

APOLLO

What are the consequences of Japan abandoning YCC?

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Apollo Global Management

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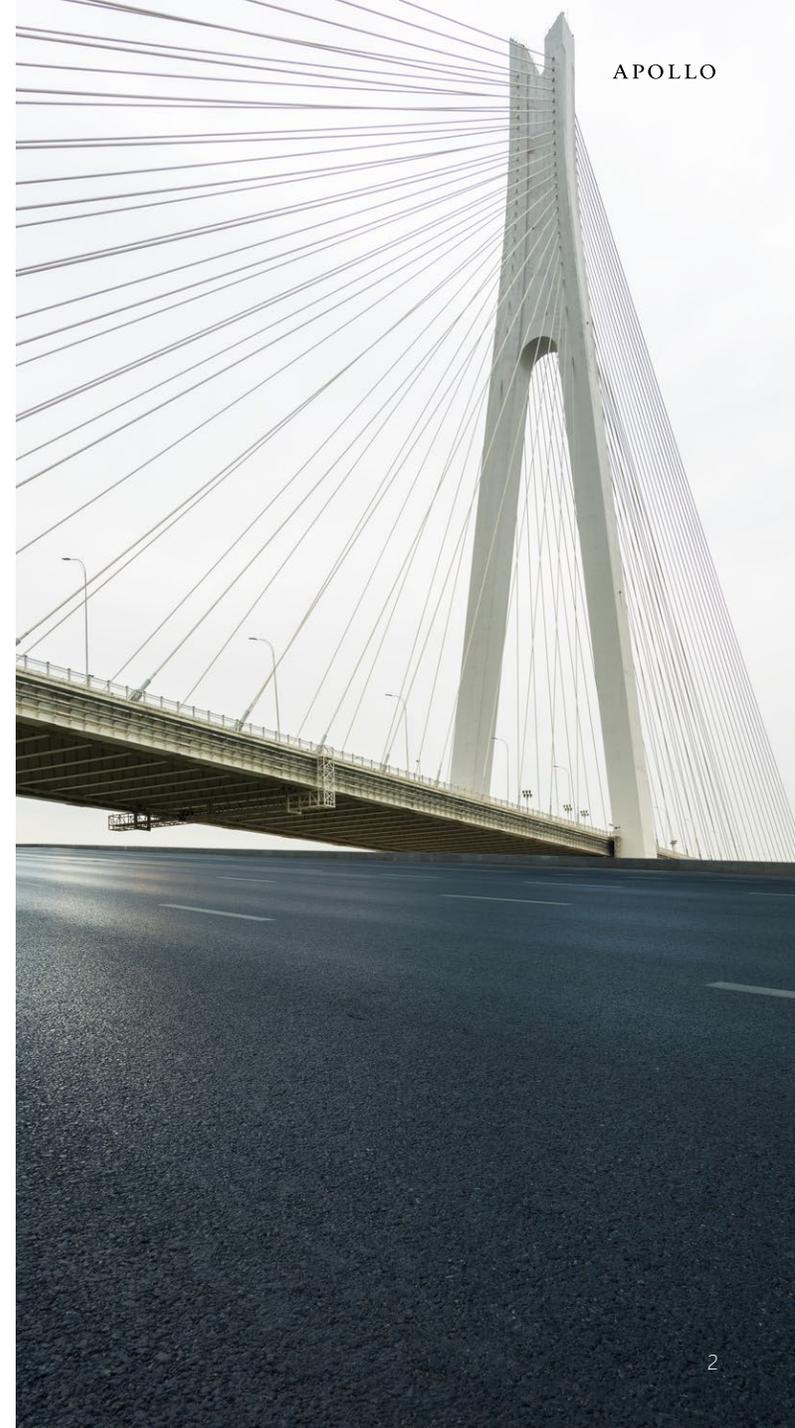
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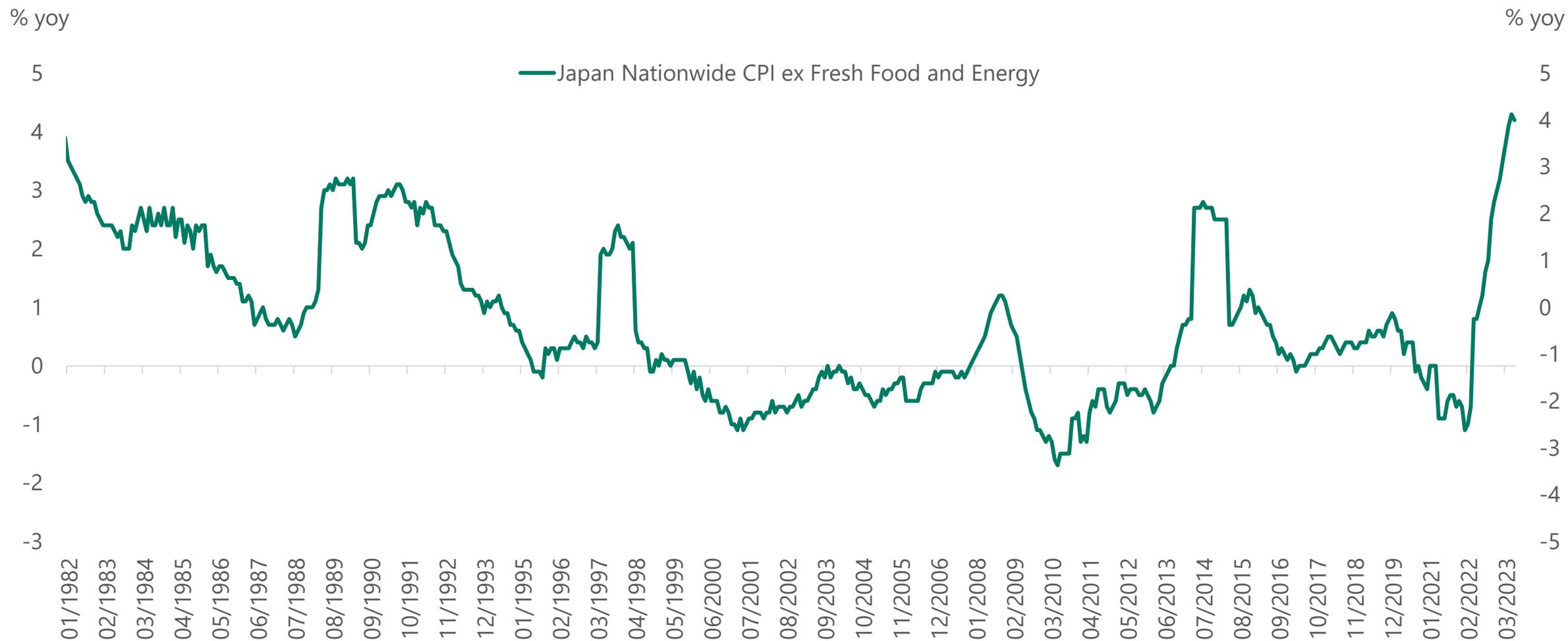
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Overview

