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JPY Cross-asset – Foreigners cover their 10Yr JGB short positions, Japanese lifers cut foreign bond risks

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July Cross-assets Review: Overseas investors expand JPY bond, JPY stock positions

July JPY cross asset flow data released by the Japan Securities Dealers Association (JSDA), Ministry of Finance (MoF), Bank of Japan (BoJ), and Japan Exchange Group (JPX) showed that the country's monetary base shrank to JPY665 trillion (from JPY677 trillion in June) and current accounts at the BoJ subject to negative interest rates to JPY33 trillion (JPY38 trillion) as a net -JPY8.9 trillion was absorbed through fiscal factors and a net -JPY2.4 trillion from BoJ monetary operations.

Foreigners became net buyers of long-term JGBs, to the tune of JPY1.9 trillion (-JPY4.5 trillion) in July, drawing attention. Meanwhile, among Japanese investors, city banks unloaded a net -JPY364.6 billion, city banks a net -JPY419.8 billion, pension funds (trust banks) a net -JPY106.5 billion, agricultural and forestry-related institutions a net -JPY60.1 billion, and lifers a net -JPY41.5 billion.

In July, overseas investors returned to JGBs, helping to limit a rise in JPY rates. Japan stocks (total on Tokyo and Nagoya markets) were supported by JPY416.3 billion in net buying by Japanese companies, JPY346.6 billion by pension funds (trust banks), and JPY170.1 billion by foreign investors.

Overseas investors: Net-buy JPY1.9 trillion of long-term JPY bonds, JPY2.8 trillion of medium-term JPY bonds

JSDA data for July (released on August 22) showed that overseas investors were net buyers across all durations: long-term JGBs by JPY1.9358 trillion (versus net selling by -JPY4.5839 trillion in June), super long-term JGBs by JPY559.7 billion (-JPY105.7 billion), medium-term JGBs by JPY2.8627 trillion (net buying by JPY2.3956 trillion), and TDBs by JPY28 trillion (JPY24 trillion). Their net purchases of TDBs and JGBs of all durations expanded significantly, to JPY33 trillion (JPY21 trillion). Foreigners shifted from unloading 10yr JGBs in Apr-Jun and turned net buyers of all durations in July, and their buying of long-term JGBs, especially 10Yrs, was especially robust.

The MoF announced that overseas investors were fairly big buyers of Japanese securities in July, by a net JPY12 trillion (data released August 8). This included net-buying by JPY6 trillion of short-term JPY bonds, JPY5 trillion of medium- to long-term JPY bonds, and JPY1 trillion of Japan stocks and investment fund holdings.

This suggests that in July, foreign investors 1) covered their Apr-Jun selling of 10Yr JGBs; 2) continued to manage TDBs; 3) continued to reassess Japan stocks; and 4) continued to invest in Japan via investment funds.

The battle over the BoJ's fixed-rate JGB buying operations is over for now in July and August. Japanese investors responded to foreigners buying JGBs by unloading JGBs and appeared to benefit from the merits of yield curve control operations.

At the same time in July, stable and lower JPY rates led to buying of JGBs by foreign investors, and their presence in the JGB market was impressive. So far in August (data for July 31-August 13), overseas investors have net-bought JPY1.2928 trillion of short-term JPY bonds and JPY1.2487 trillion of medium- to long-term JPY bonds,

suggesting robust appetite.

The USD denominated 10Yr JGB yield stood at 3.64% on August 19 (versus 3.32% at end-July). The JGB asset swap rate curve (Page 8) shows that the appeal of TDB arbitrage trading is only growing. The 10Yr JGB yield has settled to 0.17% (0.18%). The JGB yield curve appears to be maintaining a normal term structure, despite some lingering skewing in the 10Yr zone, while the US Treasury curve is inverted (Pages 8-9).

Pension funds (trust banks): Shift from foreign bonds to foreign and Japan stocks, JGBs

Pension funds unloaded a net -JPY865.8 billion of medium- to long-term foreign bonds in July, as they net-bought JPY748.6 billion of foreign stocks and investment fund holdings, JPY346.7 billion of Japan stocks, JPY232.1 billion of JPY bonds, and JPY131.5 billion of short-term foreign bonds. Pension funds increased their weightings of both domestic and foreign stocks while cutting medium- to long-term foreign bond risk (Page 3).

