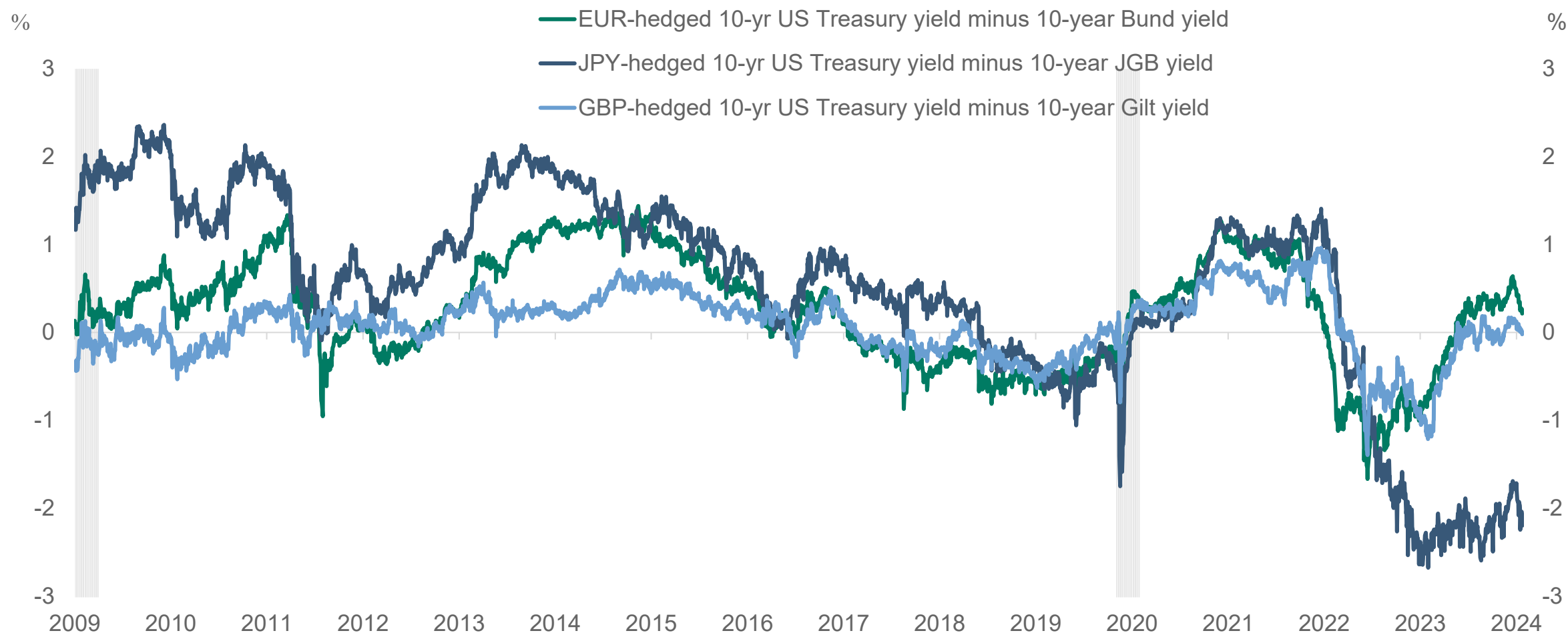


Hedging costs

Dollar-hedging costs are very high for Japanese investors

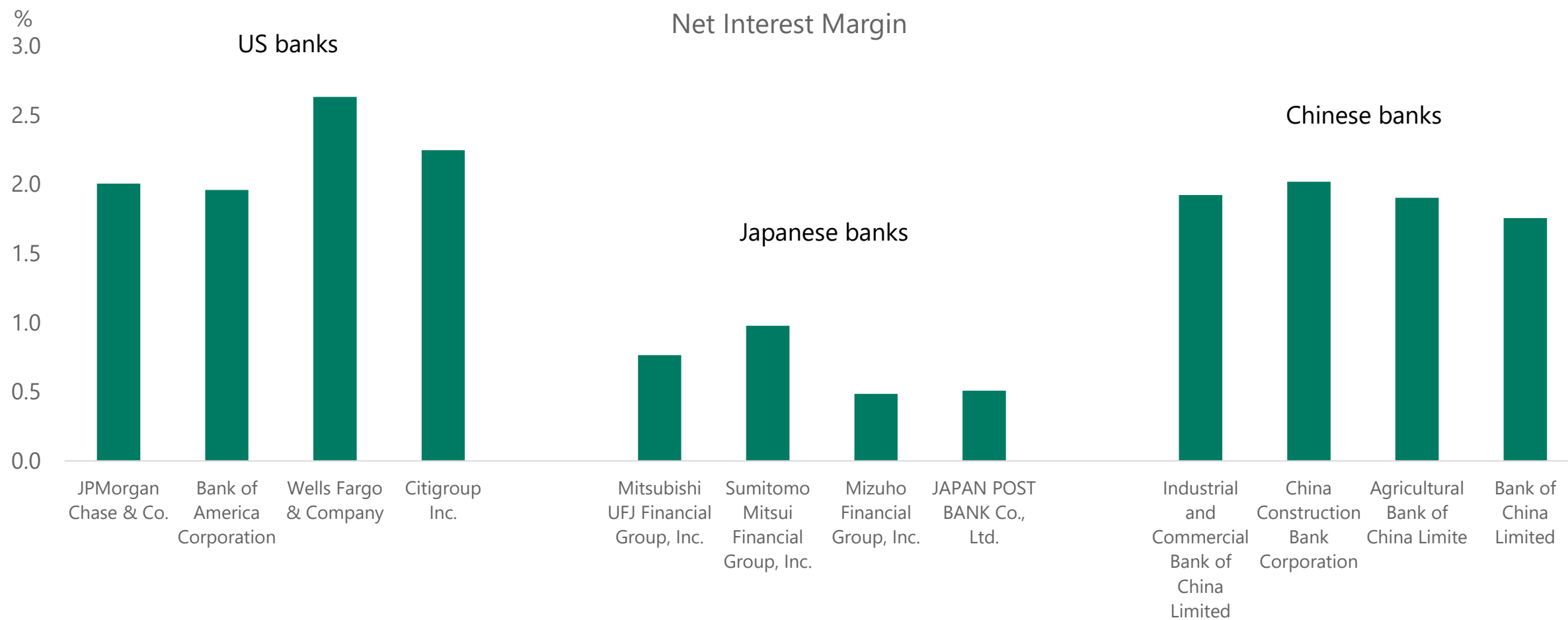


