

APOLLO

What would happen if Japan abandons YCC?

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Apollo Global Management

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Unless otherwise noted, information as of May 2023.

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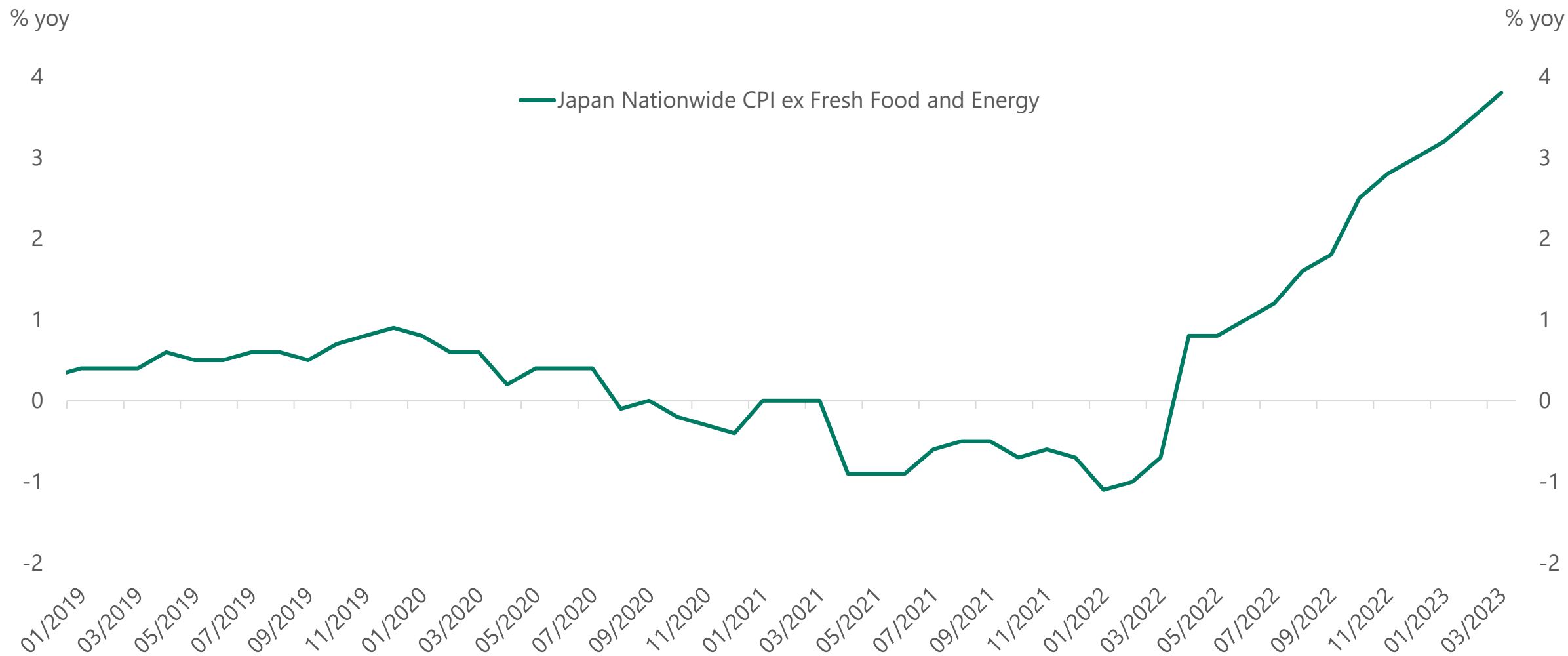
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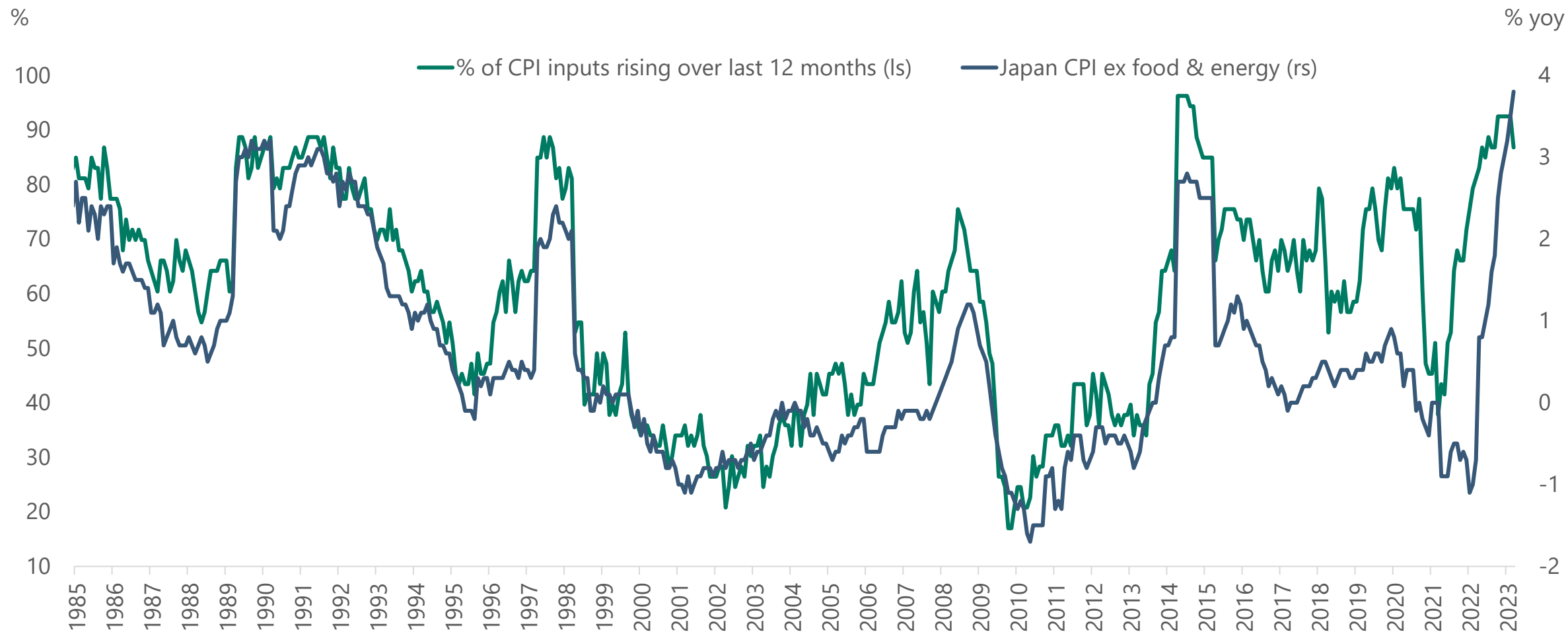