Japan core inflation highest since 1982

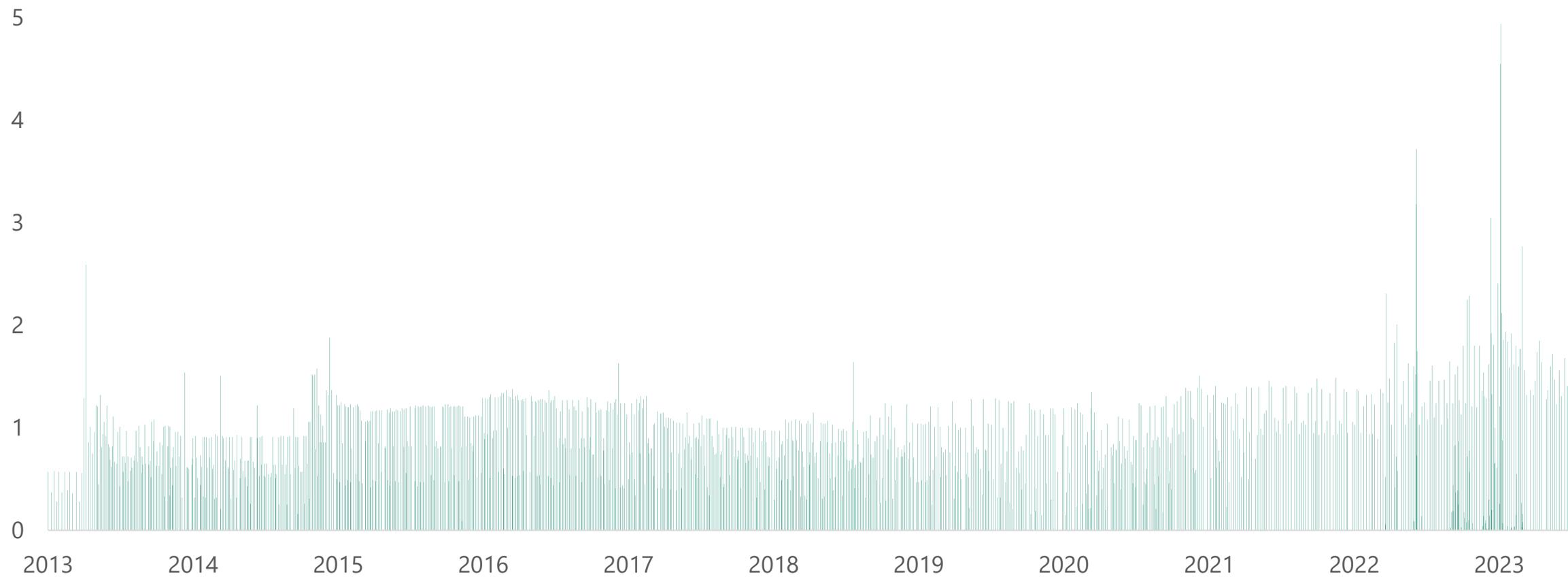


Source: Bloomberg, Apollo Chief Economist

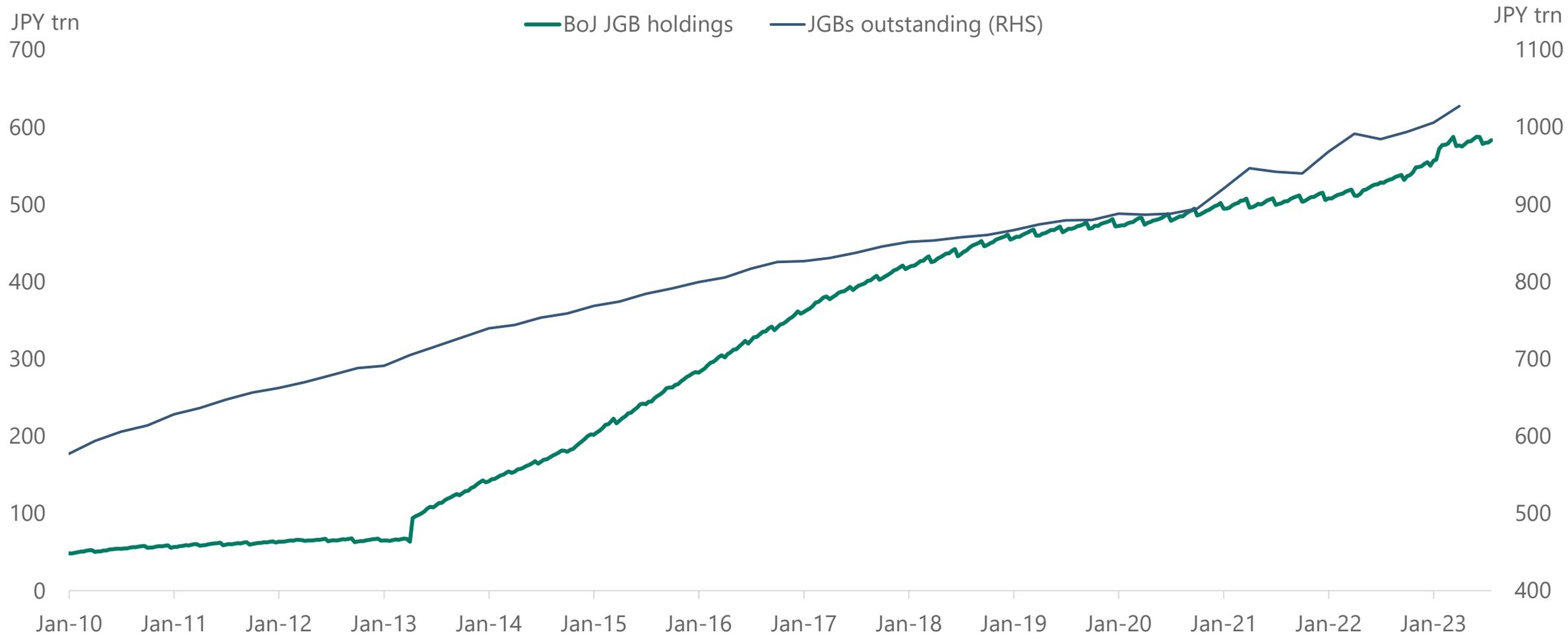
BoJ bond buying since 2013

JPY trn

BOJ's daily government bond purchases

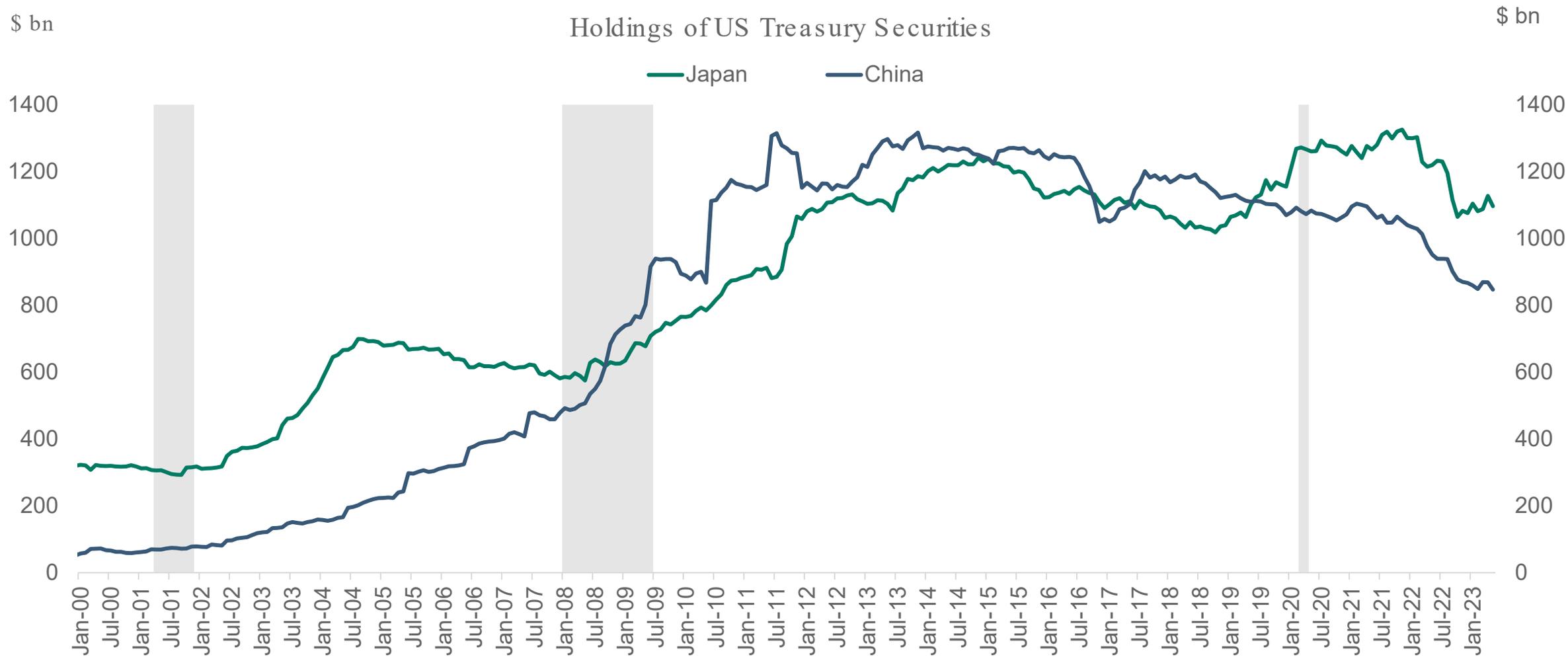


The BoJ owns more than 50% of Japanese government bonds



Source: BoJ, Bloomberg, Apollo Chief Economist

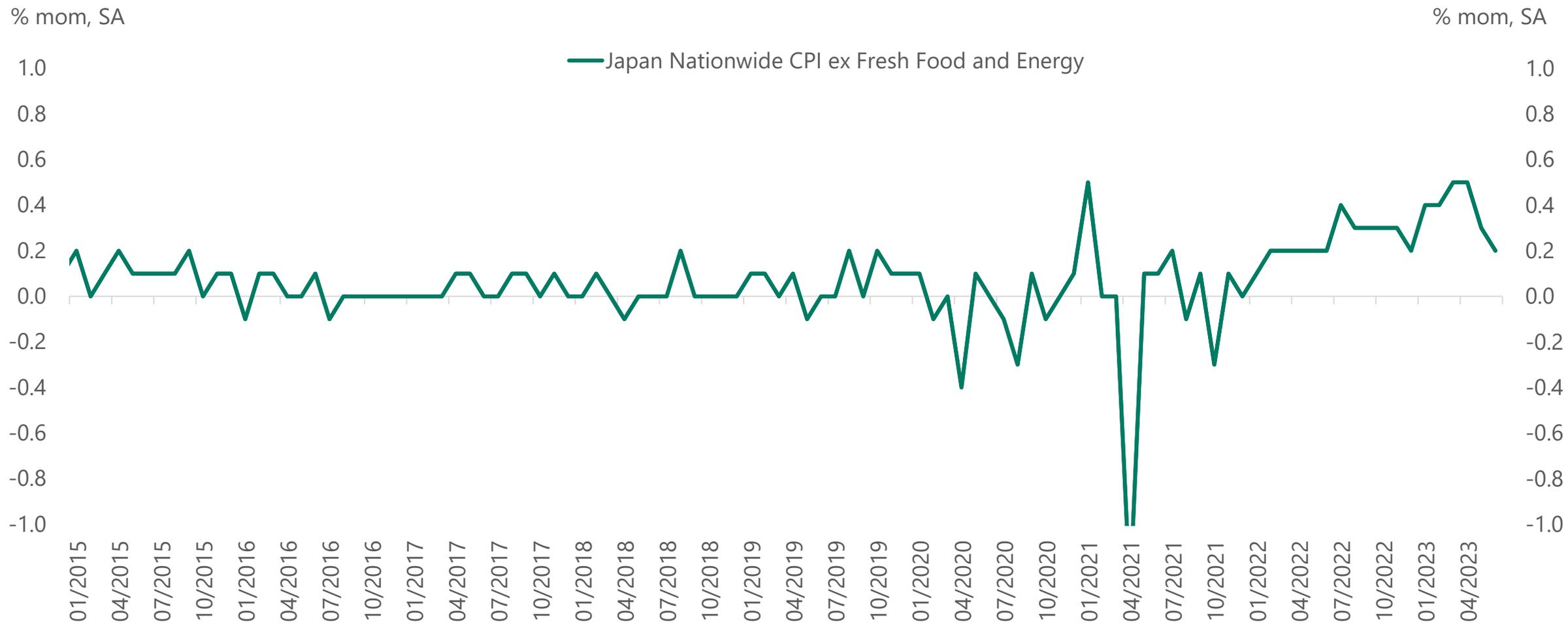
Japan owns more than \$1trn in US Treasuries, more than China



