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## MUFG Bank

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# JPY Cross-asset – Foreign investors keep buying JGBs slowly, Japanese lifers keep reducing foreign bond exposures

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## August JPY Cross assets review: JPY bond buybacks prevail slightly

August 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 JPY644 trillion (from JPY665 trillion in July) and current deposit accounts at the BoJ subject to negative interest rates to JPY28 trillion (JPY33 trillion) as a net -JPY9.5 trillion was absorbed through fiscal factors and a net -JPY11.3 trillion from BoJ monetary operations.

In the JGB market, foreigners continued to net-buy long-term JGBs by JPY1.4 trillion (JPY1.9 trillion) and medium-term JGBs by JPY1.2 trillion (JPY2.8 trillion), but at a slower pace. Pension funds (trust banks) at JPY3.0425 trillion, city banks at JPY1.1105 trillion, and credit funds at JPY1.0967 trillion stood out among Japanese investors net-buying JGBs, so the JGB yield curve remained stable.

Japan stocks (Tokyo and Nagoya markets) were net-sold by -JPY530.0 billion by foreigners and by -JPY230.1 billion by pension funds, with unusual net buying by JPY525.1 billion by Japanese companies.

## Overseas investors: Net-buy JPY1.4 trillion of long-term, JPY1.2 trillion of medium-term bonds

JSDA data for August (released on September 20) showed that overseas investors were net buyers across all asset classes: long-term JGBs by JPY1.4267 trillion (versus net buying by JPY1.9358 trillion in July), super long-term JGBs by JPY209.8 billion (JPY559.7 billion), medium-term JGBs by JPY1.2238 trillion (net by JPY2.8627 trillion), and TDBs by JPY21 trillion (JPY28 trillion). JGB buy backs prevailed though at a slower pace. Overseas investors bought back their JGB short positions from July and August, suggesting that preference for JGBs grew.

MoF data (released on September 8) showed that foreigners net-sold JPY1.3 trillion of domestic Japanese securities in August, reflecting net buying by JPY2.1 trillion of medium- to long-term JPY bonds against net selling by -JPY2.8 trillion of short-term JPY bonds and -JPY714.6 billion of Japan stocks and investment fund holdings.

JPY rates rose along with G10 rates after the central bankers' symposium in Jackson Hole, before being stopped as foreigners unloaded a net -JPY350.9 billion of medium- to long-term JPY bonds at the end of the month. Rather, overseas investors net-bought huge sums of medium- to long-term JPY bonds early in August, by JPY1.2617 trillion, and mid-month, by JPY1.2812 trillion, suggesting that preference for JGBs has increased.

However, foreigners net-bought JPY2.0939 trillion of short-term JPY bonds between September 4-10, while turning net sellers of medium- to long-term JPY bonds, by -JPY2.5705 trillion, which was a reflection of shift of JGB preference among foreign investors in line with the front end of the JPY basis curve.

The USD denominated 10Yr JGB yield stood at 4.11% on September 16 (versus 3.88% at end-August). The JGB asset swap rate curve (Page 8) shows that the appeal of TDB arbitrage trading has increased further. The 10Yr JGB yield has risen

to 0.25% (0.22%). This suggests that the JGB yield curve is under upward pressure in the belly and super-long end amidst marked skewing in the 10Yr tenure (Pages 8-9).

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

Pension funds unloaded a net -JPY1.0475 trillion of foreign stocks and investment fund holdings and a net -JPY230.2 billion of Japan stocks in August as they net-bought JPY1.1257 trillion of medium- to long-term foreign bonds and JPY1.7276 trillion of medium- to long-term JPY bonds. Pension funds have been reducing their stock weightings, regardless of domestic and foreign stocks, and expanding risk with medium- to long-term foreign bonds (Page 3). This suggests that pension fund investing flows have been shifting from foreign stocks to foreign bonds, which has been neutral for USDJPY, while aggressively buying up more JGBs.