Lifers: Cut foreign bonds, buy super long JGBs, hold surplus foreign funds

In July, lifers picked up their pace of buying super-long JGBs, by a net JPY459.0 billion (from JPY309.1 billion in June). Non-lifers and lifers overall unloaded a net -JPY1.5390 trillion of foreign assets (including -JPY1.5622 trillion of medium- to long-term foreign bonds) and -JPY32.4 billion of Japan stocks, while net-buying JPY bonds by JPY383.4 billion. In July, lifers took valuation losses with medium- to long-term foreign bonds, expanded their holdings of JGBs and foreign currency surplus funds, and got ready to reshuffle their asset portfolios.

Japanese banks: Buy foreign bonds, start unloading JGBs

Japanese banks net-bought JPY554.6 billion of foreign assets excluding short-term assets but unloaded a net -JPY431.1 billion of JPY bonds and a net -JPY70.2 billion of Japan stocks. The foreign assets included foreign stocks and investment fund holdings (JPY375.5 billion) and medium- to long-term foreign bonds (JPY179.1 billion). Japanese banks appear to be done unloading foreign bonds.

Among Japanese banks, city banks unloaded a net -JPY364.6 billion of long-term JGBs and a net -JPY233.6 billion of super-long JGBs, while regional banks unloaded a net -JPY419.8 billion of long-term JGBs. Japanese banks cut their JGB positions so as to cover foreigners JGB buying friendly.

JPY G10 facts: 1) Foreigners turn net buyers of JGBs; 2) Japanese banks rebuild foreign bond holdings; 3) lifers unload foreign bonds, buy super-long JGBs at faster pace

In July, foreigners turned net buyers of 10Yr JGBs. They unloaded a net -JPY2.2 trillion of JPY bonds (excluding short-term assets) in June but bought a net JPY5.3 trillion in July. Overseas investors had to cover their JGB short positions of Apr-Jun.

In July, Japanese banks appear to have rebuilt their foreign bond holdings, then used their June JGB redemption cash and also surplus JPY funds getting negative interest in BoJ current deposit accounts to buy alternative assets and foreign bonds.

Lifers unloaded sizeable amounts of foreign bonds, drawing attention, but they also steadily accelerated their buying of super-long JGBs. Over the near term, we expect lifers to show a preference for JGBs and alternative investments.

GLOBAL JPY MATRIX: SECURITIES CAPITAL FLOWS BY ASSET AND SECTOR
(+: NET BUYING, -: NET SELLING)

(JPY trillion)		Overseas investors	Japanese investors			
			Banks	Lifers	Trust Banks (Pensions)	Toshin
Foreign assets	May-22	N/A	-0.9746	-0.4322	0.3773	0.2259
	Jun-22	N/A	-3.0906	-0.9538	0.6078	0.0074
	Jul-22	N/A	0.5546	-1.5390	-0.1172	0.5007
JPY bonds	May-22	1.1053	2.3532	0.2438	0.1257	0.1604
	Jun-22	-2.2433	0.0217	0.3421	-1.2489	0.2579
	Jul-22	5.3839	-0.4311	0.3834	0.2321	0.3138
Japan stocks	May-22	-0.3052	-0.0252	-0.1308	0.2184	0.0370
	Jun-22	-1.1962	-0.1196	-0.1054	0.3928	0.2208
	Jul-22	0.1701	-0.0702	-0.0324	0.3467	-0.0967

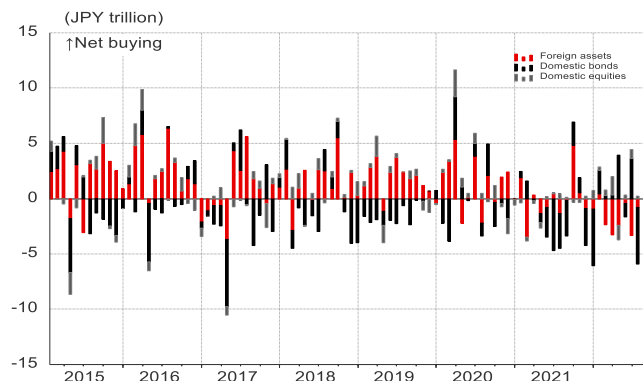
Note: Foreign assets on the MoF's narrow sample basis.