Source: Bloomberg, Apollo Chief Economist

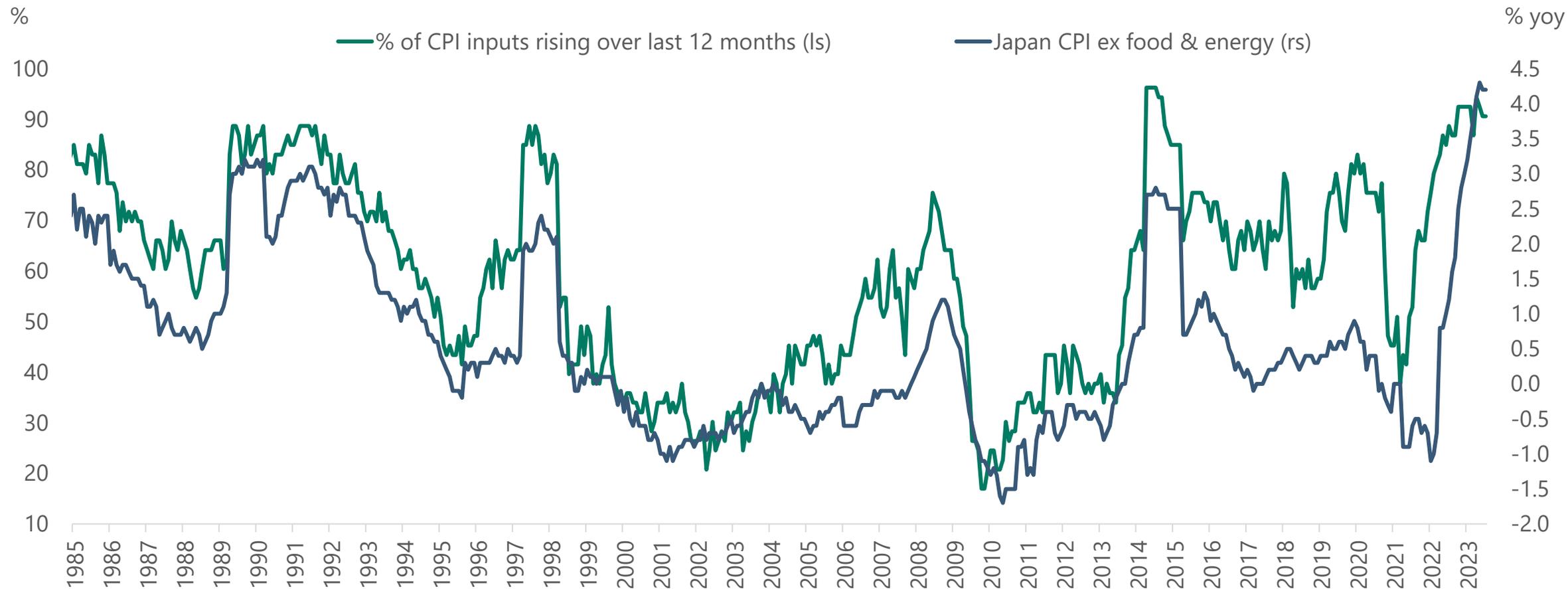
Macro background

Japan core inflation highest since 1982

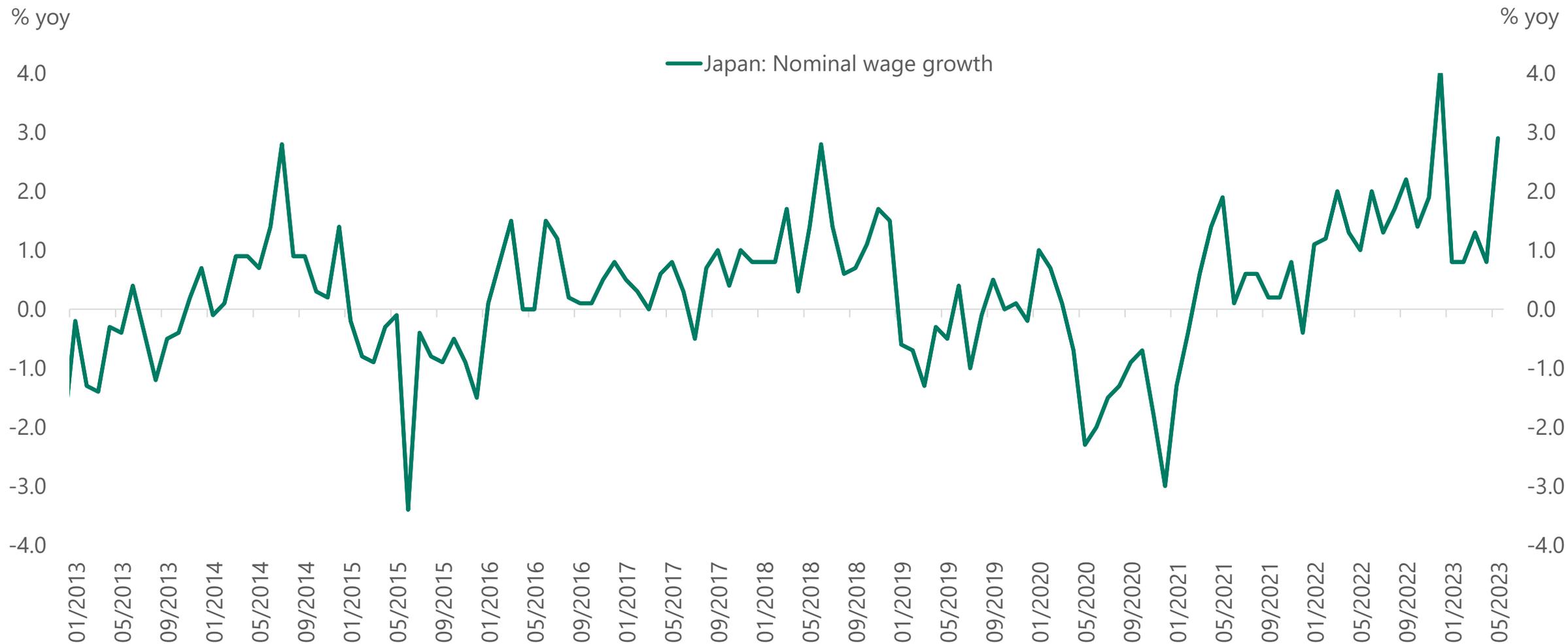


Source: Bloomberg, Apollo Chief Economist

Structural rise in CPI

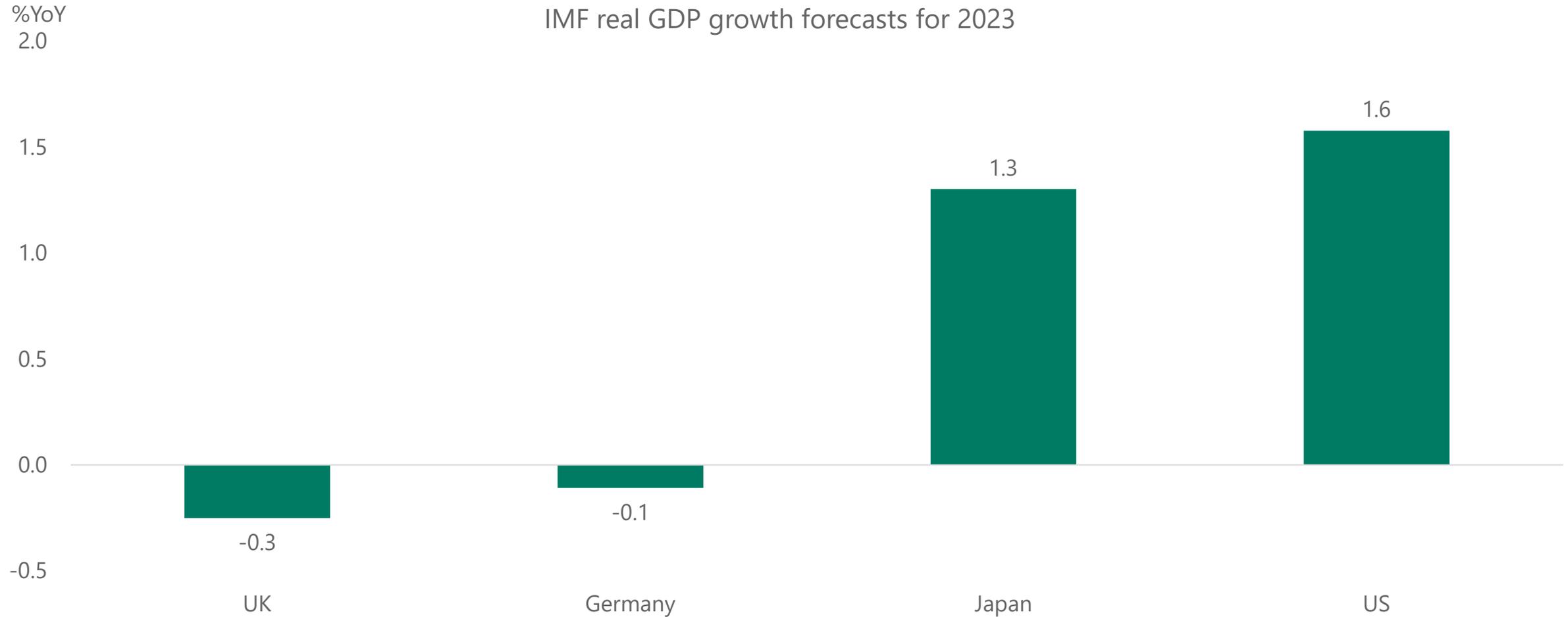


Wage growth trending higher

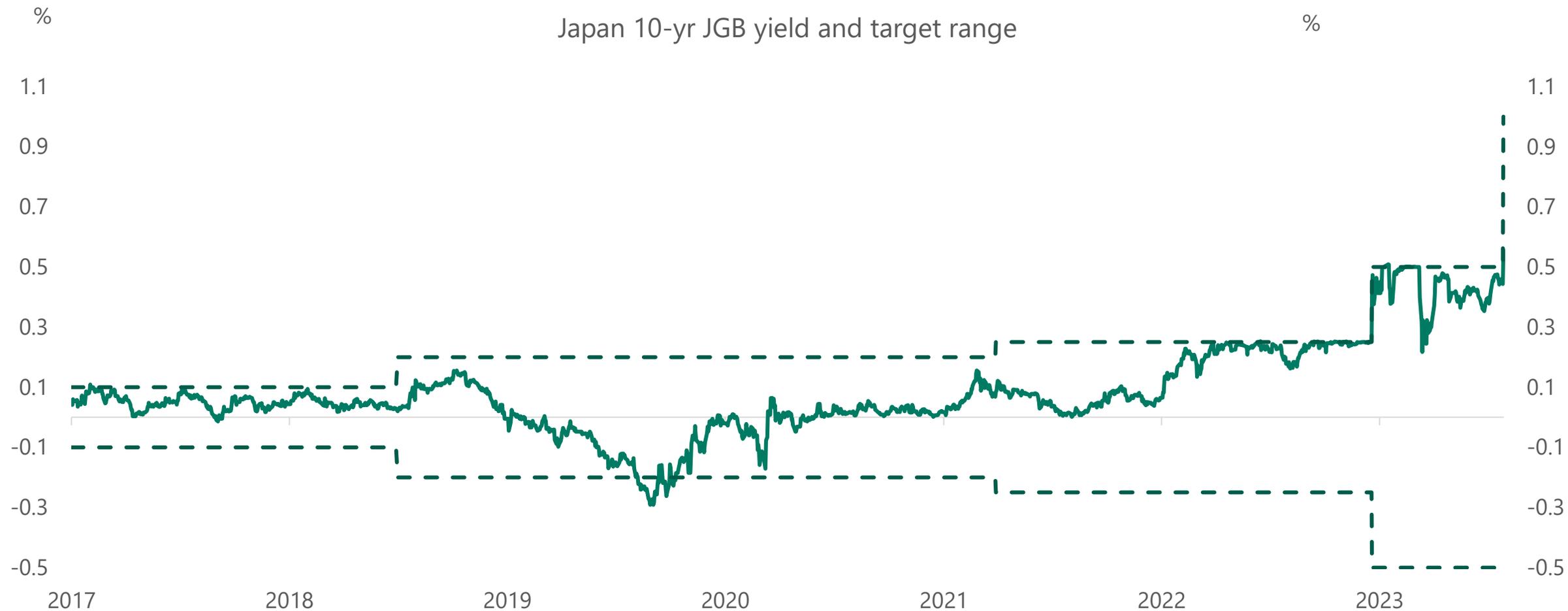


Source: Bloomberg, Apollo Chief Economist (The BOJ has positioned wage growth of at least 3% as a prerequisite for stable achievement of its 2% inflation target.)