### **Lifers: Cut foreign stocks and bonds, buy super-long JGBs**

Lifers continued to net-buy super-long JPY bonds in August, maintaining their pace at JPY458.4 billion (JPY459.0 billion in July). Both lifers and non-lifers unloaded a net -JPY1.4530 trillion of overseas assets (including -JPY1.0912 trillion of medium- to long-term foreign bonds) and -JPY35.6 billion of Japan stocks, while net-buying medium- to long-term JPY bonds by JPY499.1 billion. Lifers cut their foreign bond positions in August, while they did not appear to make any marked changes with their preference for super-long JGBs.

### **Japanese banks: Continue to rebuild foreign bond portfolios**

Japanese banks net-bought JPY92.5 billion of overseas assets (excluding short-term assets) and JPY480.4 billion of JPY bonds in August, while unloading a net -JPY77.5 billion of Japan stocks. The overseas assets included net selling of foreign stocks and investment fund holdings by -JPY572.8 billion and net buying of medium- to long-term foreign bonds by JPY665.3 billion. Japanese banks continued to rebuild their foreign bond holdings. Among Japanese banks, agricultural and forestry lenders net-bought JPY238.3 billion of super-long bonds and city banks JPY135.9 billion of long-term bonds. Meanwhile, city banks unloaded a net -JPY66.7 billion of 10Yr long term JGBs while agricultural and forestry lenders unloaded a net -JPY58.7 billion. This suggests that selling of JPY bonds contributed largely to the rise in JPY rates in late August.

### **JPY G10 facts: 1) Foreigners continue to net-buy JPY bonds; 2) Japanese banks keep rebuilding foreign bonds; 3) lifers continue to unload foreign bonds and buy super-long JPY bonds**

In August, overseas investors continued to rebuild their JPY bond holdings. They shifted after unloading a net -JPY2.2 trillion of JPY bonds in June (excluding short-term JGBs), then net-bought JPY5.3 trillion in July and JPY2.8 trillion in August. Overseas investors started buying more JPY bonds after covering their JPY bond short positions. In July and August, Japanese banks continued to rebuild their foreign bond positions. Over the near term, we think Japanese banks will use their extra JPY funds from the September JGB redemptions and invest across an array of assets, including JGBs, alternatives and foreign bonds. We will be watching to see if Japanese lifers focus on stocks or bonds after unloading their foreign bonds and feel that their preference for JGBs will only grow at first.

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	Jun-22	N/A	-3.0906	-0.9538	0.3773	0.2259
	Jul-22	N/A	0.5546	-1.5390	0.6078	0.0074
	Aug-22	N/A	0.0925	-1.4530	-0.1172	0.5007
JPY bonds	Jun-22	-2.2433	0.0217	0.3421	-1.2489	0.2579
	Jul-22	5.3839	-0.4311	0.3834	0.2321	0.3138
	Aug-22	2.8766	0.4804	0.4991	1.7276	0.3134
Japan stocks	Jun-22	-1.1962	-0.1196	-0.1054	0.3928	0.2208
	Jul-22	0.1701	-0.0702	-0.0324	0.3467	-0.0967
	Aug-22	-0.5301	-0.0775	-0.0356	-0.2302	-0.1448

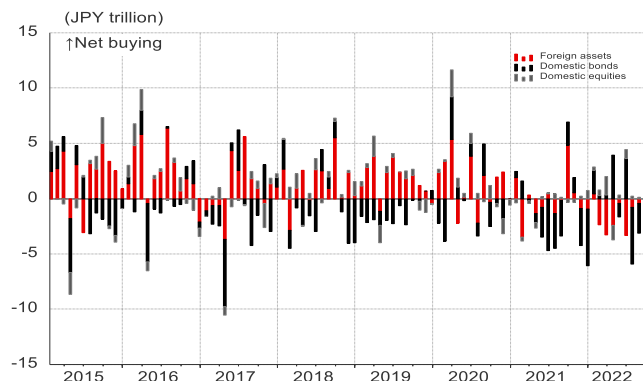
Note: Foreign assets on the MoF's narrow sample basis.