Foreign assets and domestic bonds exclude short term assets. + buying, - Selling,

Source: MoF, JPX, JSDA, Refinitiv, MUFG

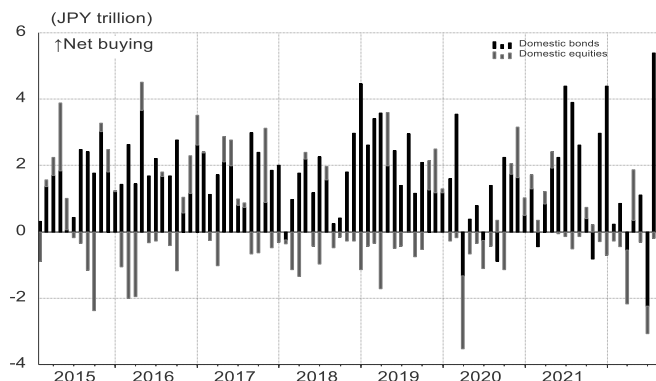
GLOBAL JPY MATRIX: BY INVESTOR TYPE MONTHLY PORTFOLIO INVESTMENT FLOWS

JAPANESE INVESTORS



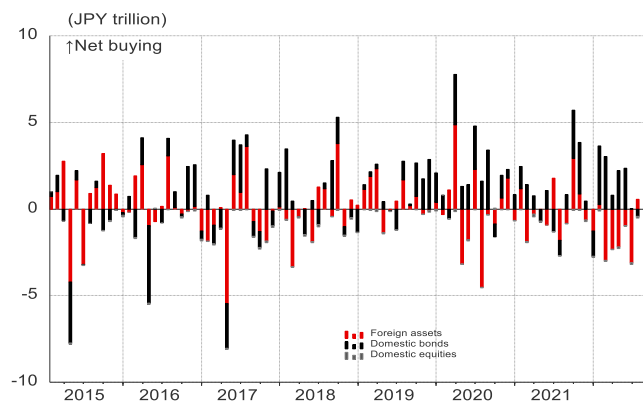
Source: MoF, JPX, JSDA, Refinitiv, MUFG

FOREIGN INVESTORS



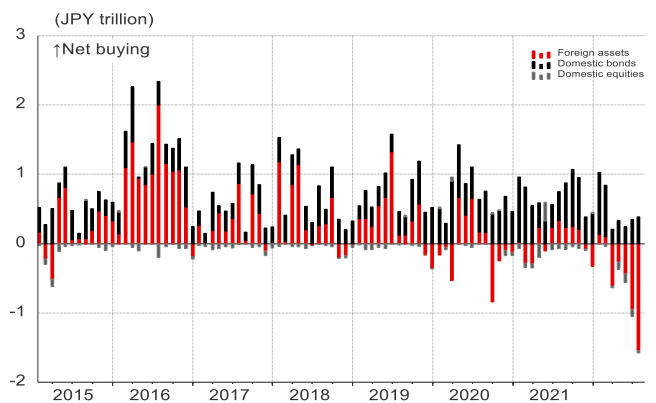
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BANKS



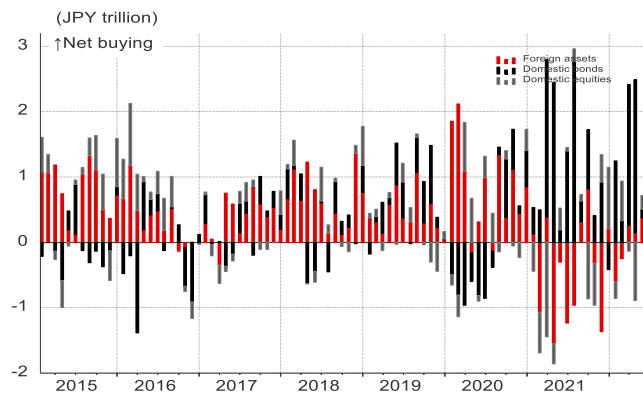
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INSURANCE COMPANIES