Negative returns from holding JPY-hedged Treasury yields

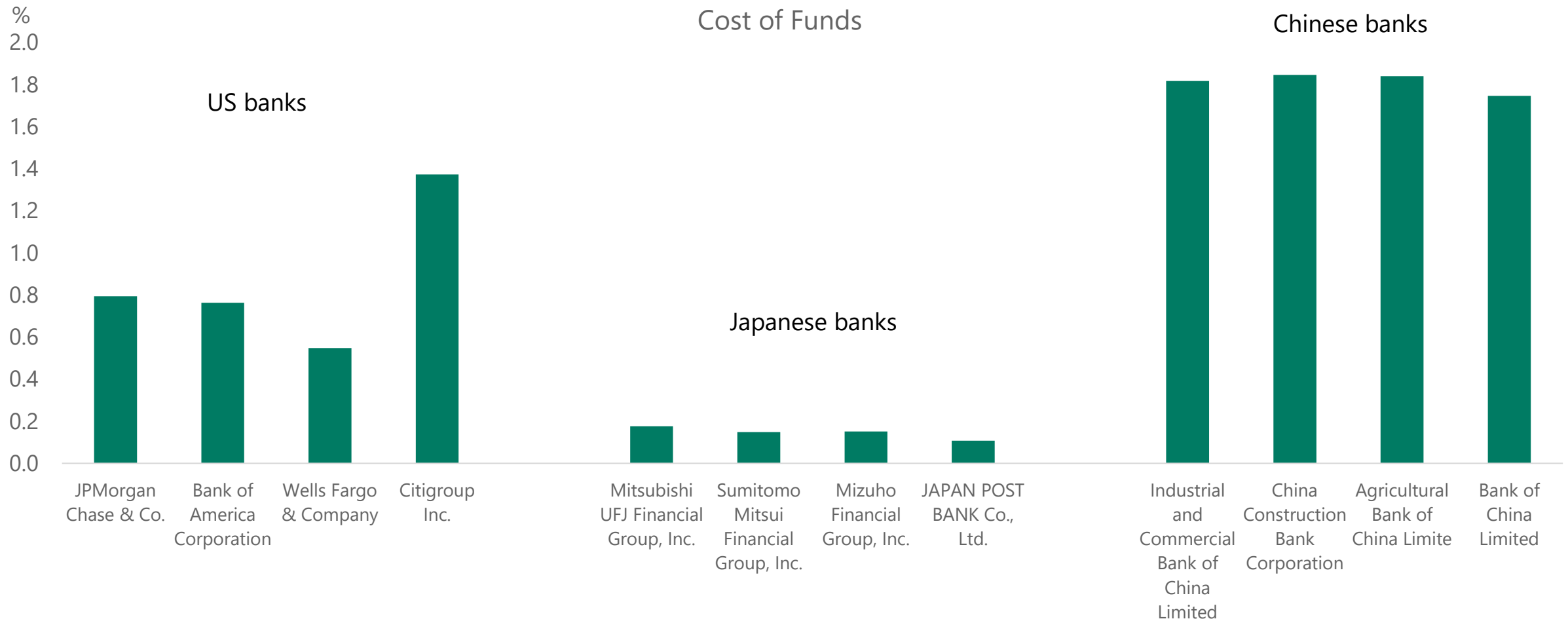


Japanese banks