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

Source: MoF, JPX, JSDA, Refinitiv, MUFG

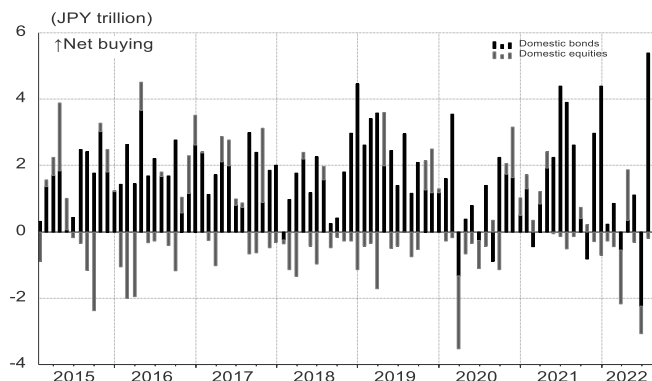
GLOBAL JPY MATRIX: BY INVESTOR TYPE MONTHLY PORTFOLIO INVESTMENT FLOWS

JAPANESE INVESTORS



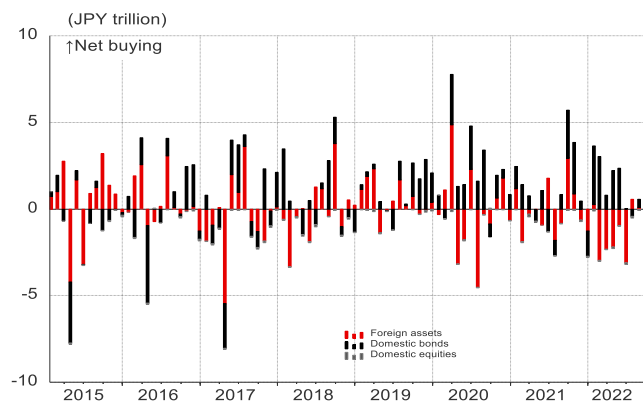
Source: MoF, JPX, JSDA, Refinitiv, MUFG

FOREIGN INVESTORS



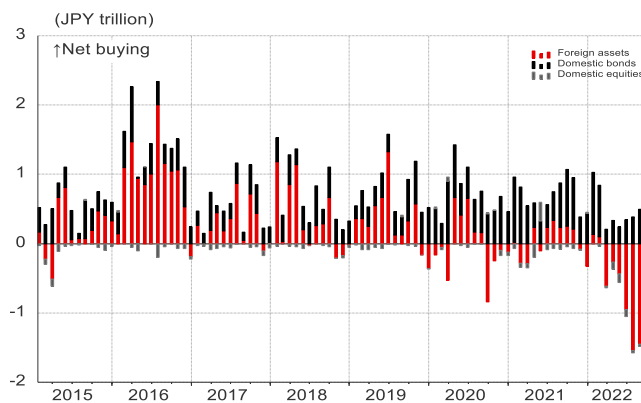
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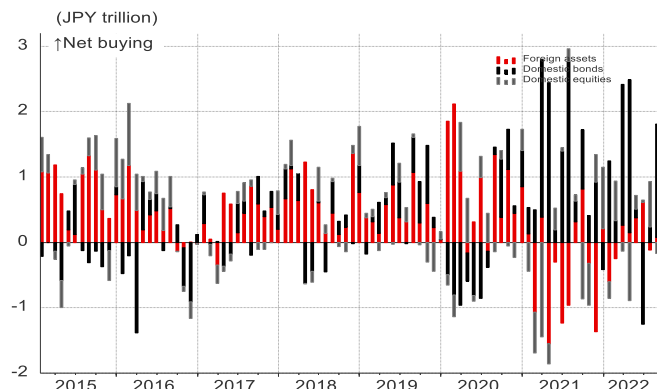
Source: MoF, JPX, JSDA, Refinitiv, MUFG