Macro background

Japan core inflation highest since 1982

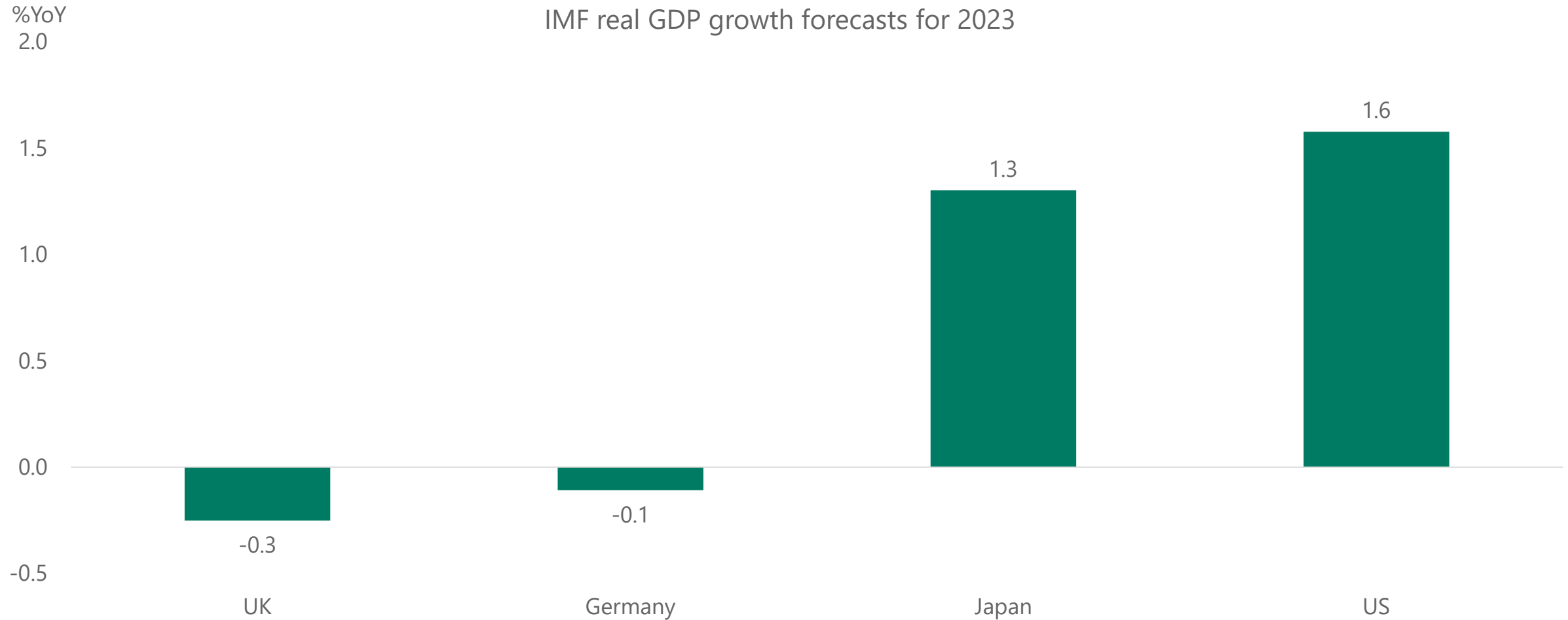


Structural rise in CPI

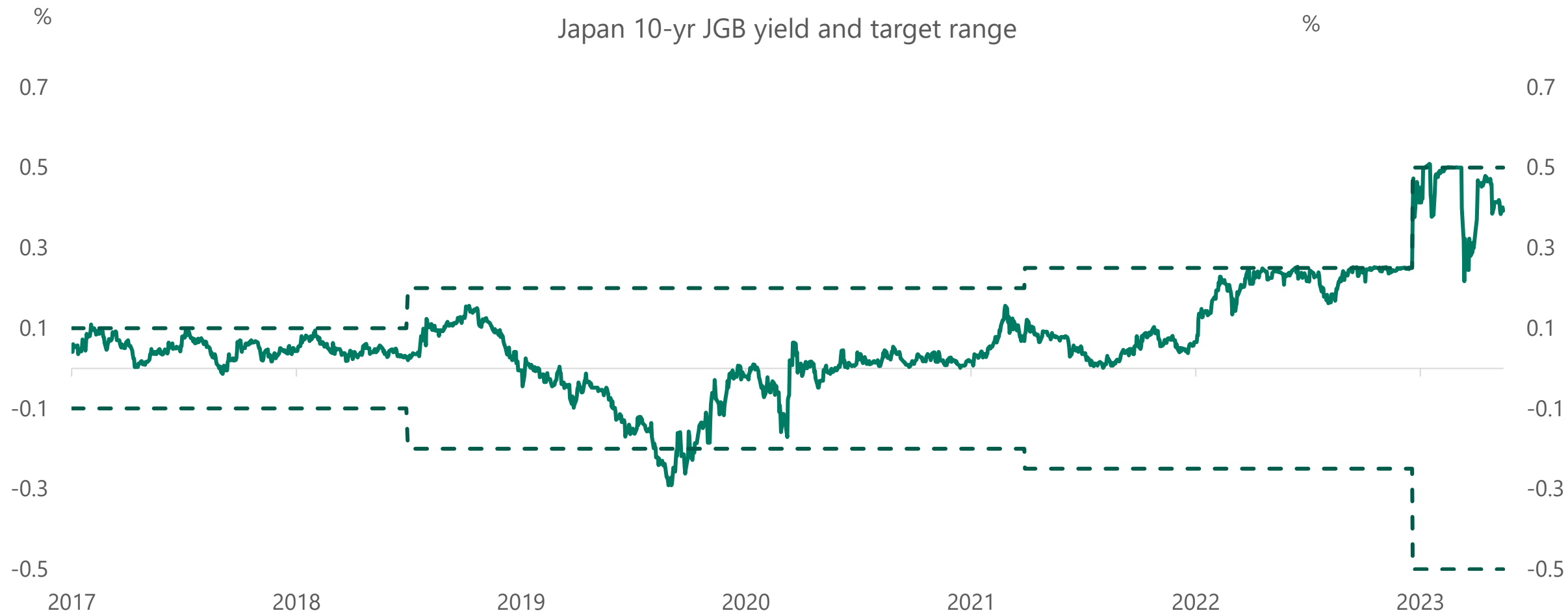


Source: Bloomberg, Apollo Chief Economist

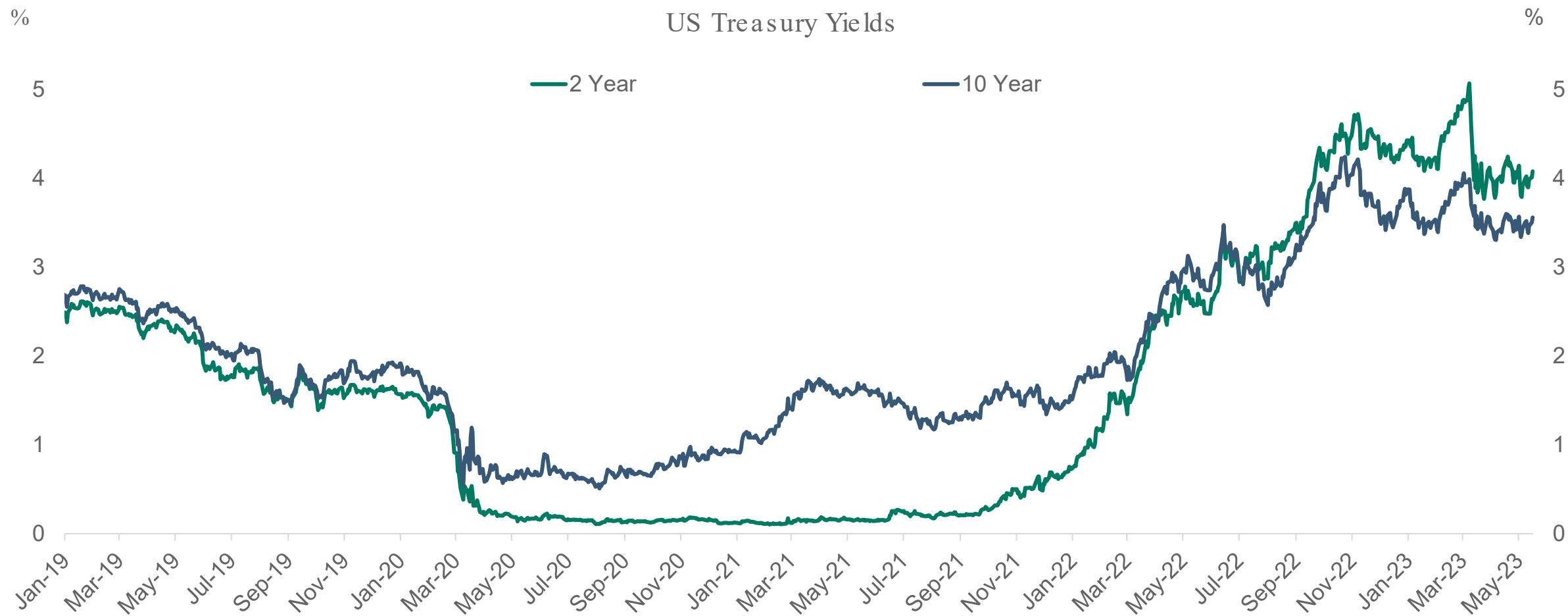
2023: The IMF is forecasting recession in UK and Germany, and close to potential growth in the US and Japan