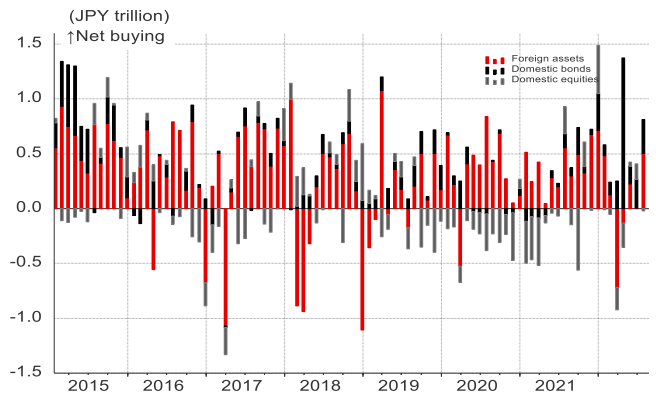
Source: MoF, JPX, JSDA, Refinitiv, MUFG

PENSIONS (TRUST BANKS)



Source: MoF, JPX, JSDA, Refinitiv, MUFG

TOSHIN INVESTMENT TRUSTS



Source: MoF, JPX, JSDA, Refinitiv, MUFG

GLOBAL JPY MATRIX: SECURITIES CAPITAL FLOWS BY INVESTORS

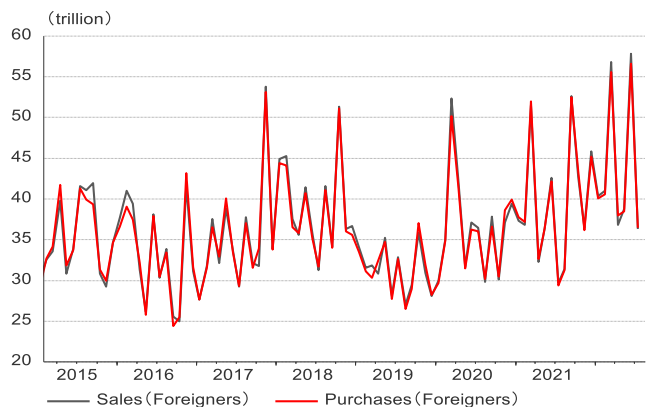
Monthly (Tokyo & Nagoya markets)

(trillion)	Foreigners			Investment Trusts			Business Cos.		
	Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
Mar-22	56.848	55.582	-1.266	1.713	1.461	-0.252	0.889	1.097	0.208
Apr-22	36.791	37.952	1.162	1.447	1.280	-0.167	0.373	0.611	0.239
May-22	38.767	38.462	-0.305	0.882	0.919	0.037	0.502	1.034	0.533
Jun-22	57.835	56.639	-1.196	2.174	2.395	0.221	0.634	1.263	0.629
Jul-22	36.309	36.479	0.170	1.264	1.167	-0.097	0.437	0.853	0.416

(trillion)	Life & Non-Life			City & Regional BK			Trust BK (Pension etc)		
	Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
Mar-22	0.148	0.104	-0.045	0.208	0.117	-0.091	2.204	1.888	-0.316
Apr-22	0.158	0.083	-0.075	0.101	0.052	-0.049	2.105	1.391	-0.713
May-22	0.167	0.036	-0.131	0.090	0.065	-0.025	1.218	1.436	0.218
Jun-22	0.169	0.063	-0.105	0.184	0.064	-0.120	2.854	3.247	0.393
Jul-22	0.081	0.049	-0.032	0.112	0.042	-0.070	1.258	1.605	0.347

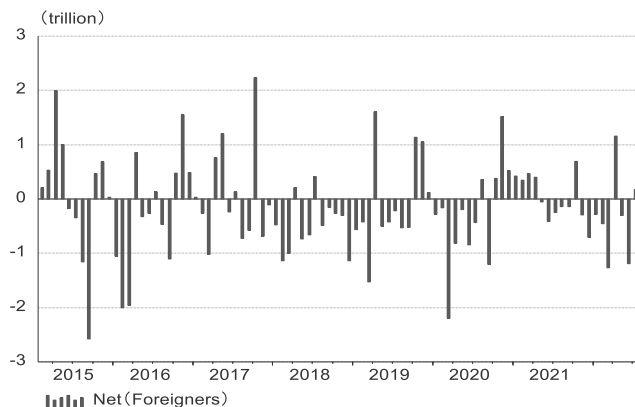
Source: JPX, Refinitiv

FOREIGNERS



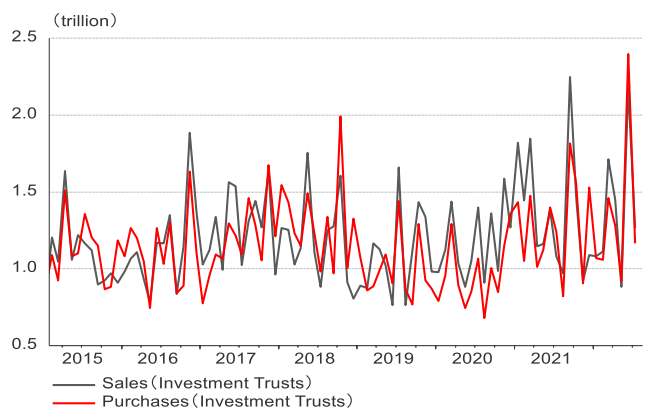
Source: JPX, Refinitiv

FOREIGNERS (NET)