INSURANCE COMPANIES



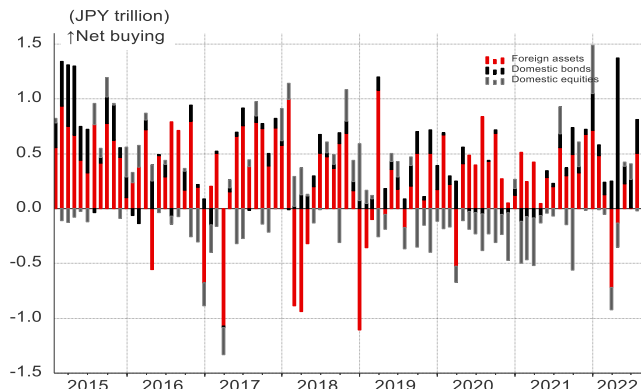
Source: MoF, JPX, JSDA, Refinitiv, MUFG

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

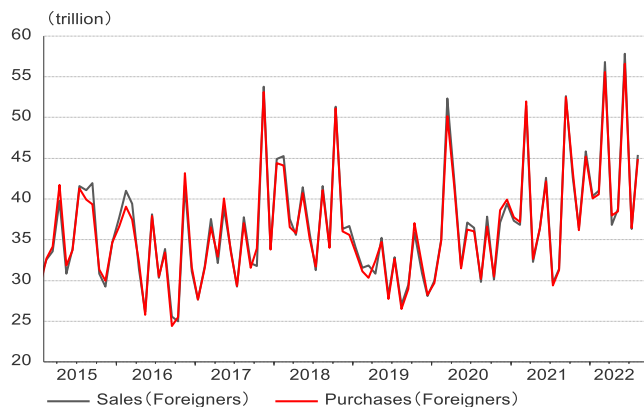
Monthly (Tokyo & Nagoya markets)

(trillion)	Foreigners			Investment Trusts			Business Cos.		
	Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
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
Aug-22	45.431	44.901	-0.530	1.381	1.236	-0.145	0.738	1.263	0.525

(trillion)	Life & Non-Life			City & Regional BK			Trust BK (Pension etc)		
	Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
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
Aug-22	0.165	0.130	-0.036	0.131	0.054	-0.077	1.614	1.384	-0.230