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



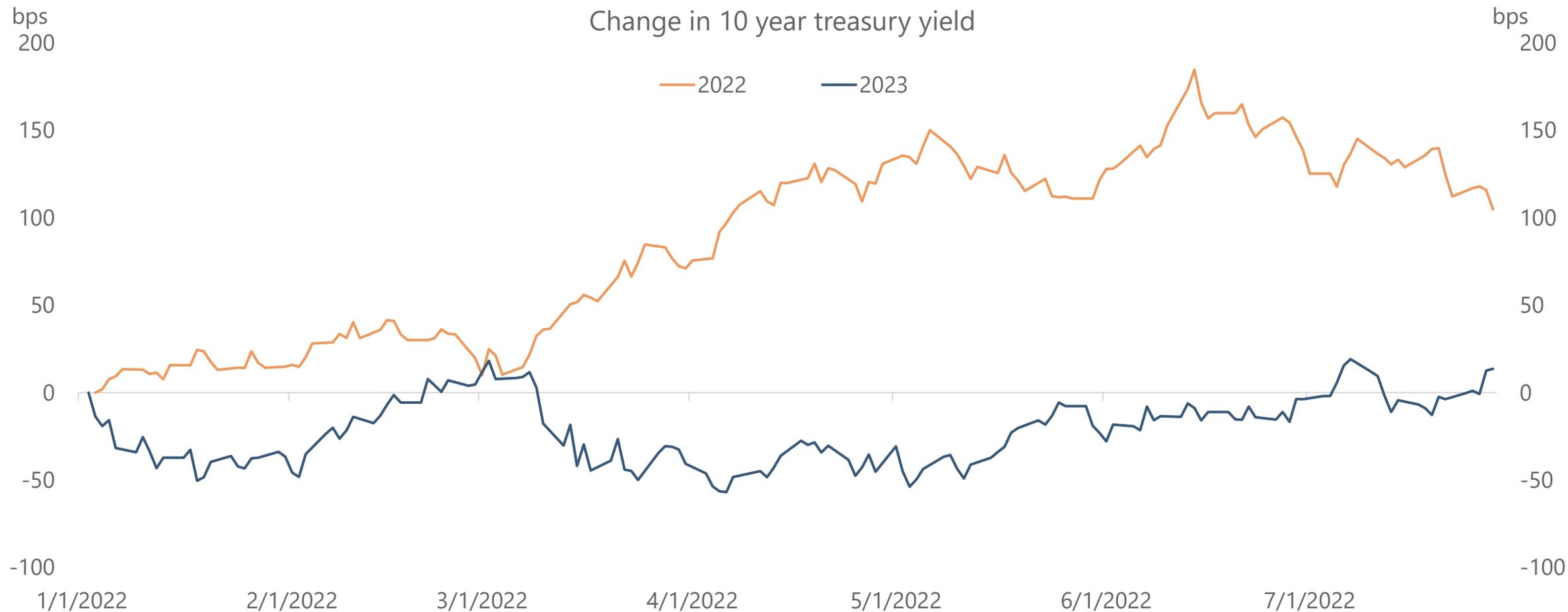
Japan 10-year yield



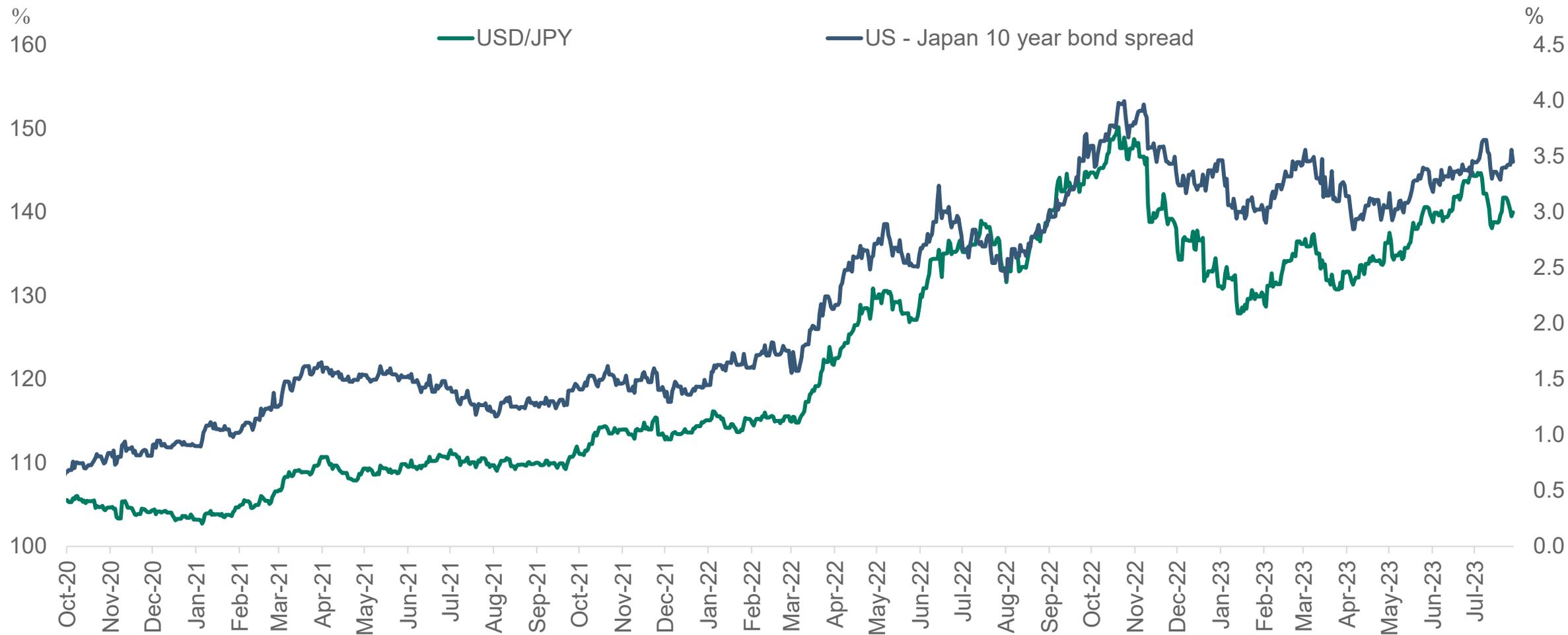
US 2s and 10s



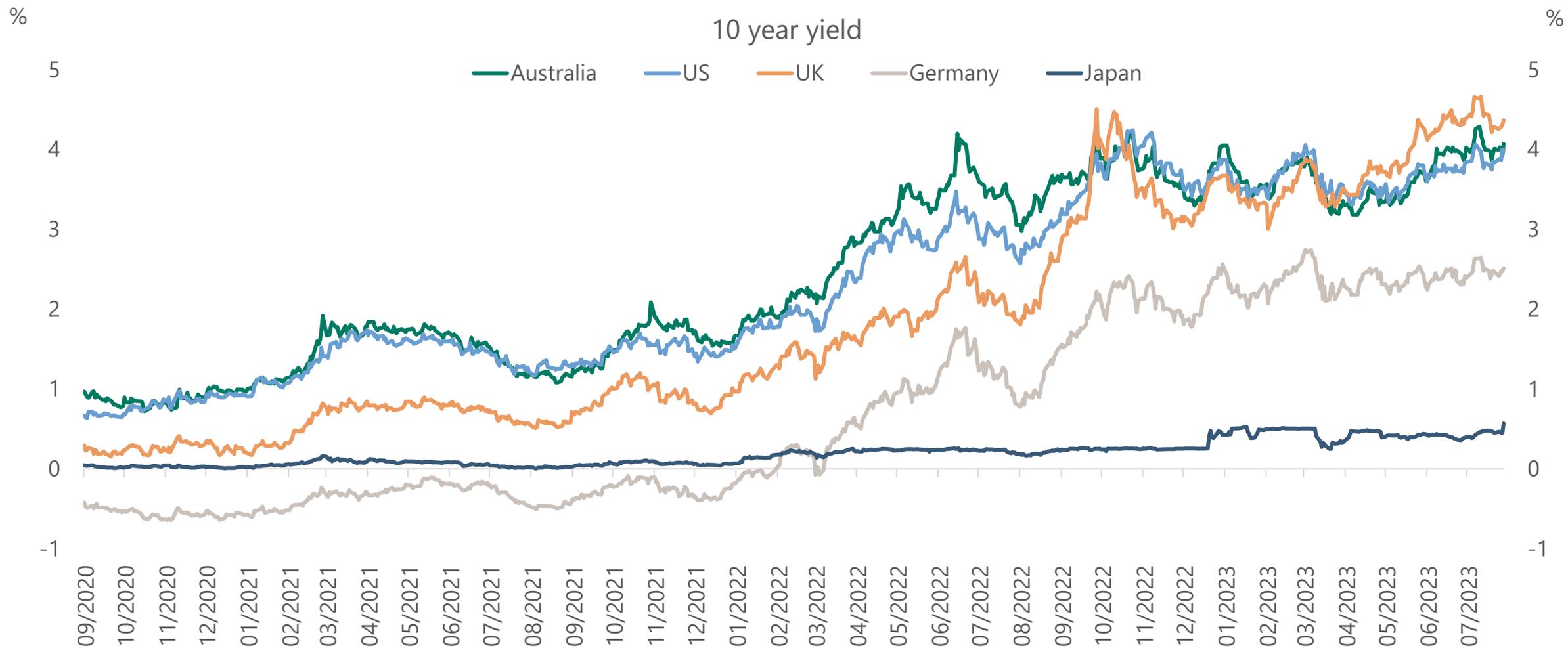
US 10-year rates up in 2022 and sideways in 2023