NIM for banks: US, Japan, and China



Cost of funds for banks: US, Japan, and China



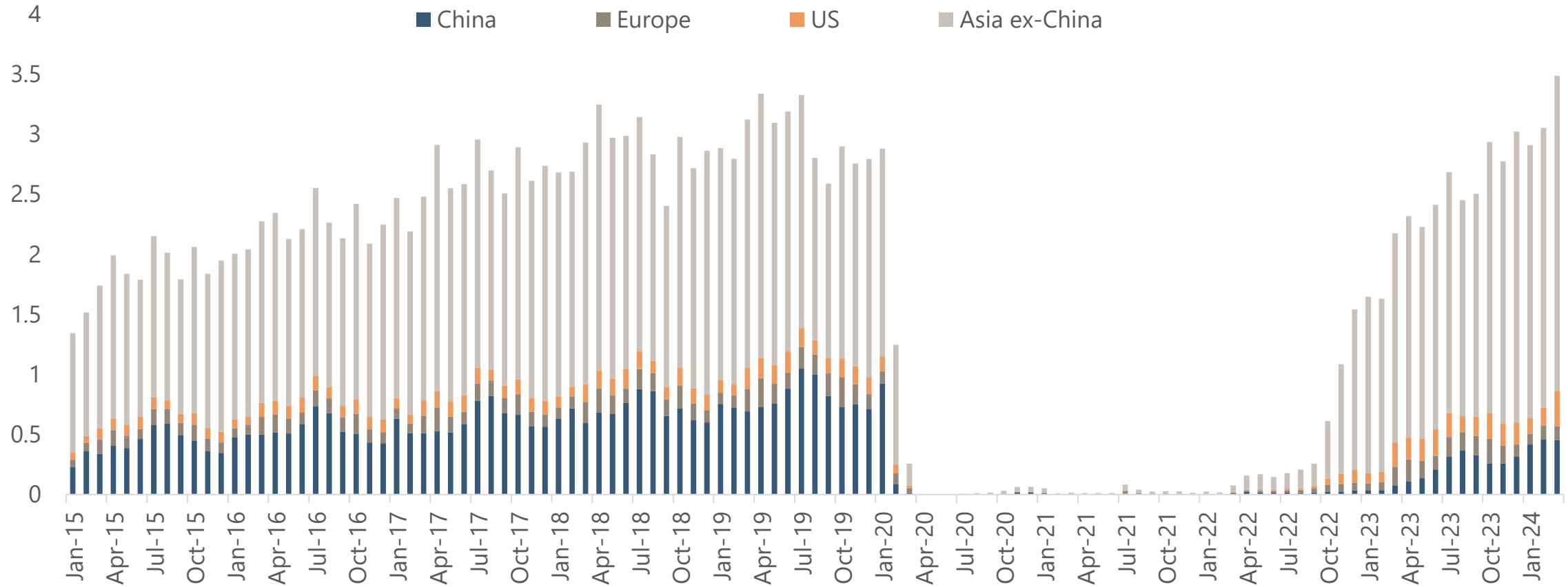
Tourism