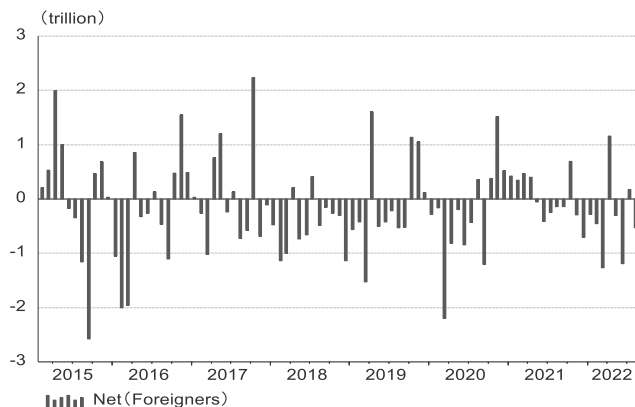
Source: JPX, Refinitiv

**FOREIGNERS**



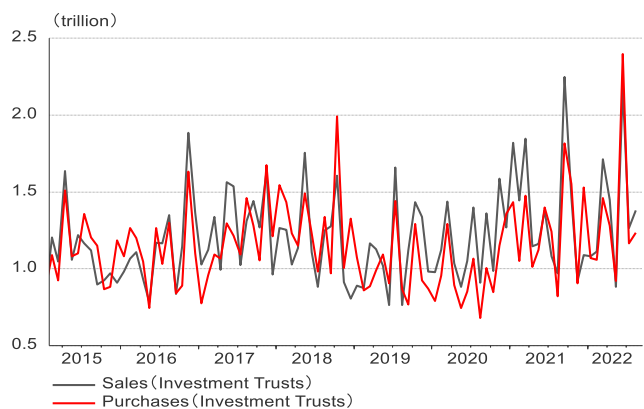
Source: JPX, Refinitiv

**FOREIGNERS (NET)**



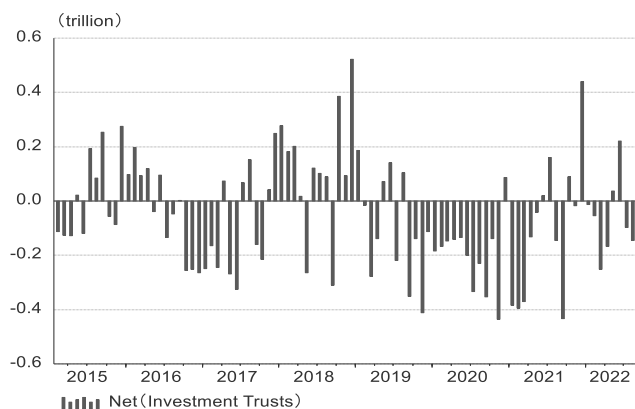
Source: JPX, Refinitiv

**TOSHIN INVESTMENT TRUSTS**



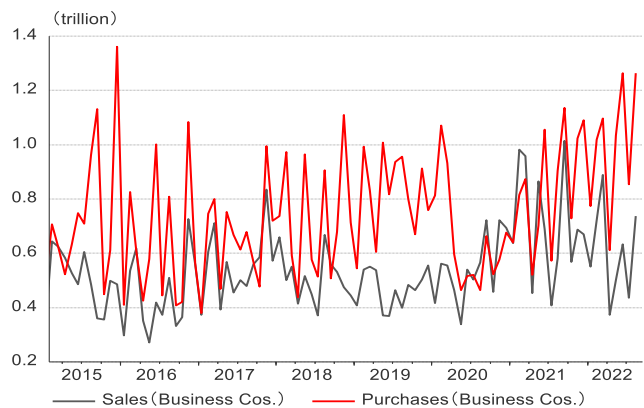
Source: JPX, Refinitiv

**TOSHIN INVESTMENT TRUSTS (NET)**



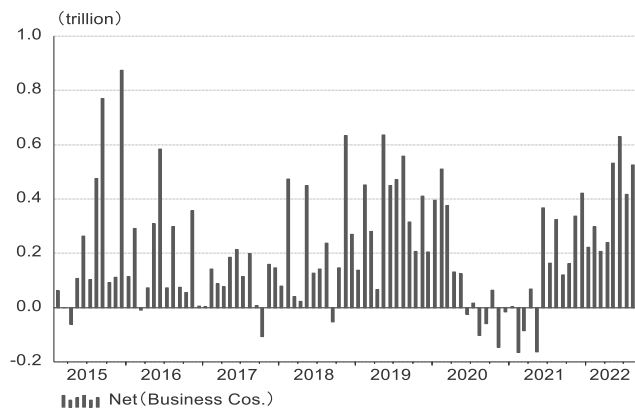
Source: JPX, Refinitiv

**BUSINESS COS.**



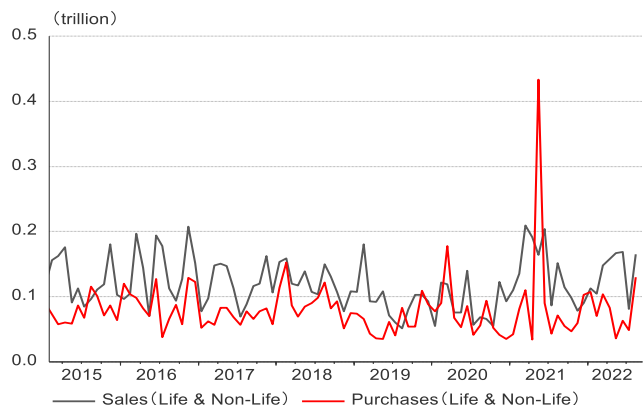