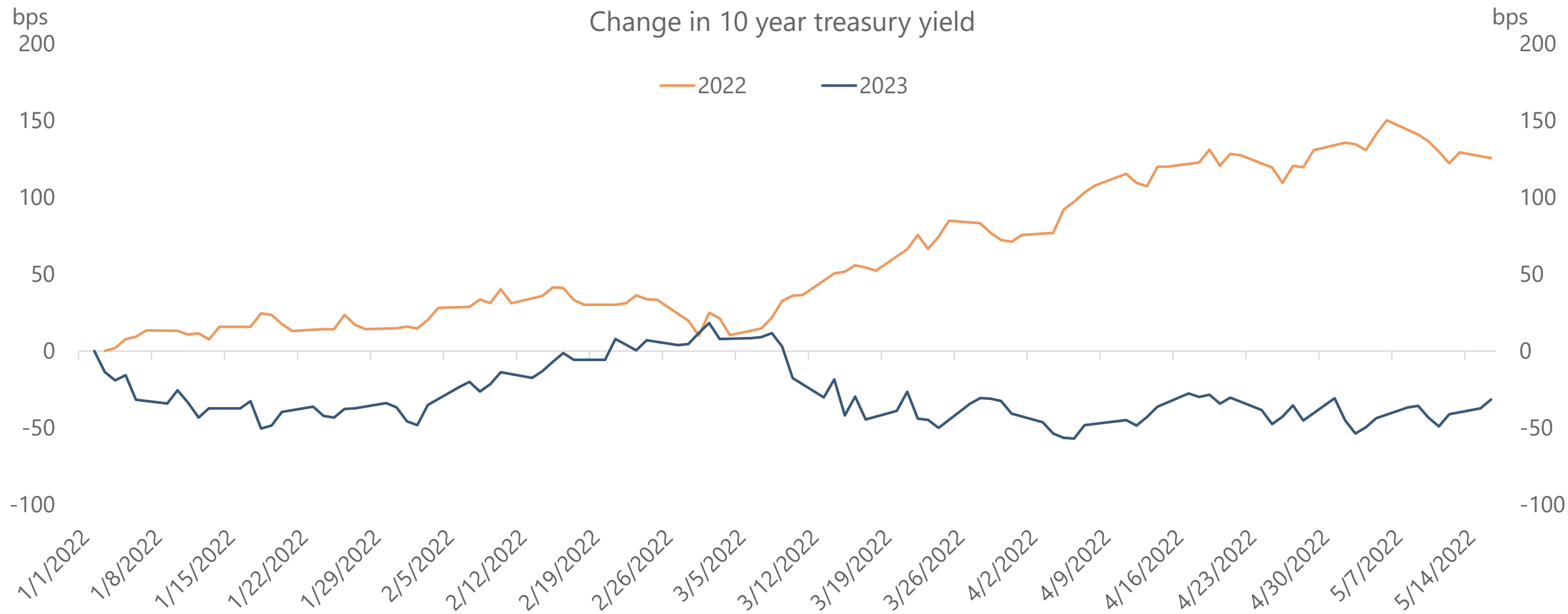
Japan 10-year yield



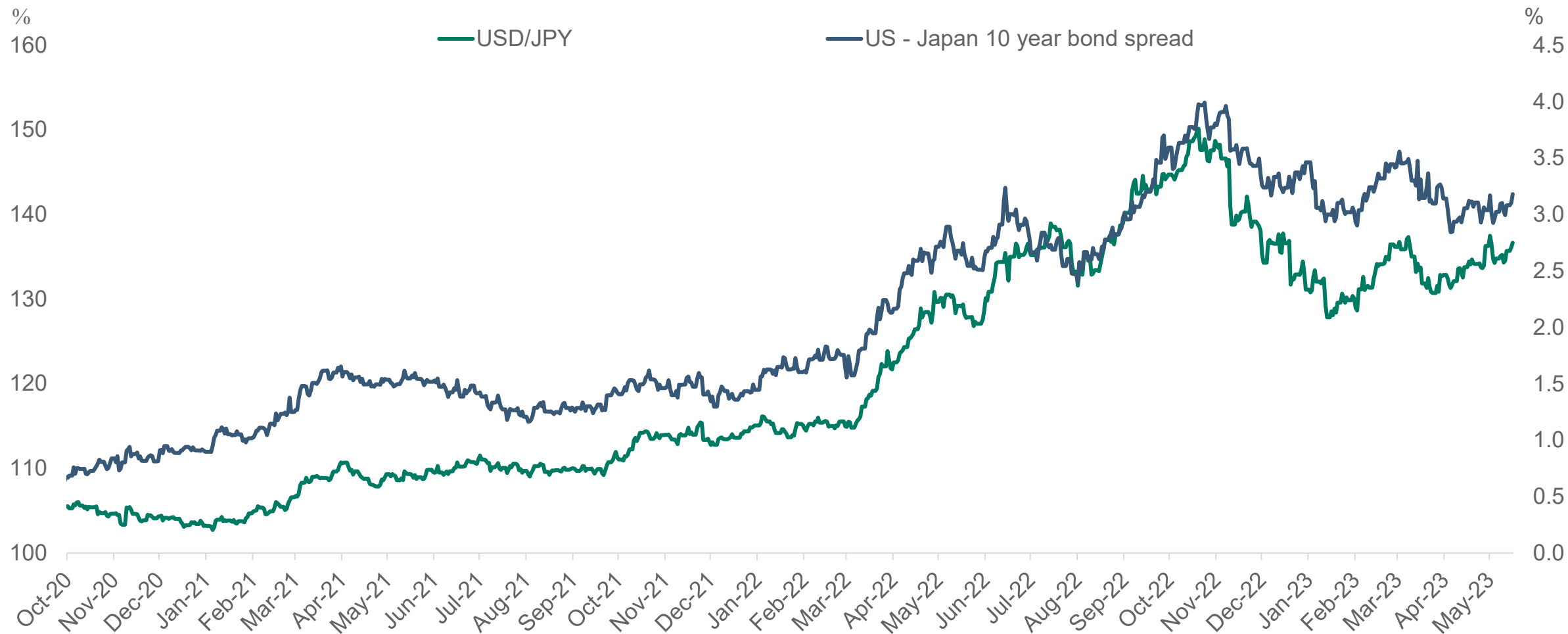
US 2s and 10s



US 10-year rates up in 2022 and sideways in 2023

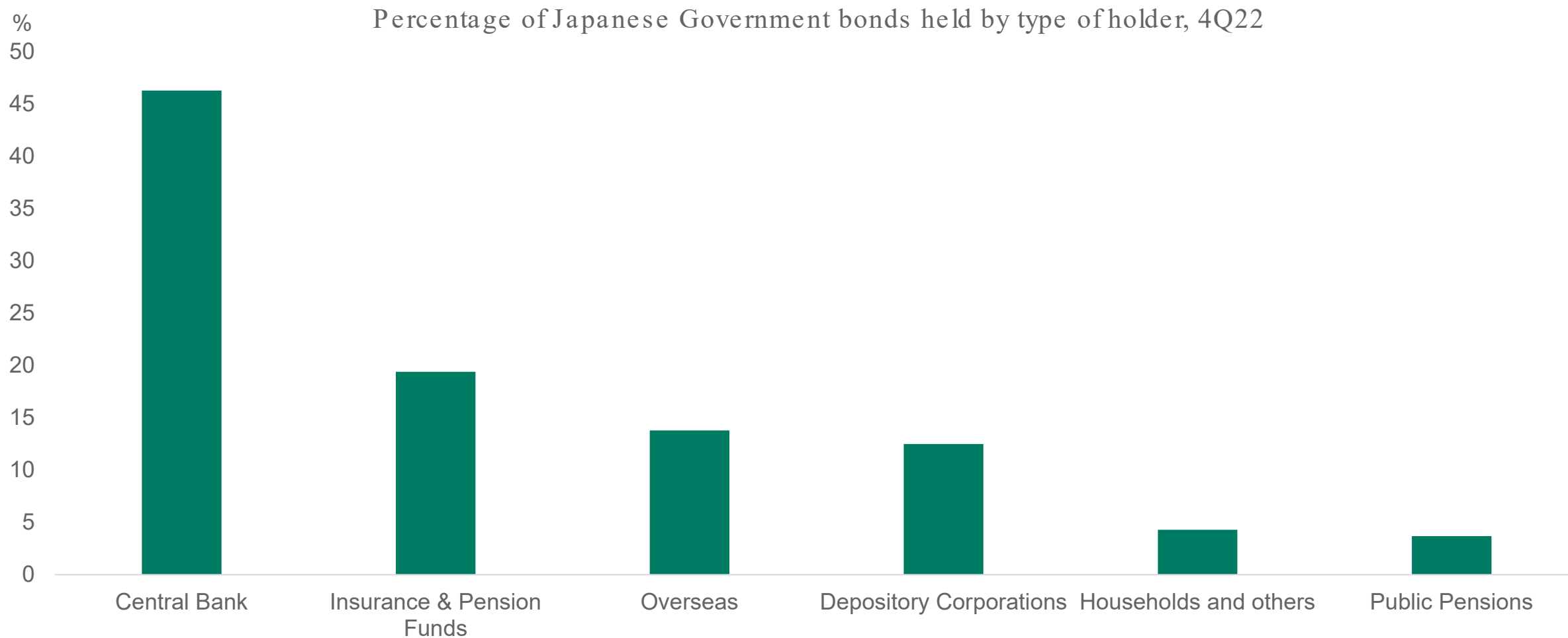


USDJPY highly correlated with the US/JP 10s spread

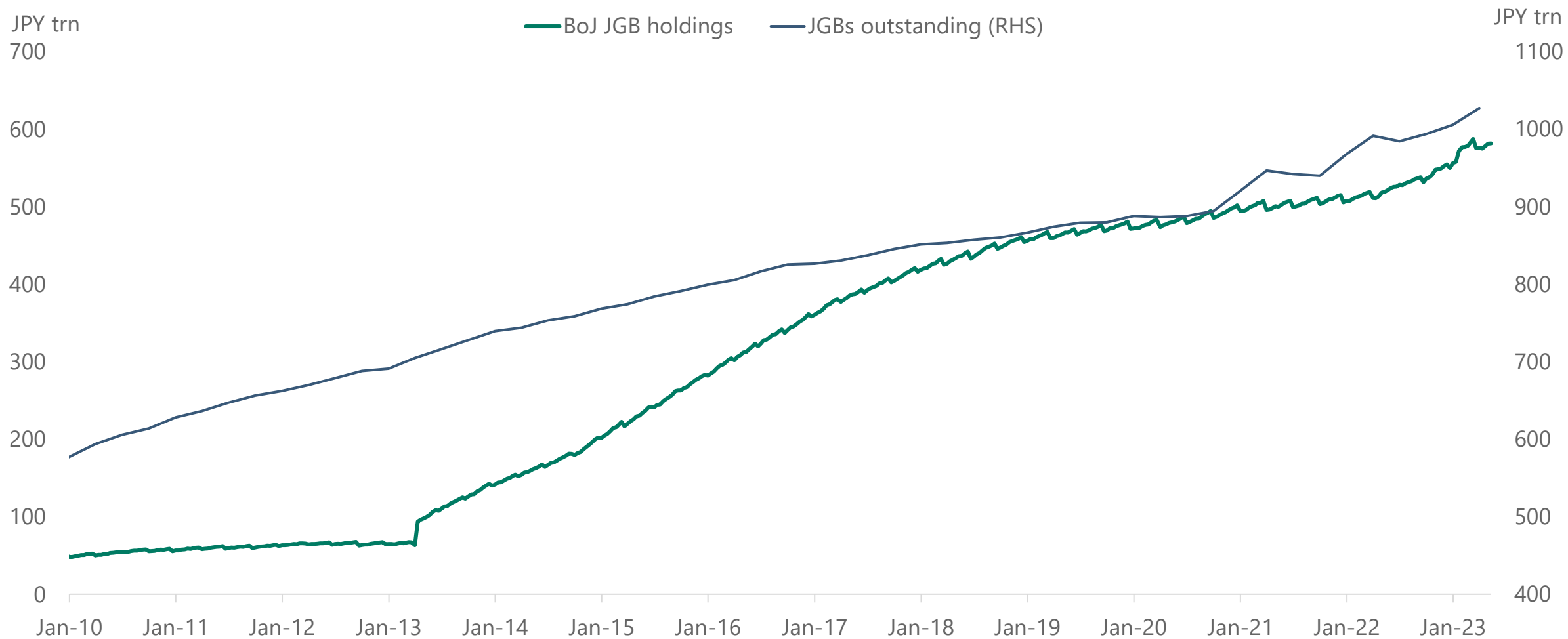


BoJ JGB purchases and holdings

46% Japanese government debt held by BoJ