Tourism: International visitors coming back to Japan, partly driven by weak yen

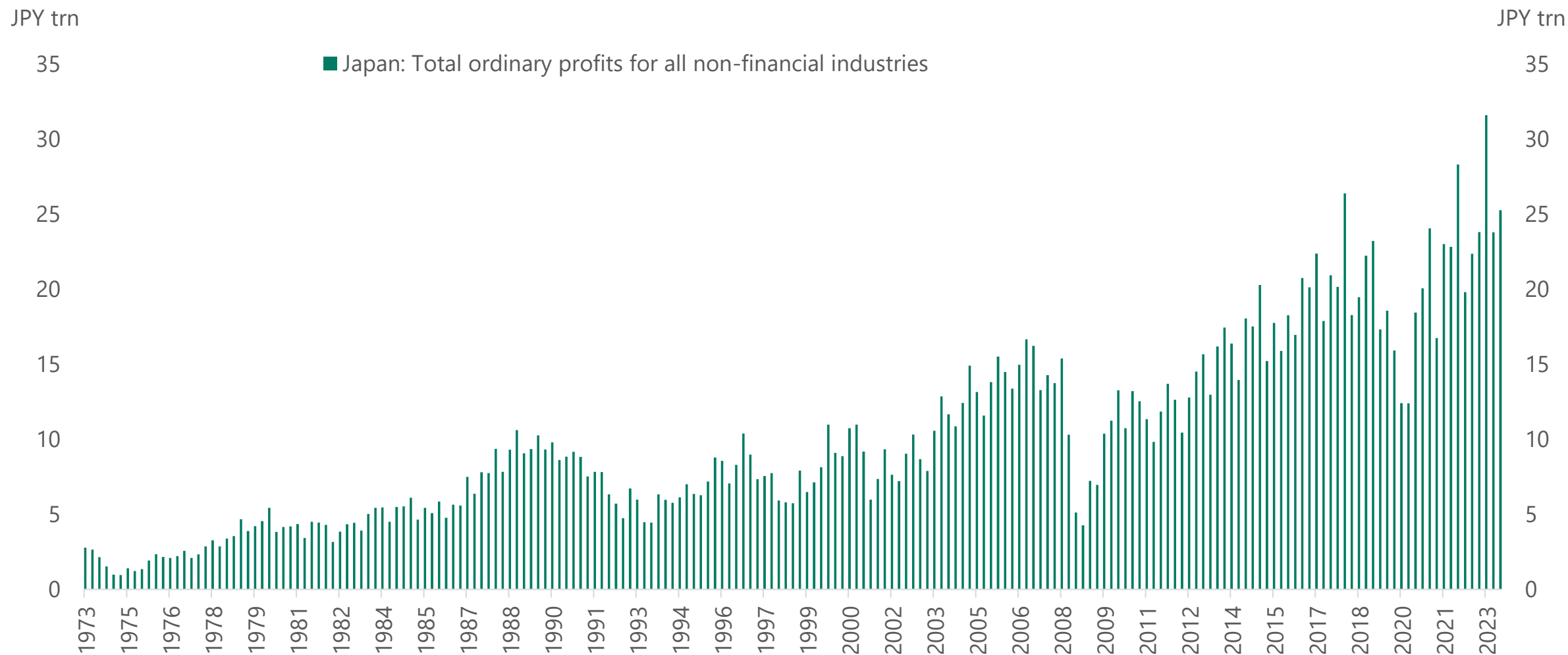
Persons (million)