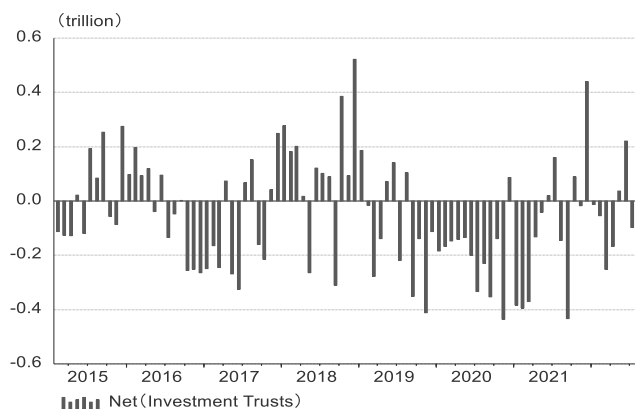
Source: JPX, Refinitiv

TOSHIN INVESTMENT TRUSTS



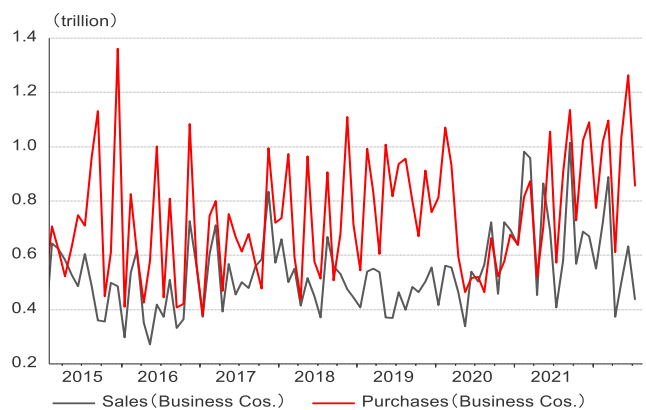
Source: JPX, Refinitiv

TOSHIN INVESTMENT TRUSTS (NET)



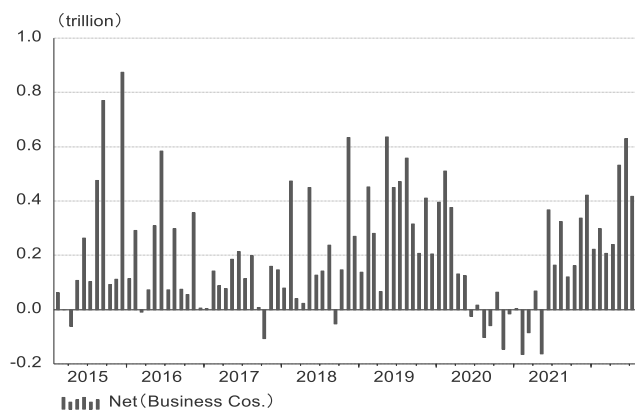
Source: JPX, Refinitiv

BUSINESS COS.



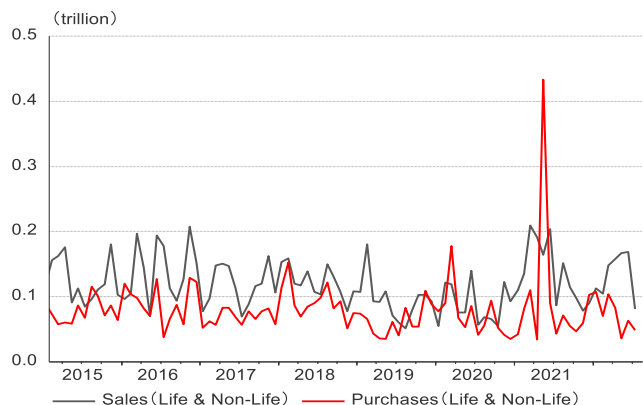
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BUSINESS COS. (NET)