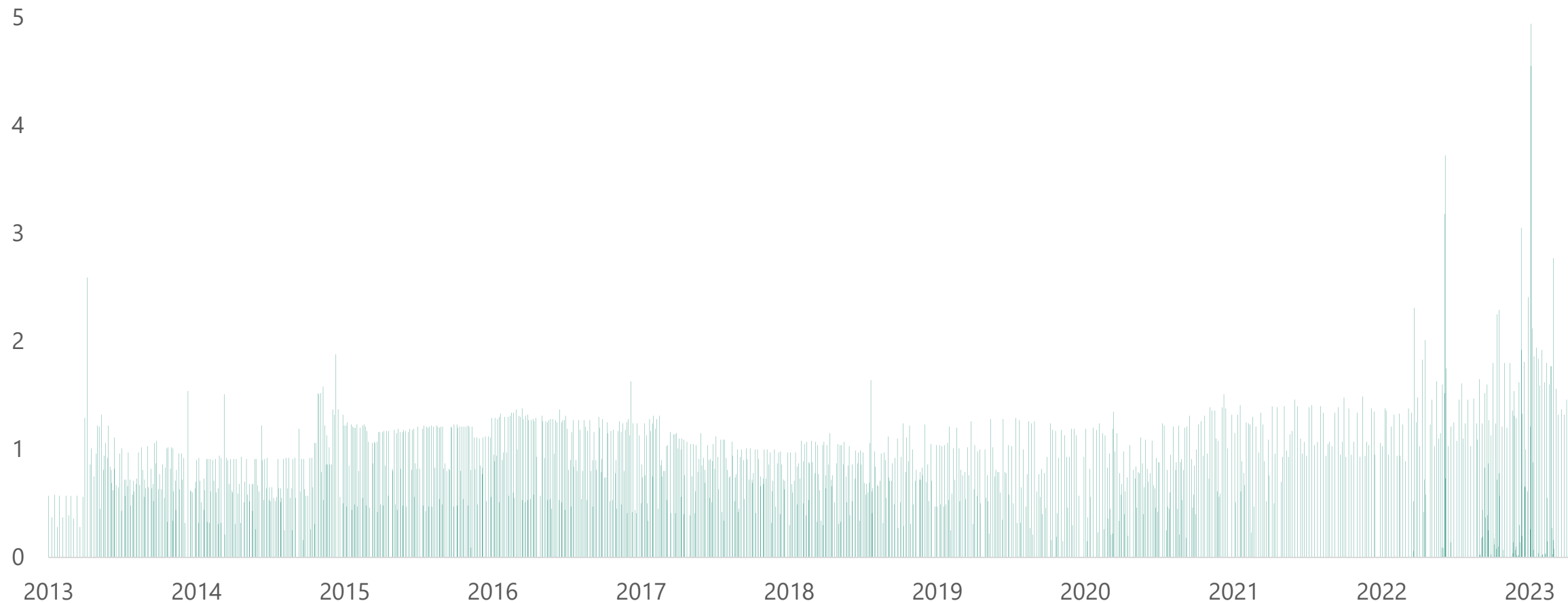
BoJ JGB holdings and JGBs outstanding



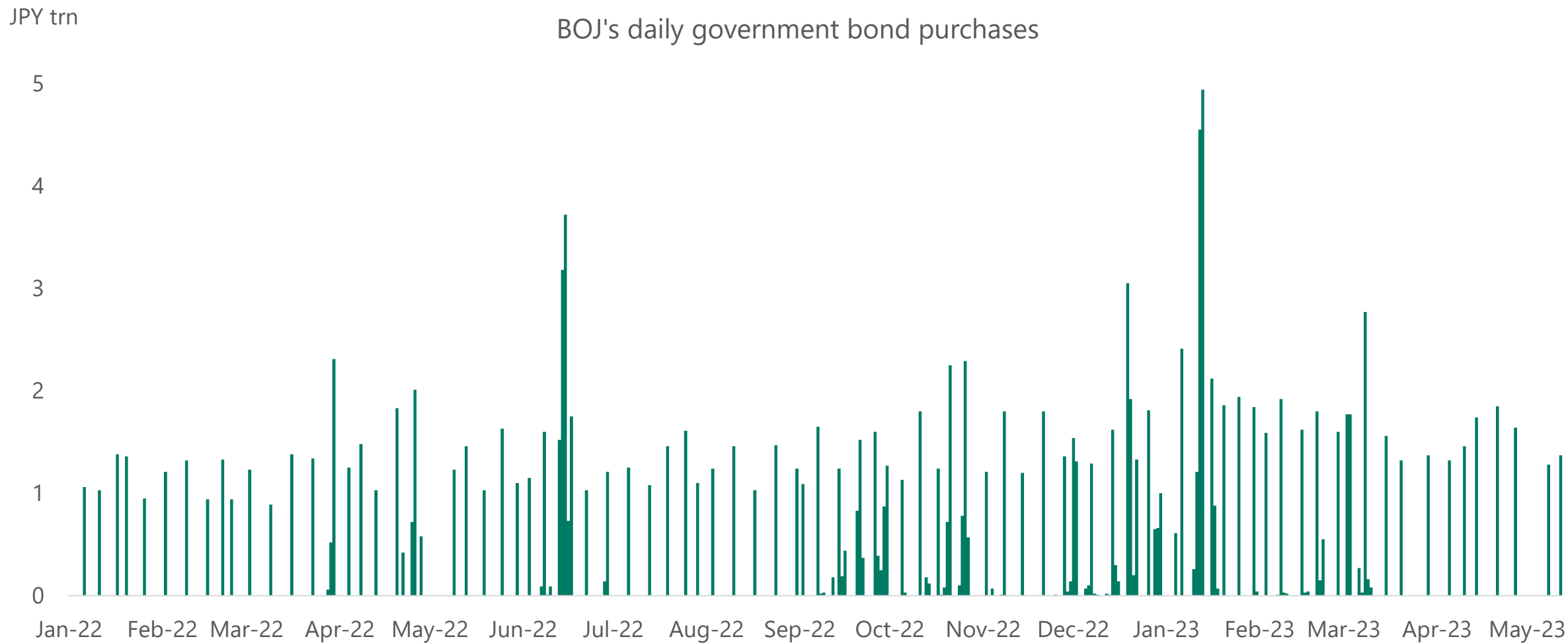
BoJ bond buying since 2013

JPY trn

BOJ's daily government bond purchases

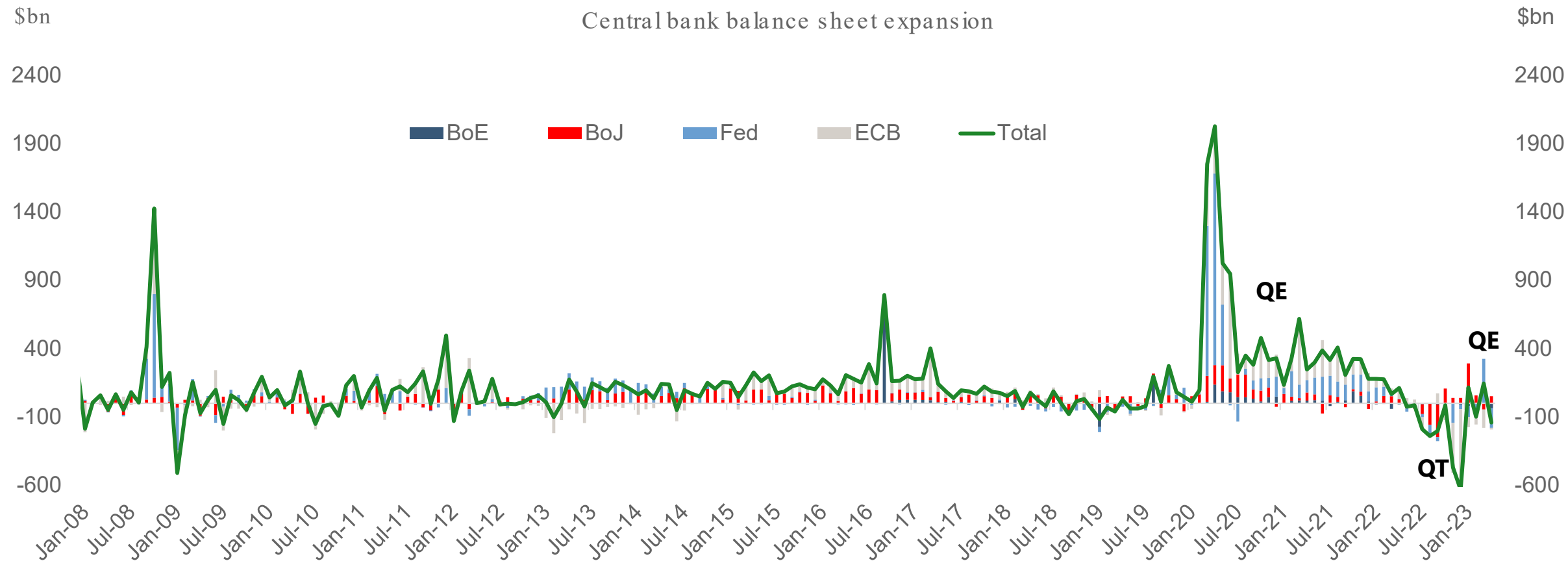


BOJ's bond buying since 2022



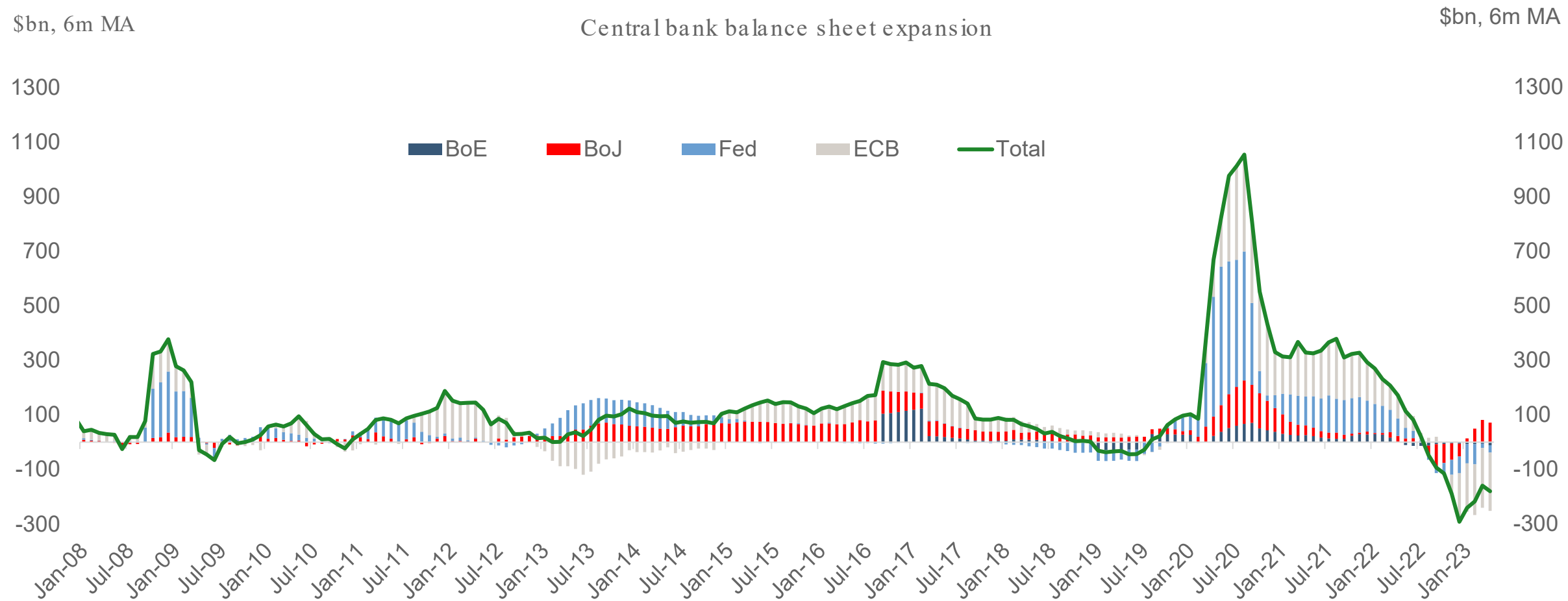
Source: Bloomberg, Apollo Chief Economist