Source: JPX, Refinitiv

**BUSINESS COS. (NET)**



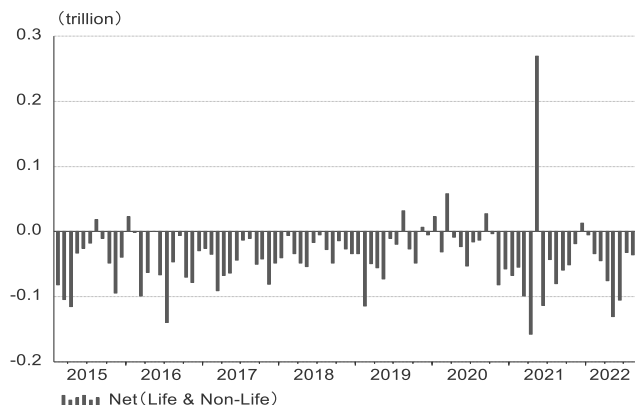
Source: JPX, Refinitiv

LIFE & NON-LIFE INSUARANCE COMPANIES



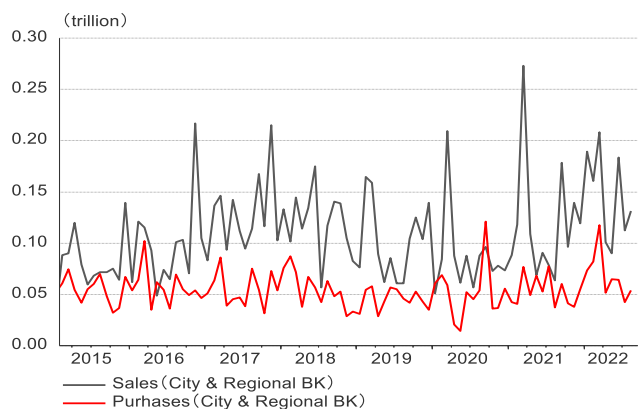
Source: JPX, Refinitiv

LIFE & NON-LIFE INSUARANCE COMPANIES (NET)



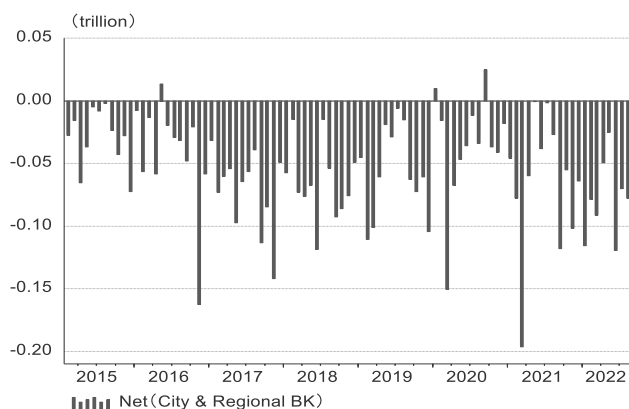
Source: JPX, Refinitiv

CITY & REGIONAL BK



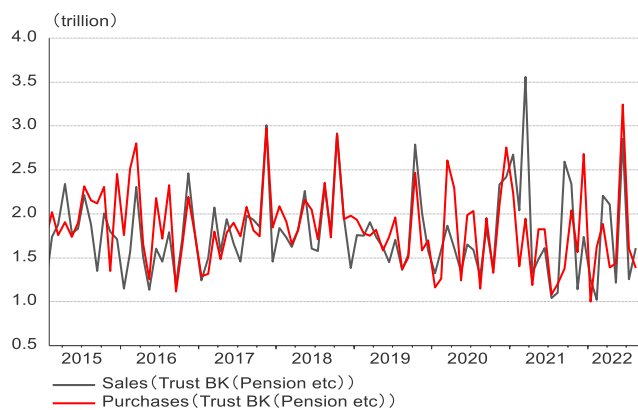
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CITY & REGIONAL BK (NET)