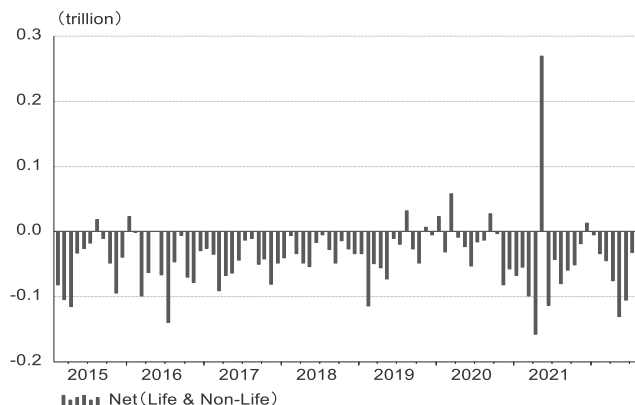
Source: JPX, Refinitiv

LIFE & NON-LIFE INSUARANCE COMPANIES



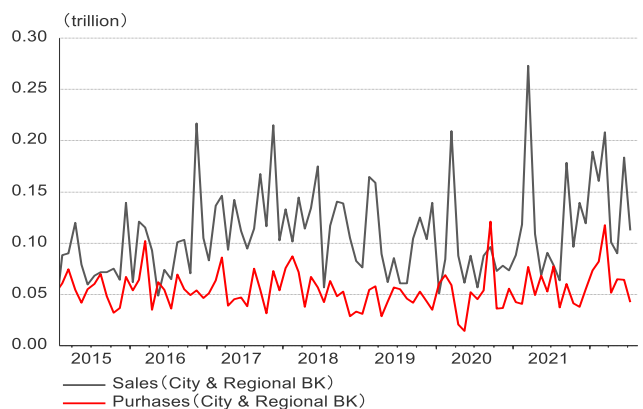
Source: JPX, Refinitiv

LIFE & NON-LIFE INSUARANCE COMPANIES (NET)



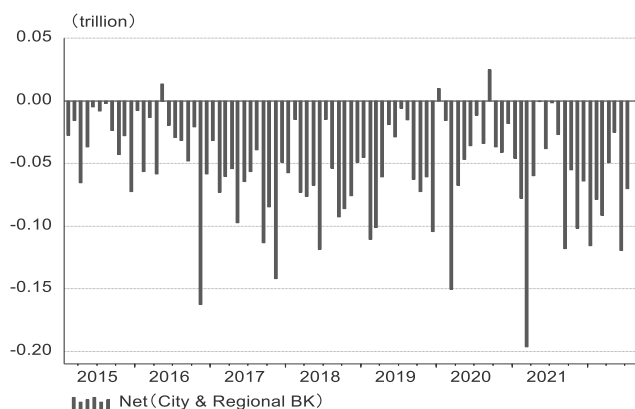
Source: JPX, Refinitiv

CITY & REGIONAL BK



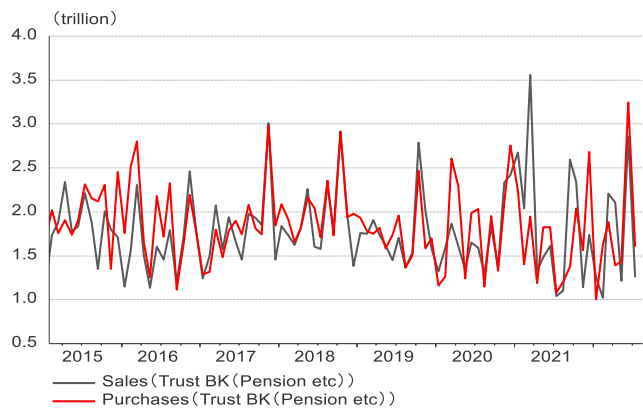
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CITY & REGIONAL BK (NET)