From QE to QT to QE

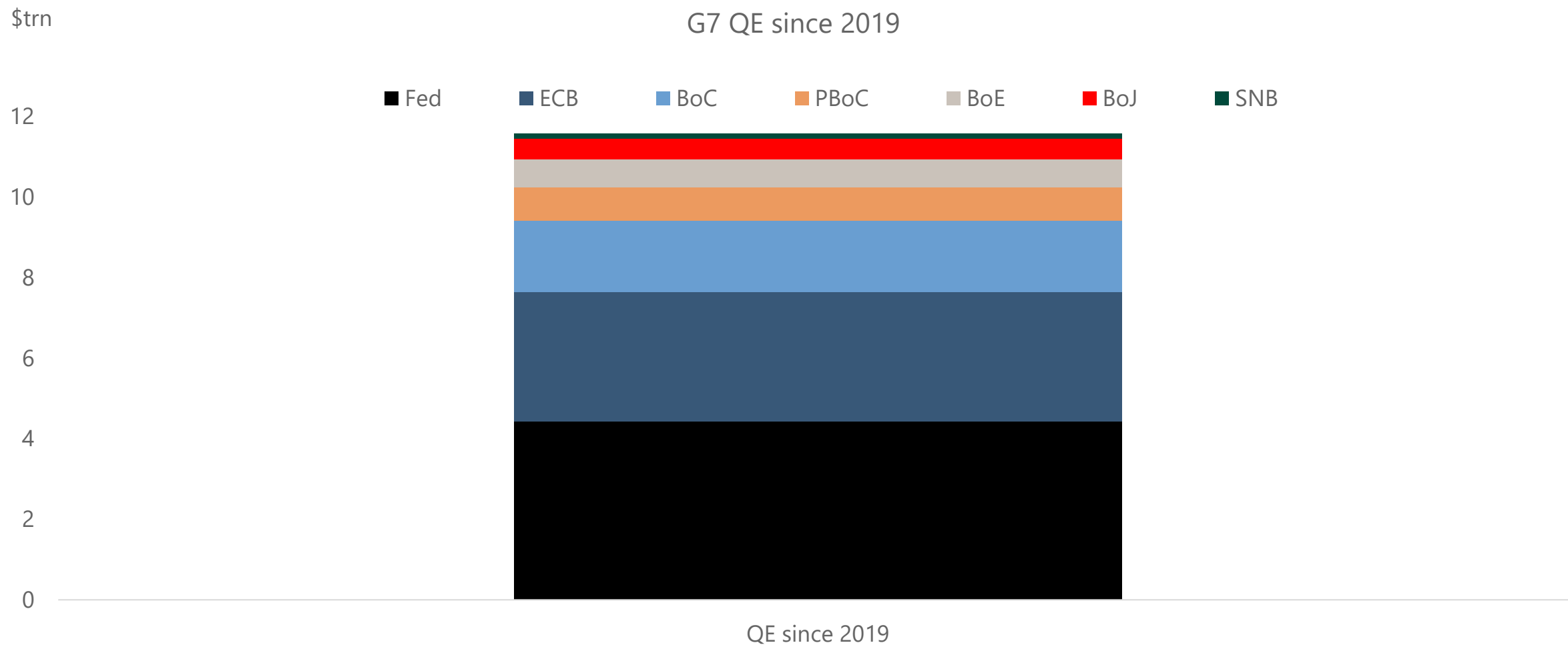


Source: Bloomberg, Apollo Chief Economist

G4 Central bank balance sheets

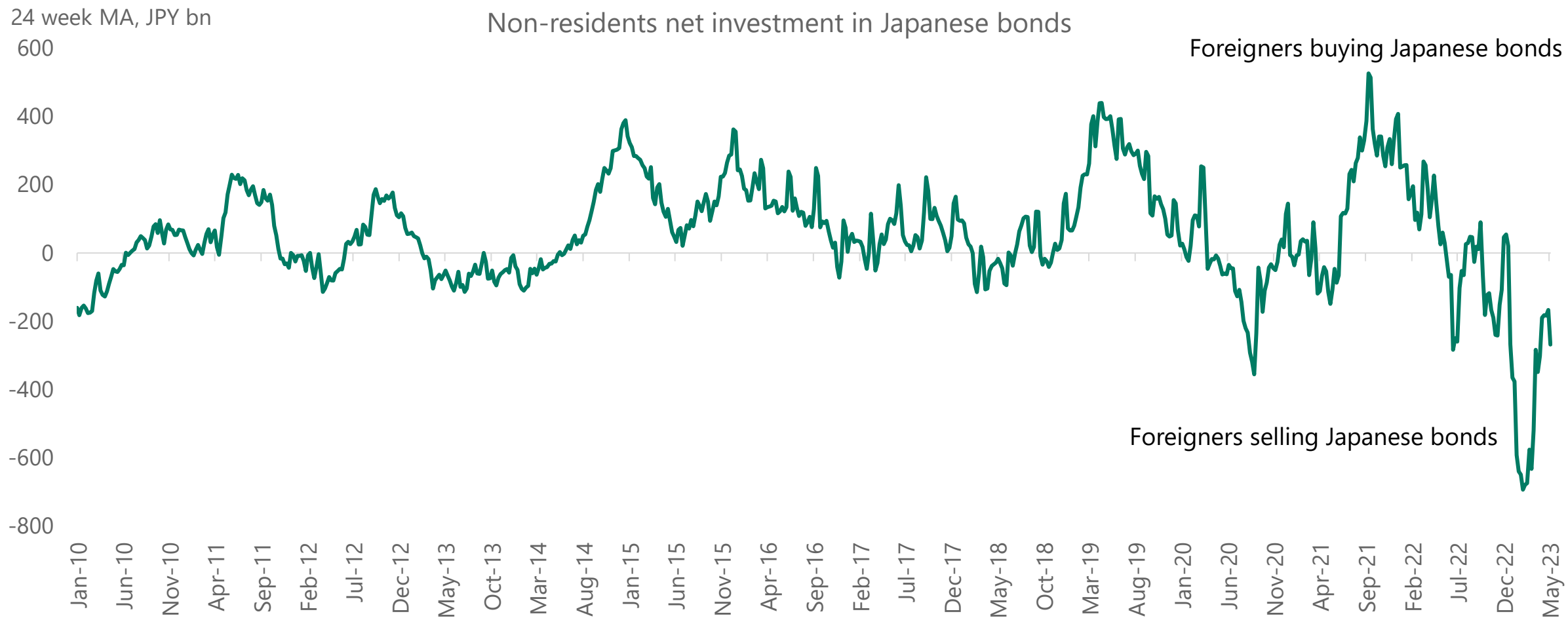


Central bank balance sheet expansions since 2019



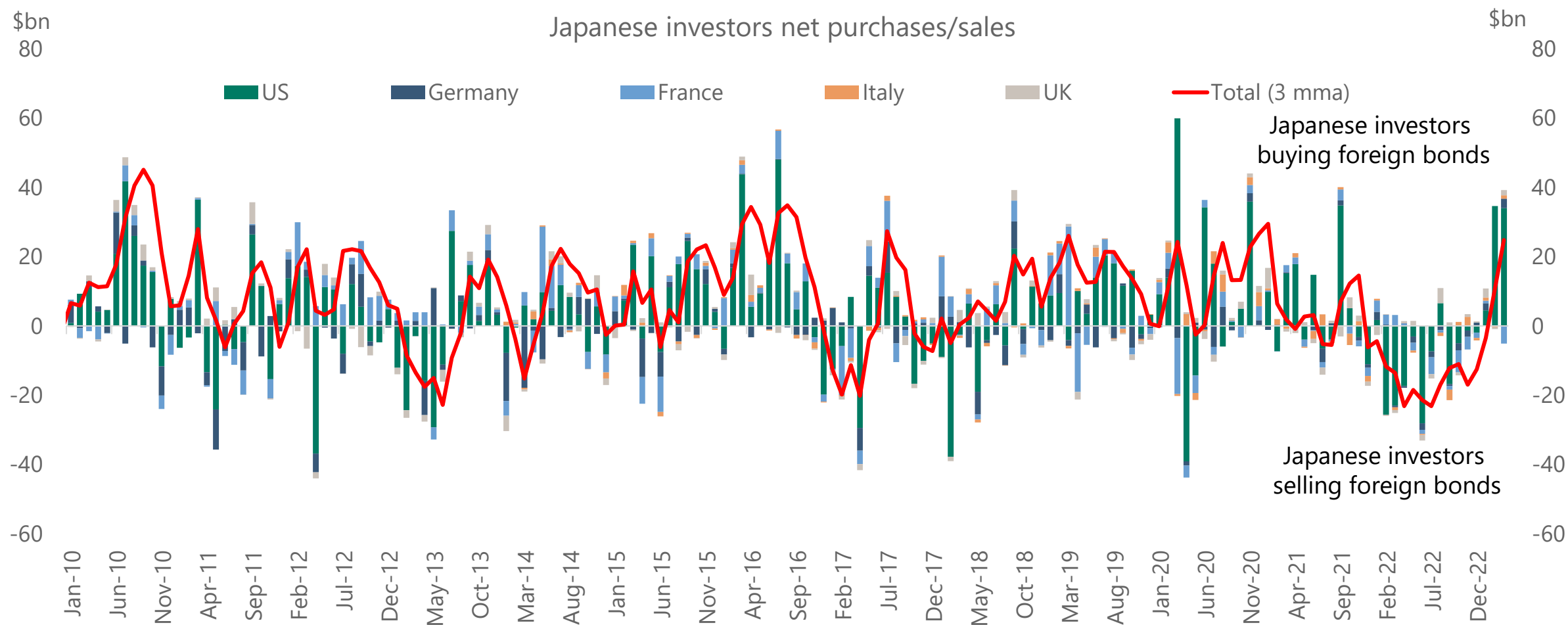
Bond flows in and out of Japan

Foreign net purchases of Japanese bonds