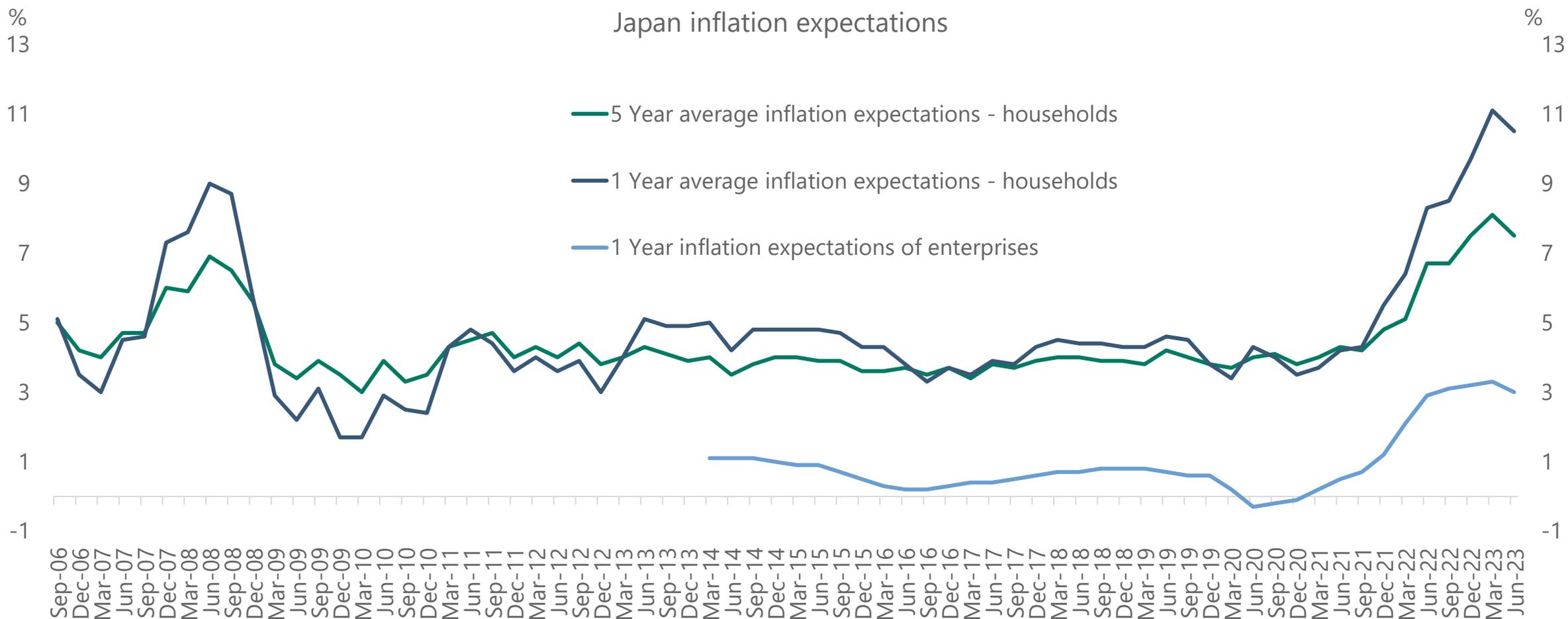
USDJPY and US/JP 10s recently diverged



Abandoning YCC allows Japan's 10-year yields to rise

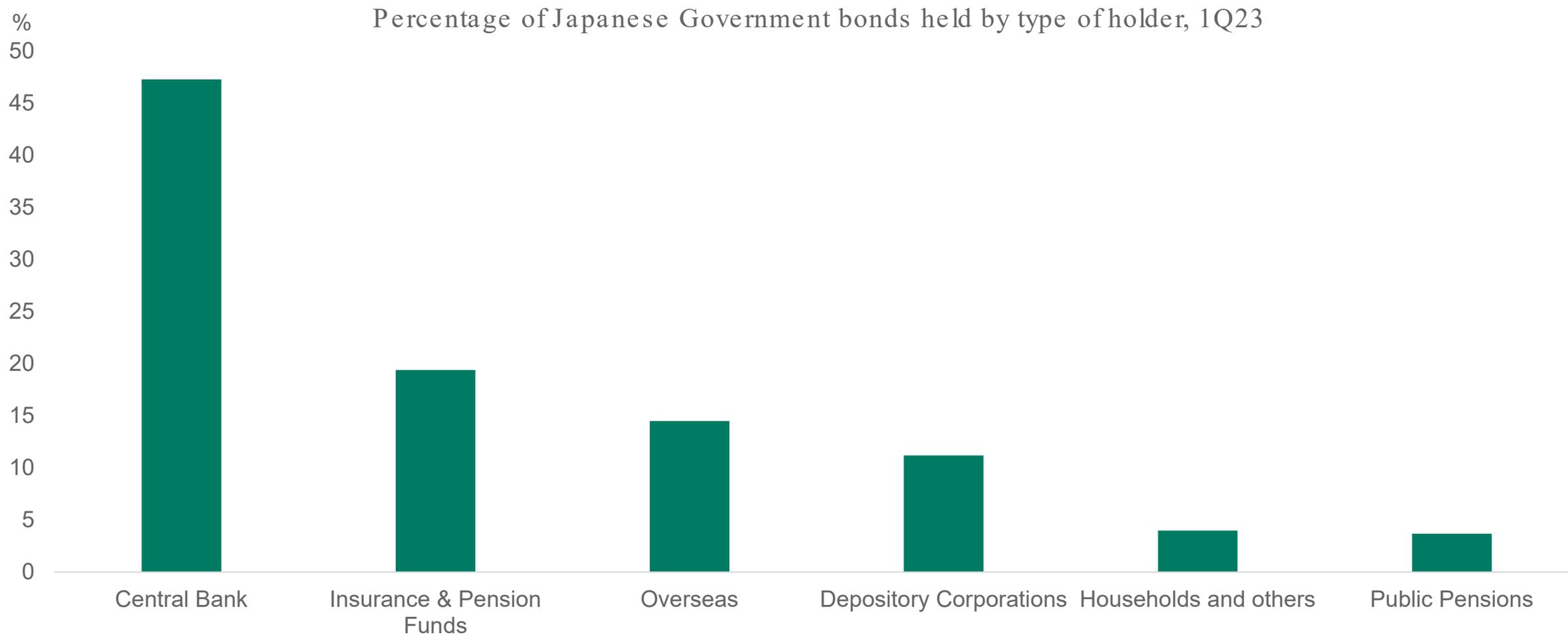


Japanese inflation expectations rising



BoJ JGB purchases and holdings

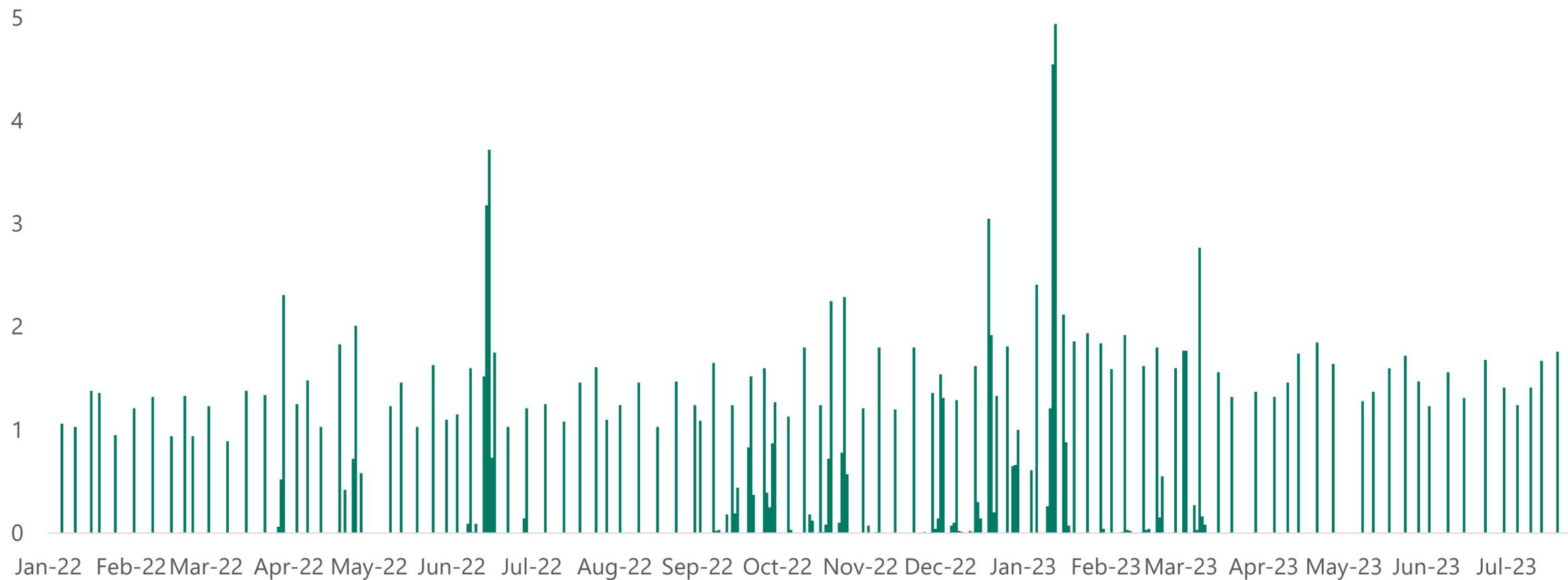
47% Japanese government debt held by BoJ