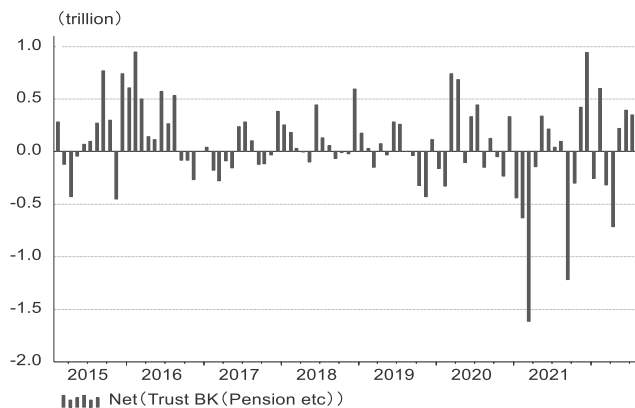
Source: JPX, Refinitiv

TRUST BK (PENSION ETC)



Source: JPX, Refinitiv

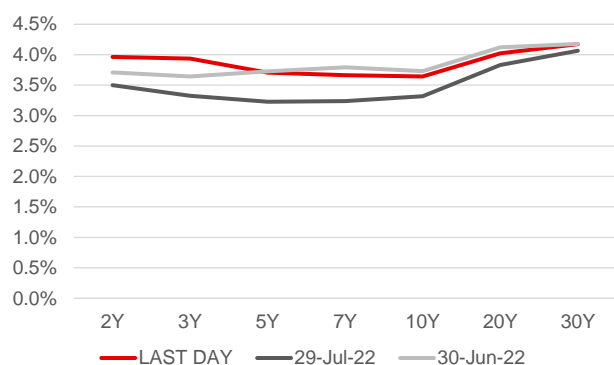
TRUST BK (PENSION ETC) (NET)



Source: JPX, Refinitiv

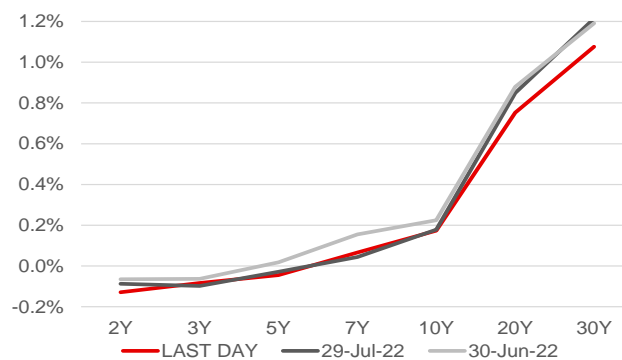
JPYG10 CROSS-CURRENCY MATRIX: JAPANESE GOVIES (JGBS)

USD DENOMINATED – JGB YIELD CURVES



Source: Bloomberg, MUFG

JPY DENOMINATED- JGB YIELD CURVES



Source: Bloomberg, MUFG

USD DENOMINATED – JGB YIELDS

(%)	LAST DAY	29-Jul-22	30-Jun-22
2Y	3.96	3.50	3.71
3Y	3.93	3.33	3.64
5Y	3.71	3.23	3.73
7Y	3.66	3.24	3.79
10Y	3.64	3.32	3.73
20Y	4.02	3.83	4.12
30Y	4.17	4.07	4.17

Source: Bloomberg, MUFG

JPY DENOMINATED- JGB YIELDS

(%)	LAST DAY	29-Jul-22	30-Jun-22
2Y	-0.13	-0.09	-0.07
3Y	-0.08	-0.10	-0.06
5Y	-0.04	-0.03	0.02
7Y	0.07	0.04	0.15
10Y	0.17	0.18	0.22
20Y	0.75	0.85	0.88
30Y	1.08	1.21	1.19

Source: Bloomberg, MUFG

JPYG10 CROSS-CURRENCY MATRIX: USD AND JPY DENOMINATED BOND YIELDS (FULL MATURITY 100% HEDGED)

(%)	USD denominated 10Yr govies						JPY denominated 10Yr govies					
	US	Japan	France	Italy	UK	Australia	US	Japan	France	Italy	UK	Australia
Last day	2.98	3.64	2.95	4.52	2.80	2.40	-0.40	0.17	-0.41	0.91	-0.55	-0.93
Jul-22	2.65	3.32	2.75	4.29	2.52	2.06	-0.39	0.18	-0.29	1.01	-0.50	-0.89
Jun-22	3.01	3.73	3.06	4.32	2.97	2.44	-0.37	0.22	-0.33	0.72	-0.40	-0.85
Month-end changes	-0.36	-0.41	-0.30	-0.04	-0.46	-0.38	-0.02	-0.05	0.04	0.28	-0.10	-0.04

Source: Bloomberg, MUFG

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