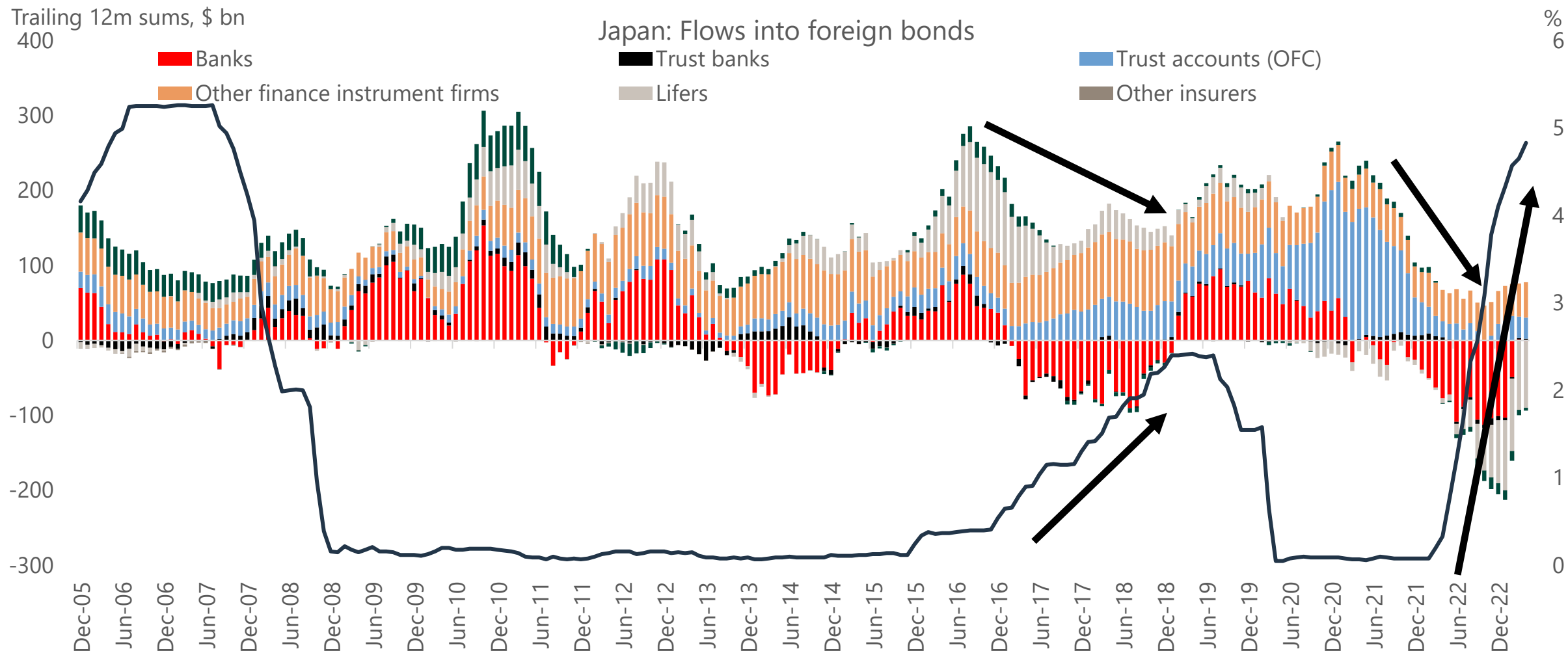
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Japanese investors buying Treasuries



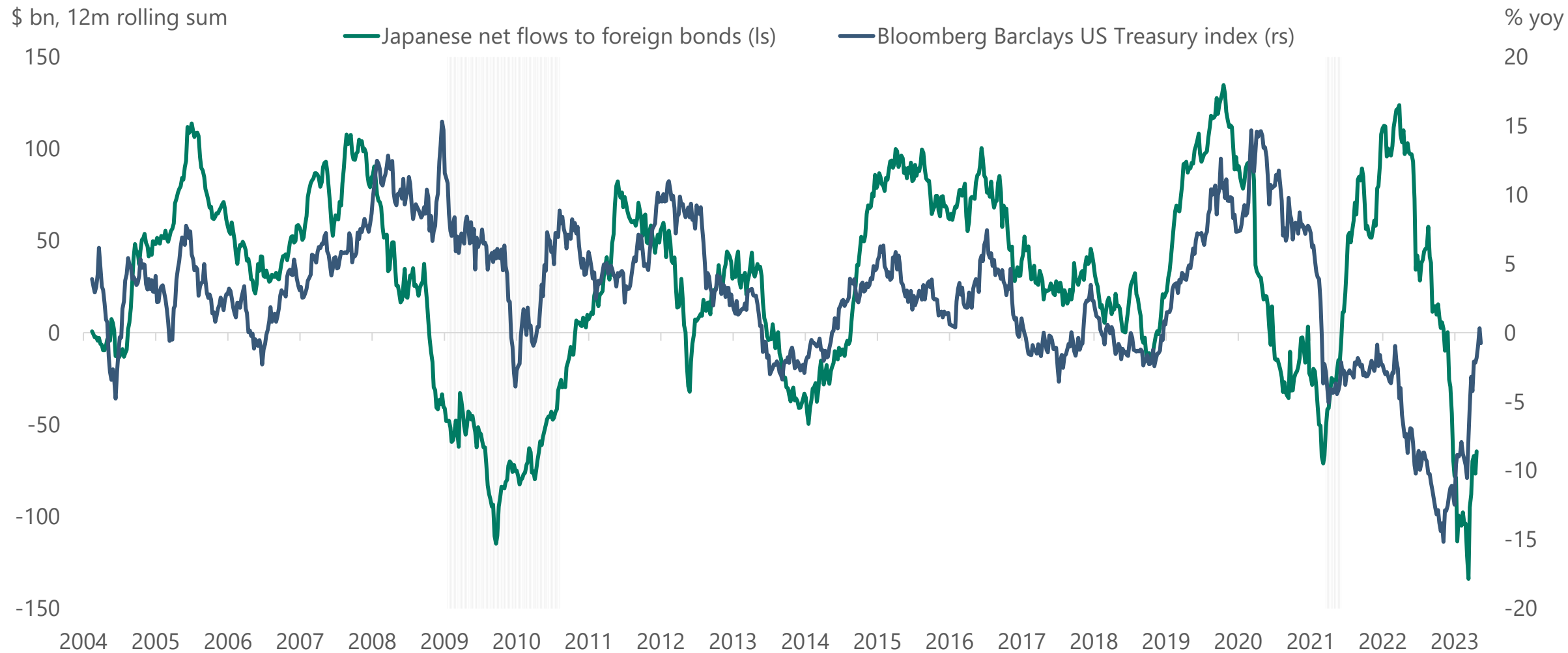
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Japan: Net flows into foreign bonds: When US rates rise, Japanese investors sell US fixed income