BOJ's bond buying since 2022

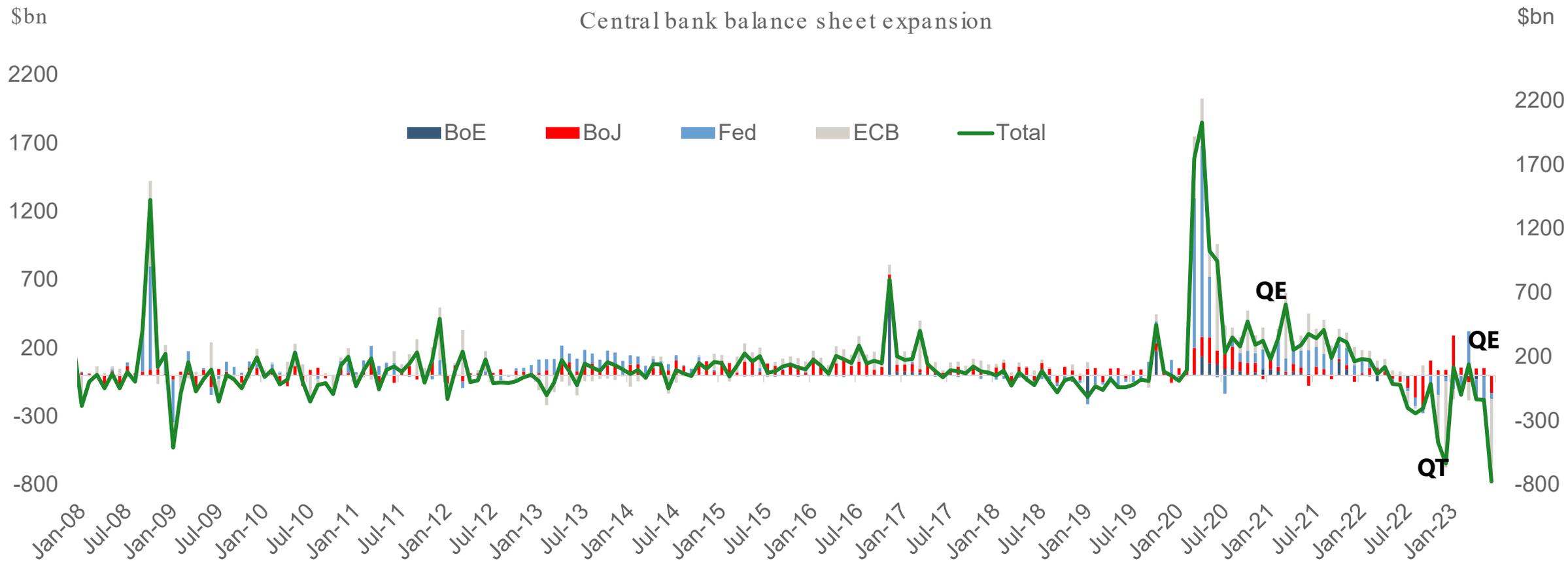
JPY trn

BOJ's daily government bond purchases



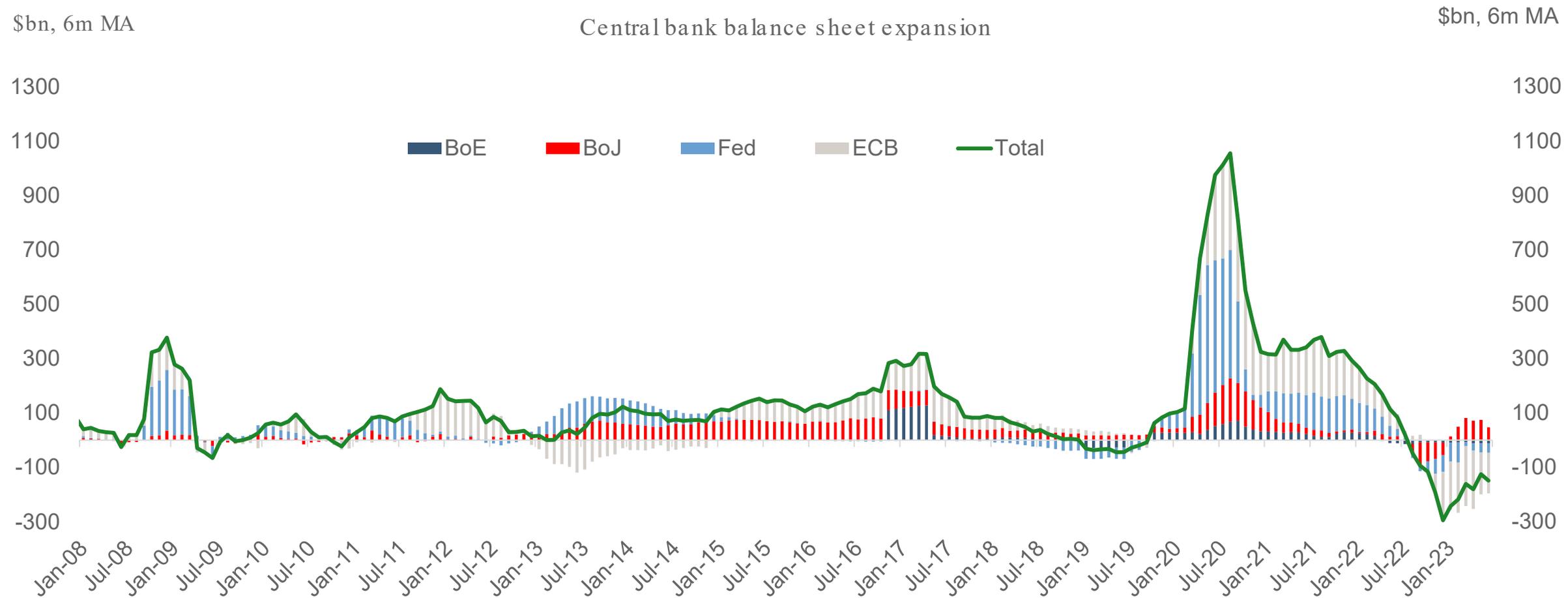
Source: Bloomberg, Apollo Chief Economist