Number of inbound visitors

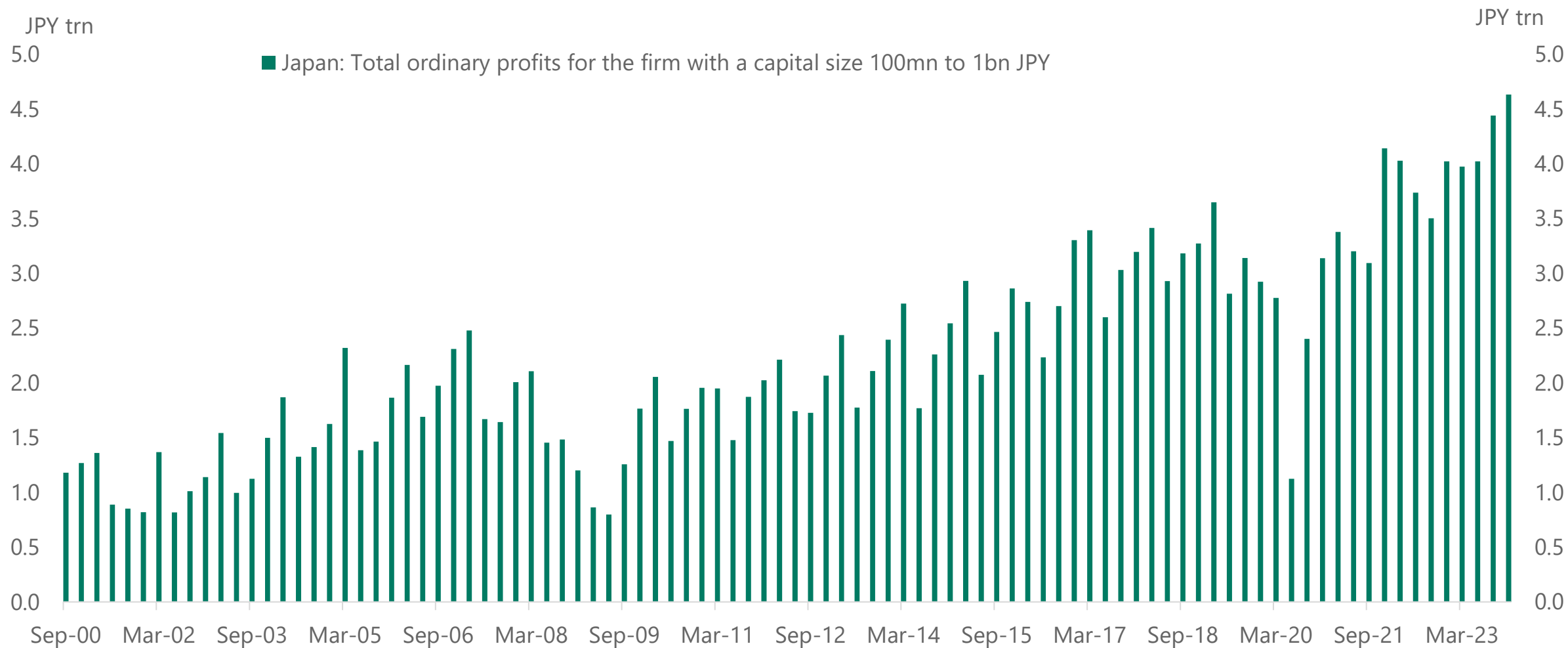
China Europe US Asia ex-China



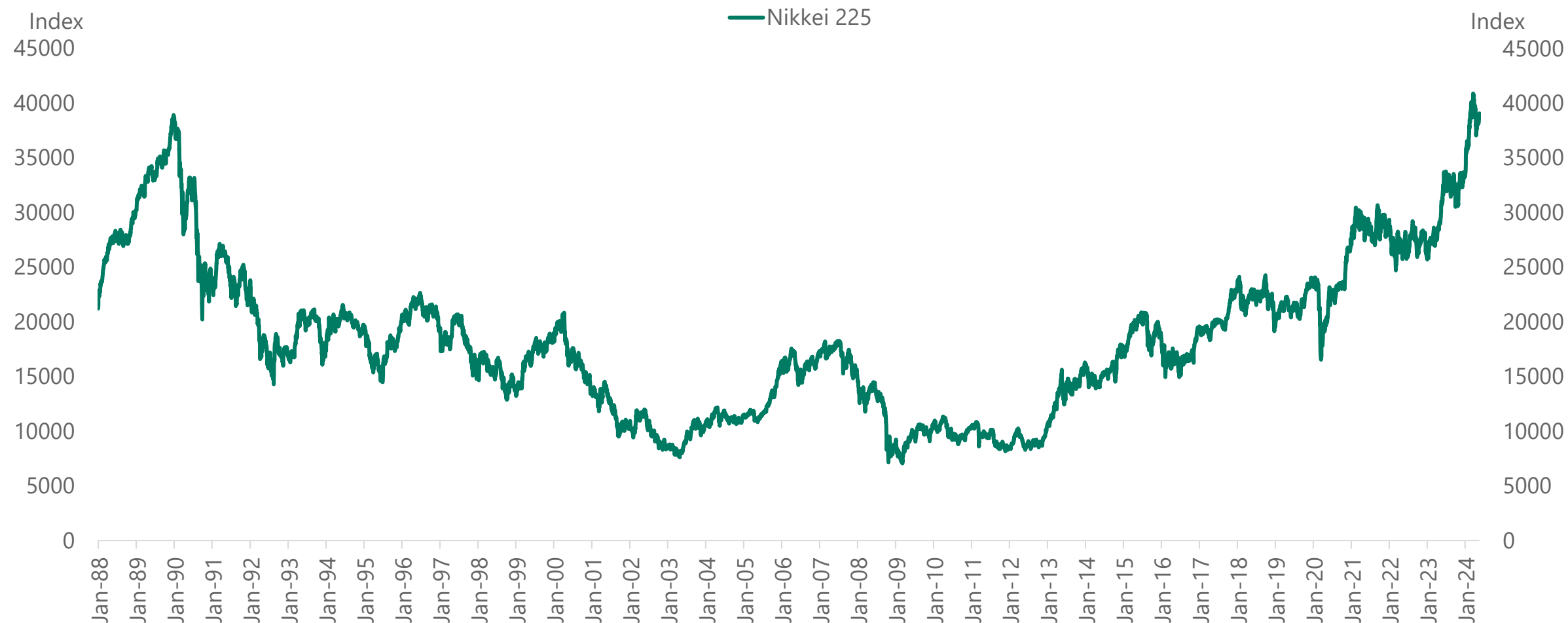
Japan: Corporate ordinary profits for all industries is rising



Japan: Medium size corporate's ordinary profits highest since 2000



Nikkei 225 index has increased to levels last seen in 1989





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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.