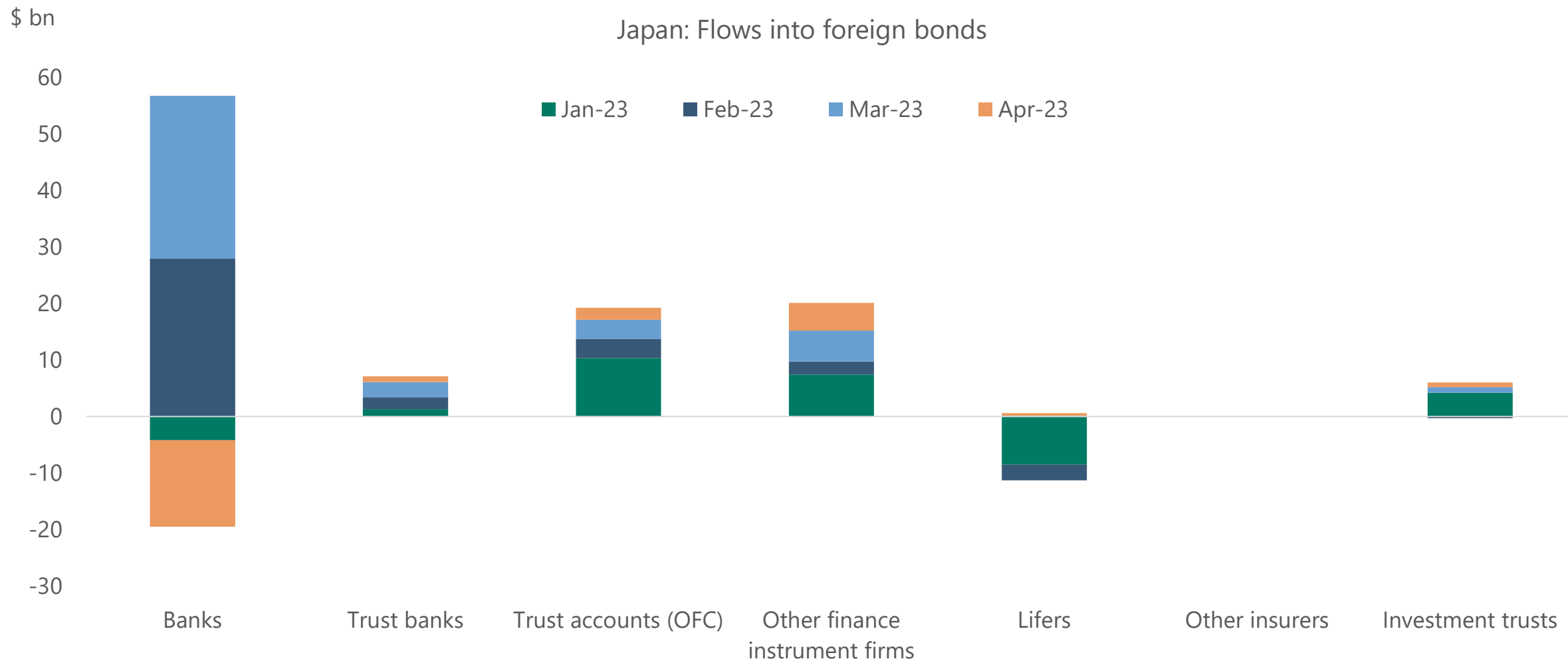


Source: Bloomberg, Apollo Chief Economist

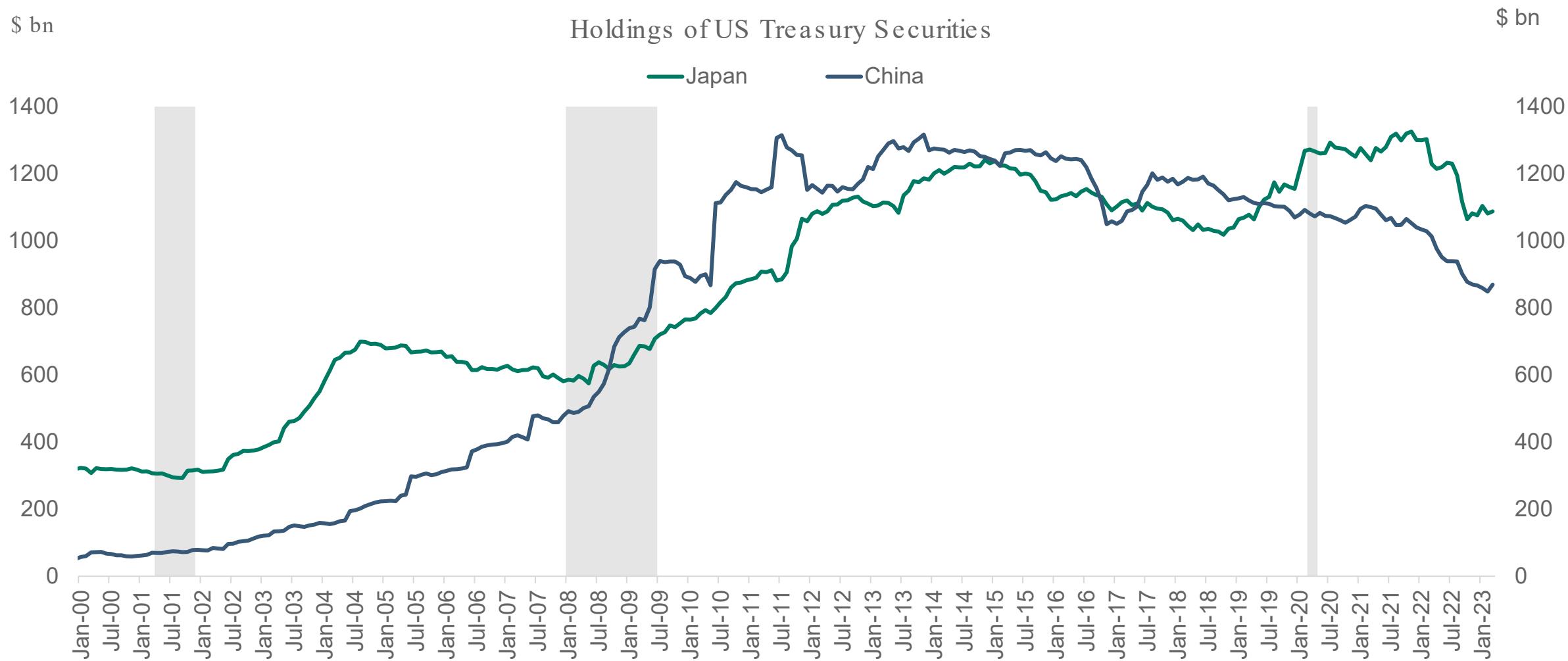
When US rates went up Japanese investors started selling US fixed income