From QE to QT to QE to QT

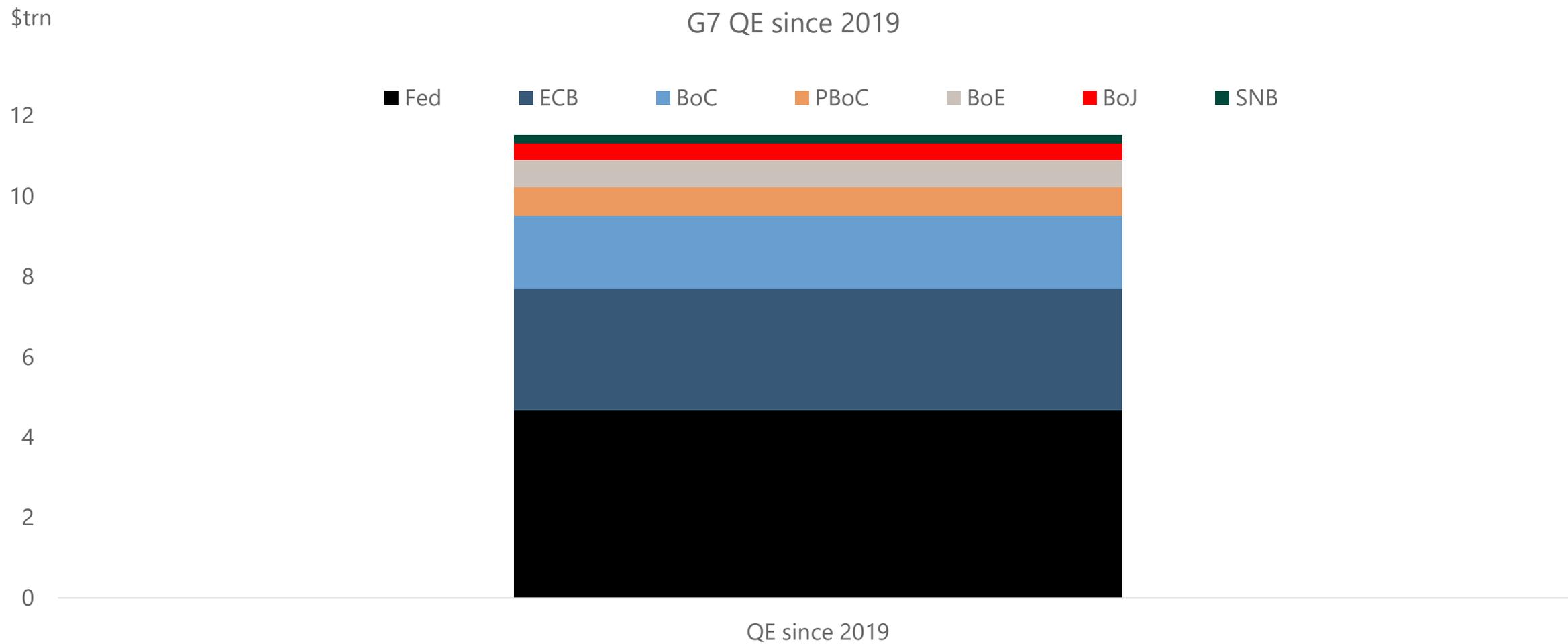


Source: Bloomberg, Apollo Chief Economist

G4 Central bank balance sheets

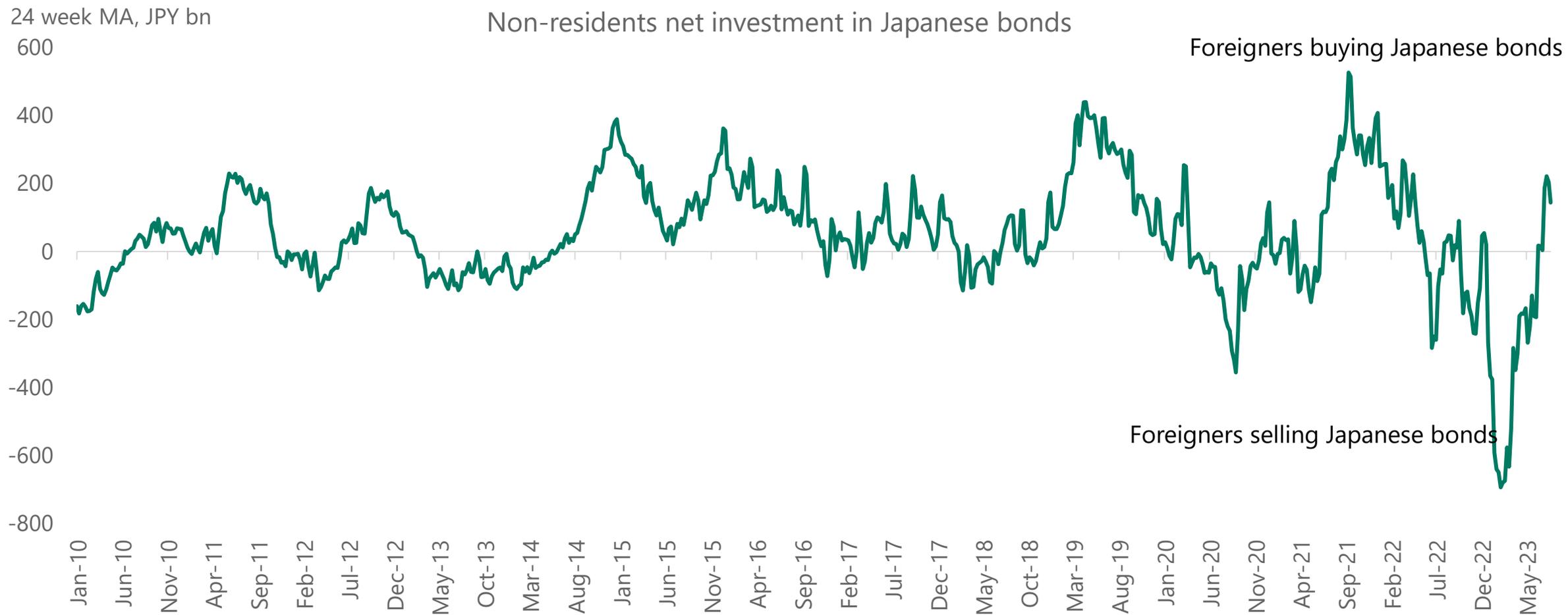


Central bank balance sheet expansions since 2019



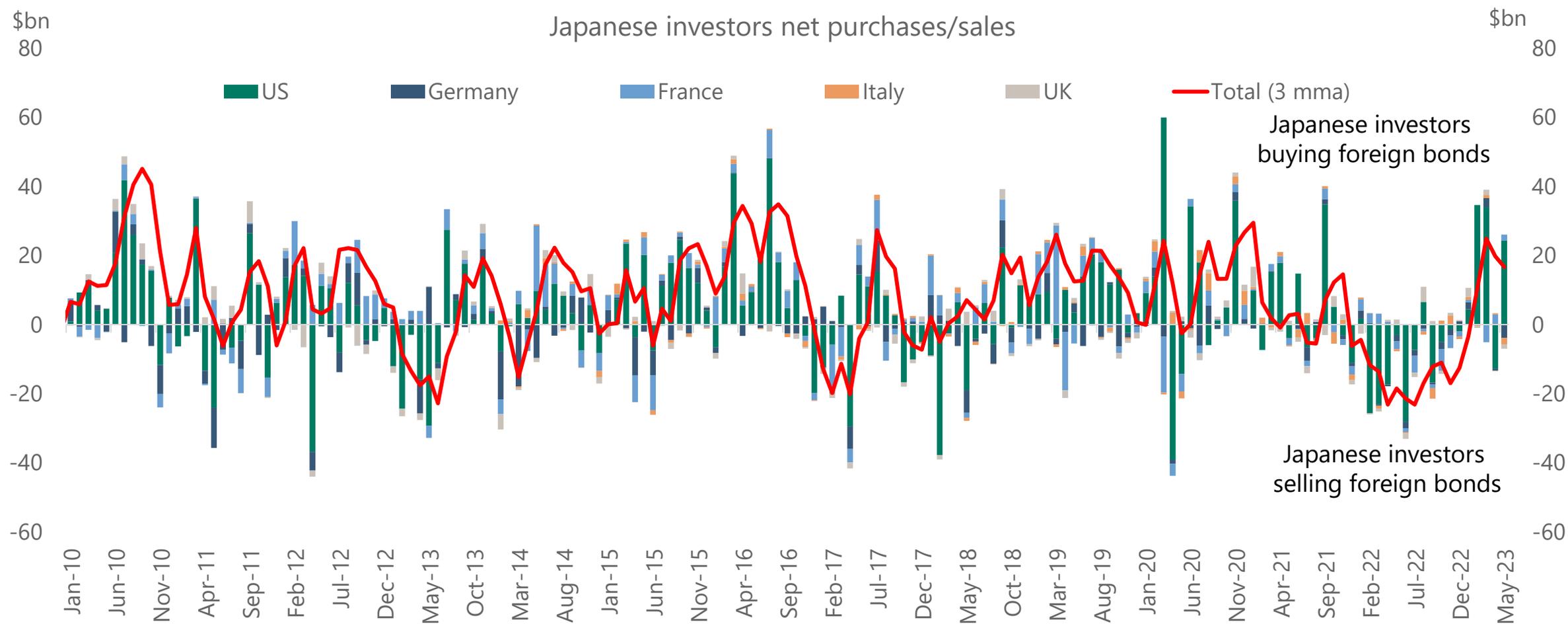
Bond flows in and out of Japan

Foreign net purchases of Japanese bonds



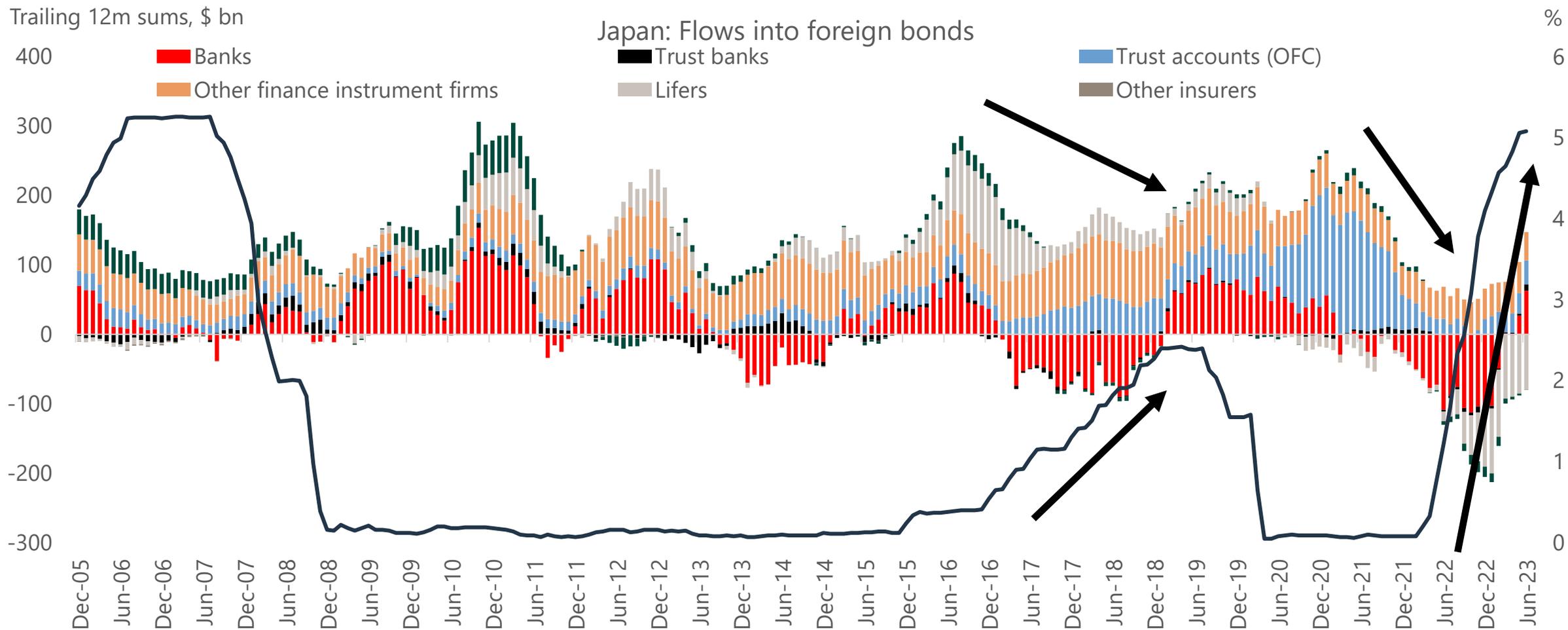
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Japanese investors buying Treasuries