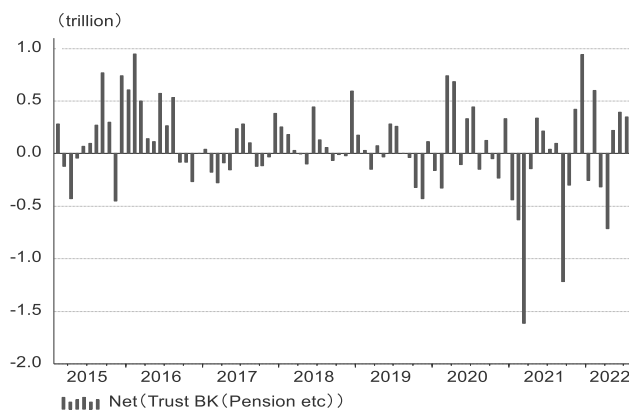
Source: JPX, Refinitiv

TRUST BK (PENSION ETC)



Source: JPX, Refinitiv

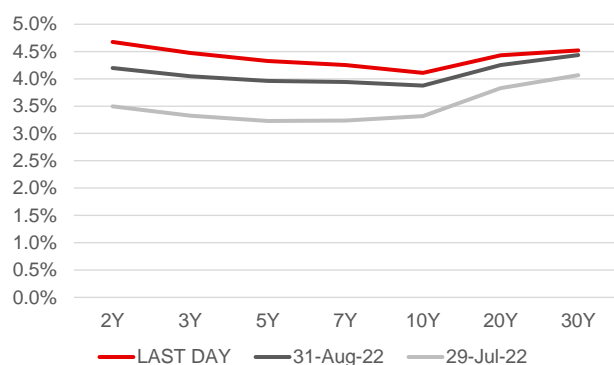
TRUST BK (PENSION ETC) (NET)



Source: JPX, Refinitiv

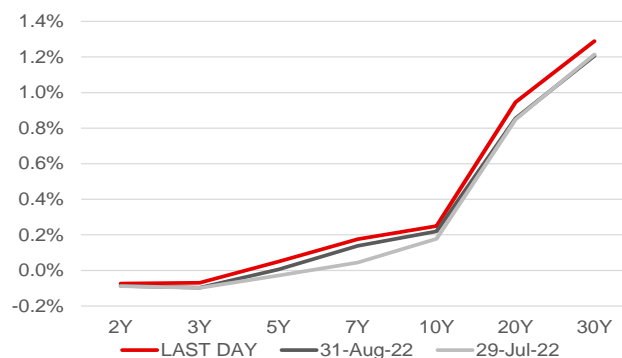
## JPYG10 CROSS-CURRENCY MATRIX: JAPANESE GOVIES (JGBS)

### USD DENOMINATED – JGB YIELD CURVES



Source: Bloomberg, MUFG

### JPY DENOMINATED- JGB YIELD CURVES



Source: Bloomberg, MUFG

### USD DENOMINATED – JGB YIELDS

(%)	LAST DAY	31-Aug-22	29-Jul-22
2Y	4.68	4.20	3.50
3Y	4.47	4.05	3.33
5Y	4.33	3.96	3.23
7Y	4.25	3.94	3.24
10Y	4.11	3.88	3.32
20Y	4.43	4.25	3.83
30Y	4.52	4.43	4.07

Source: Bloomberg, MUFG

### JPY DENOMINATED- JGB YIELDS

(%)	LAST DAY	31-Aug-22	29-Jul-22
2Y	-0.07	-0.09	-0.09
3Y	-0.07	-0.10	-0.10
5Y	0.05	0.01	-0.03
7Y	0.18	0.14	0.04
10Y	0.25	0.22	0.18
20Y	0.95	0.86	0.85
30Y	1.29	1.21	1.21

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	3.49	4.11	3.68	5.36	3.40	2.93	-0.25	0.25	-0.08	1.29	-0.34	-0.72
Aug-22	3.19	3.88	3.33	5.02	3.06	2.57	-0.34	0.22	-0.21	1.18	-0.46	-0.87
Jul-22	2.65	3.32	2.64	4.29	2.52	2.06	-0.39	0.18	-0.40	1.01	-0.50	-0.89
Month- end changes	0.54	0.56	0.69	0.73	0.54	0.51	0.05	0.04	0.18	0.17	0.04	0.03

Source: Bloomberg, MUFG

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