Japan: Banks buying foreign bonds in March

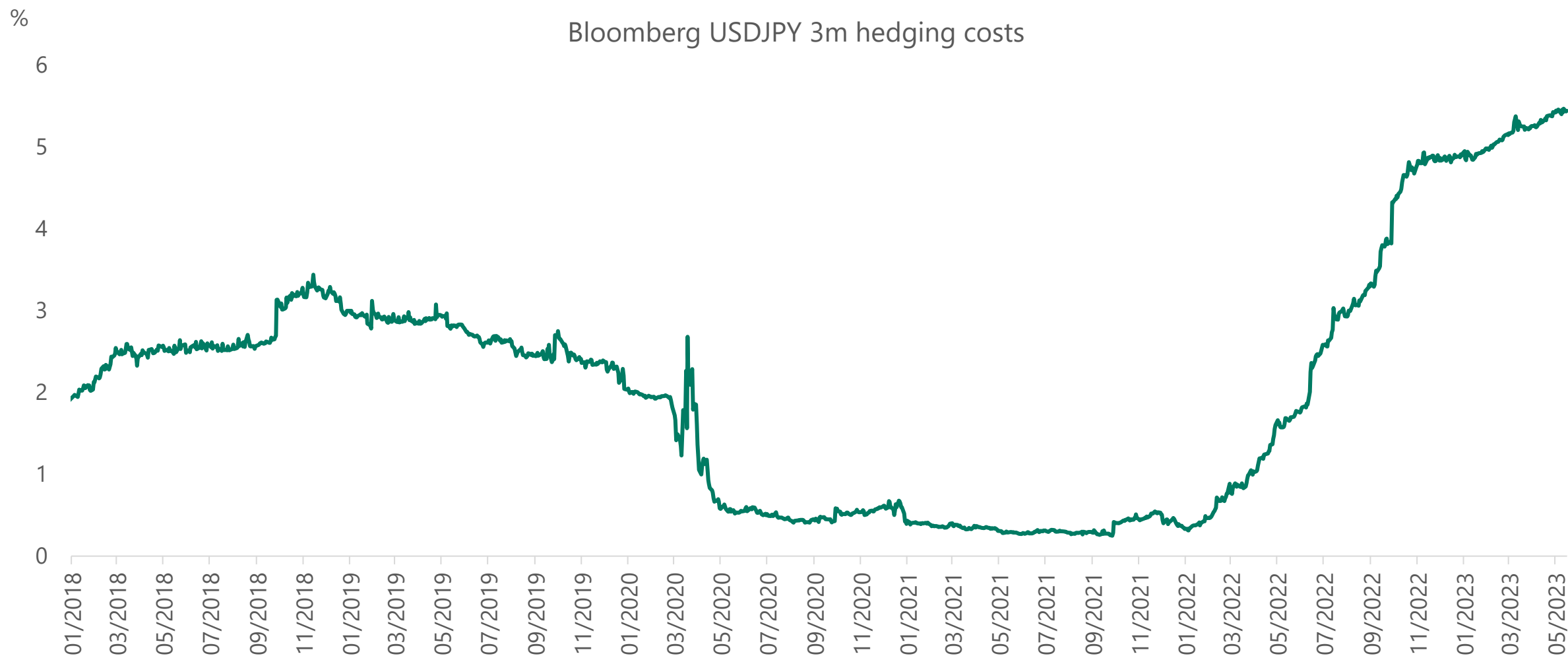


Japanese holdings of US Treasuries falling



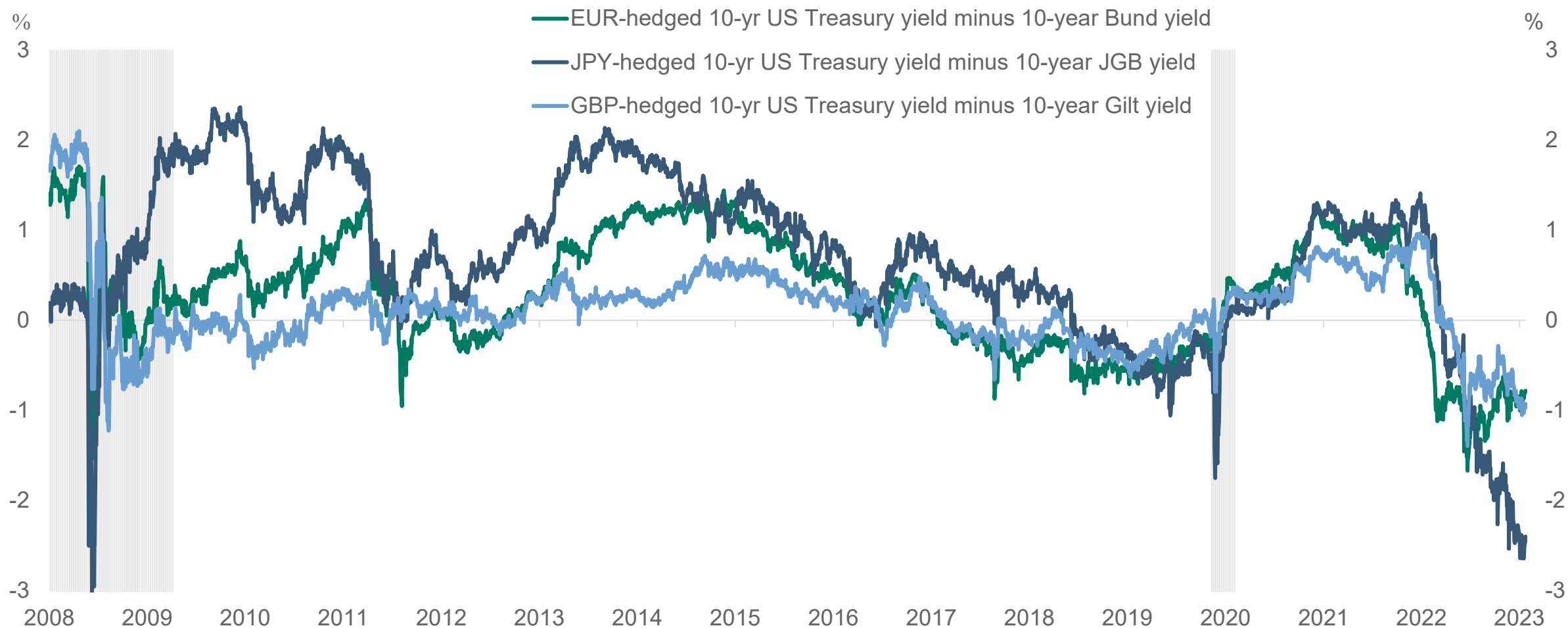
Japanese banks

Dollar-hedging costs for Japanese investors

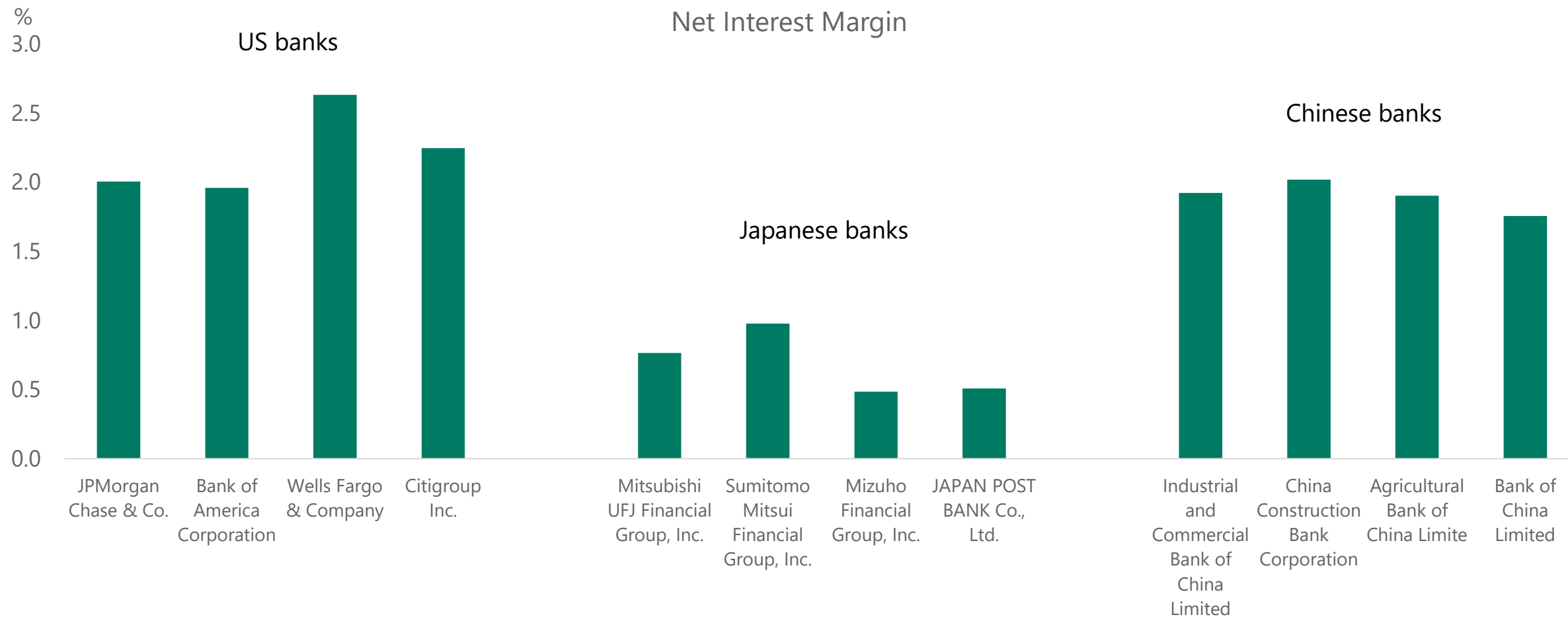


Source: Bloomberg, Apollo Chief Economist

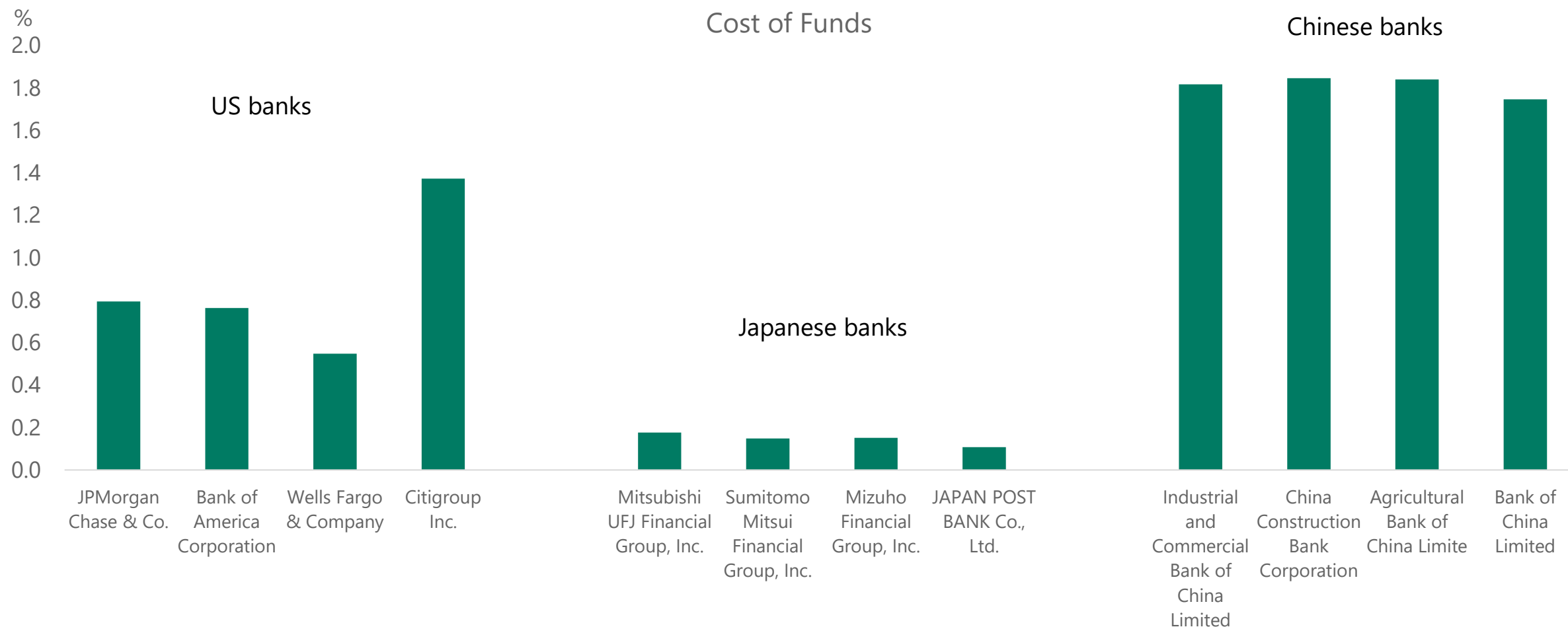
Negative returns from holding JPY-hedged Treasury yields



NIM for banks: US, Japan, and China



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





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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.