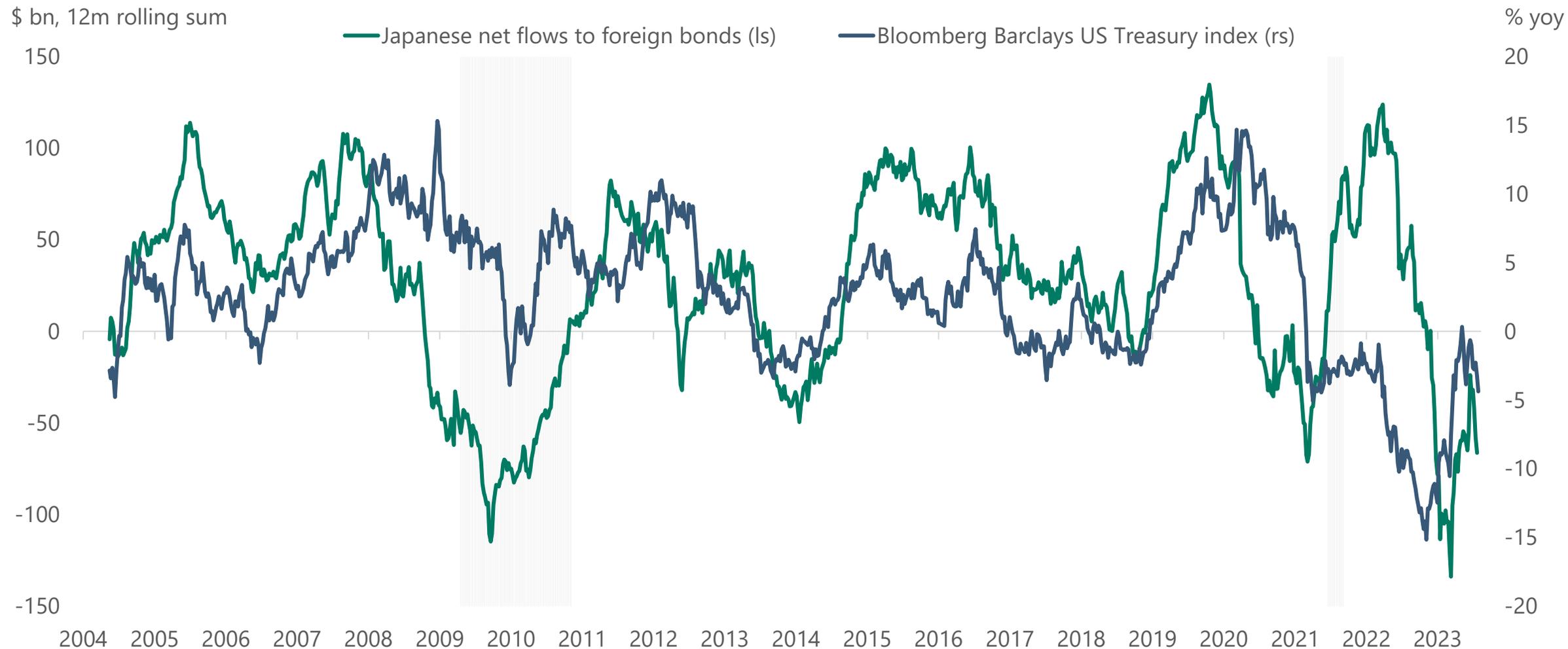


Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

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

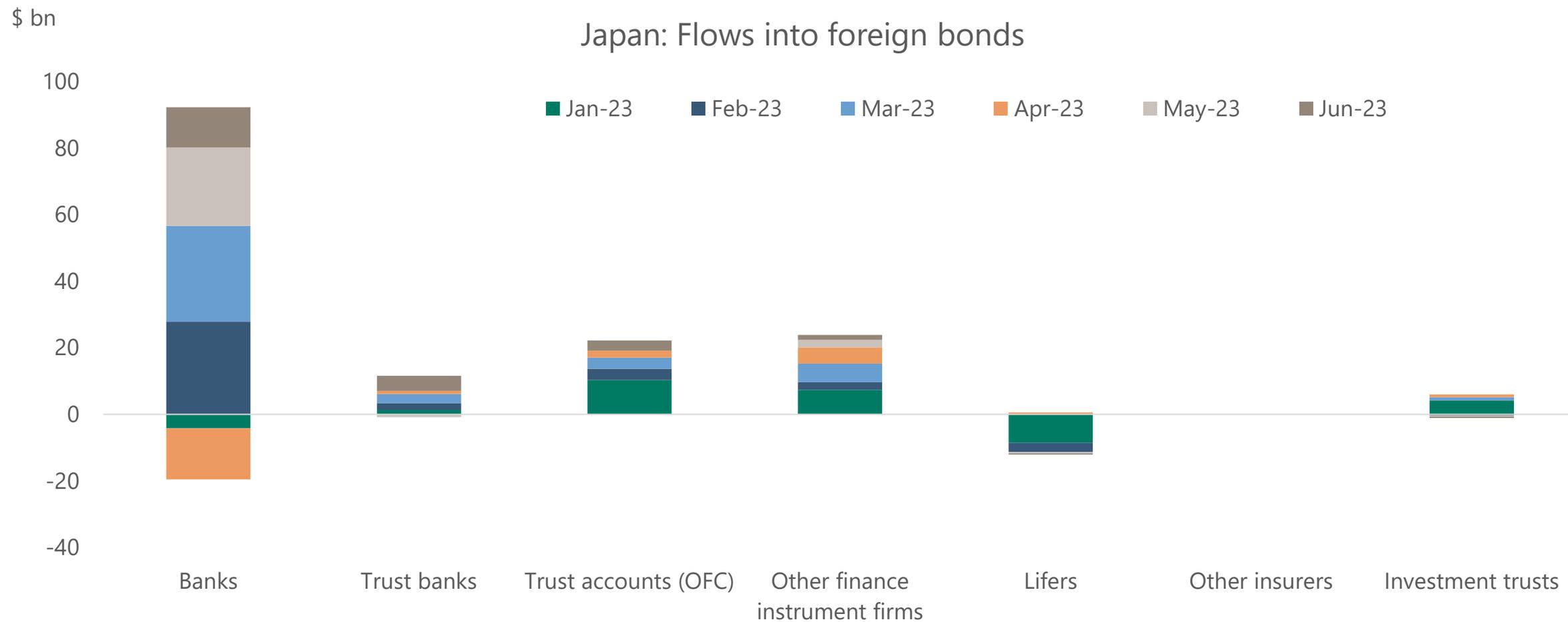


When US rates went up Japanese investors started selling US fixed income



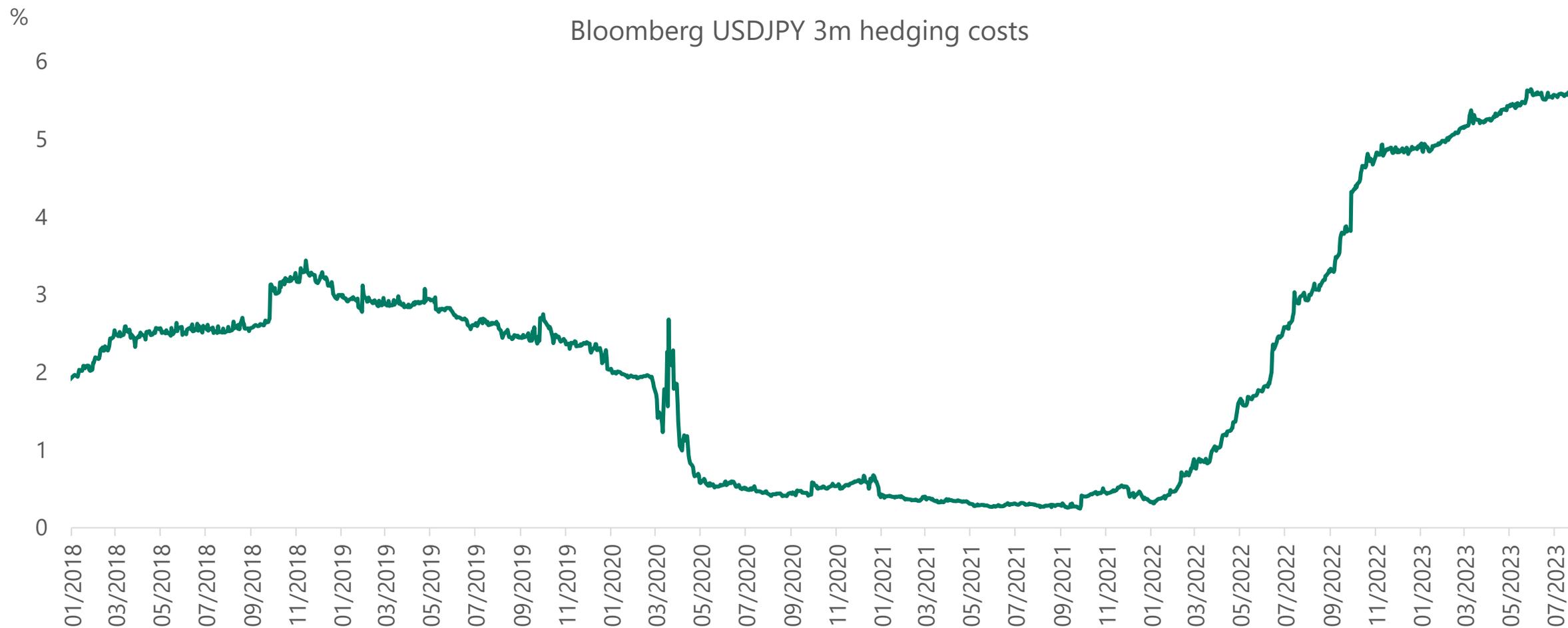
Source: Bloomberg, Apollo Chief Economist

Japan: Banks continued to buy foreign bonds



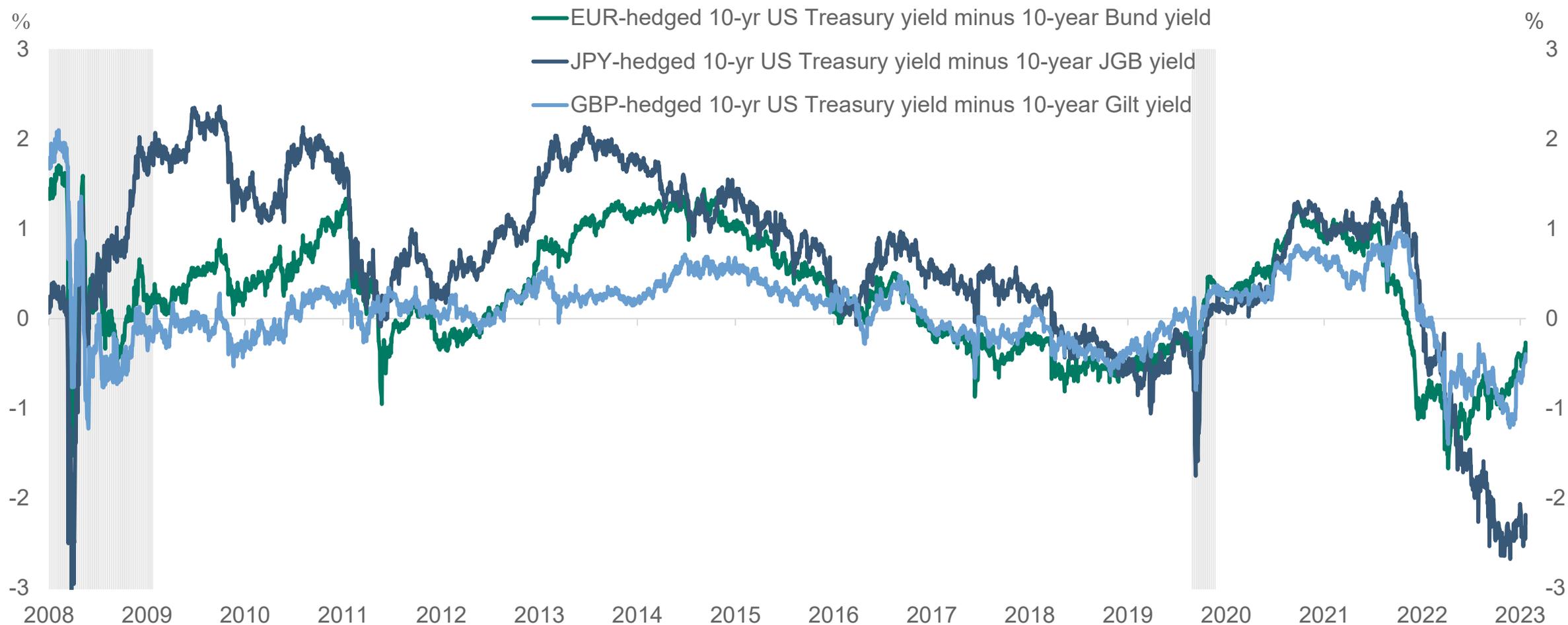
Japanese banks

Dollar-hedging costs for Japanese investors

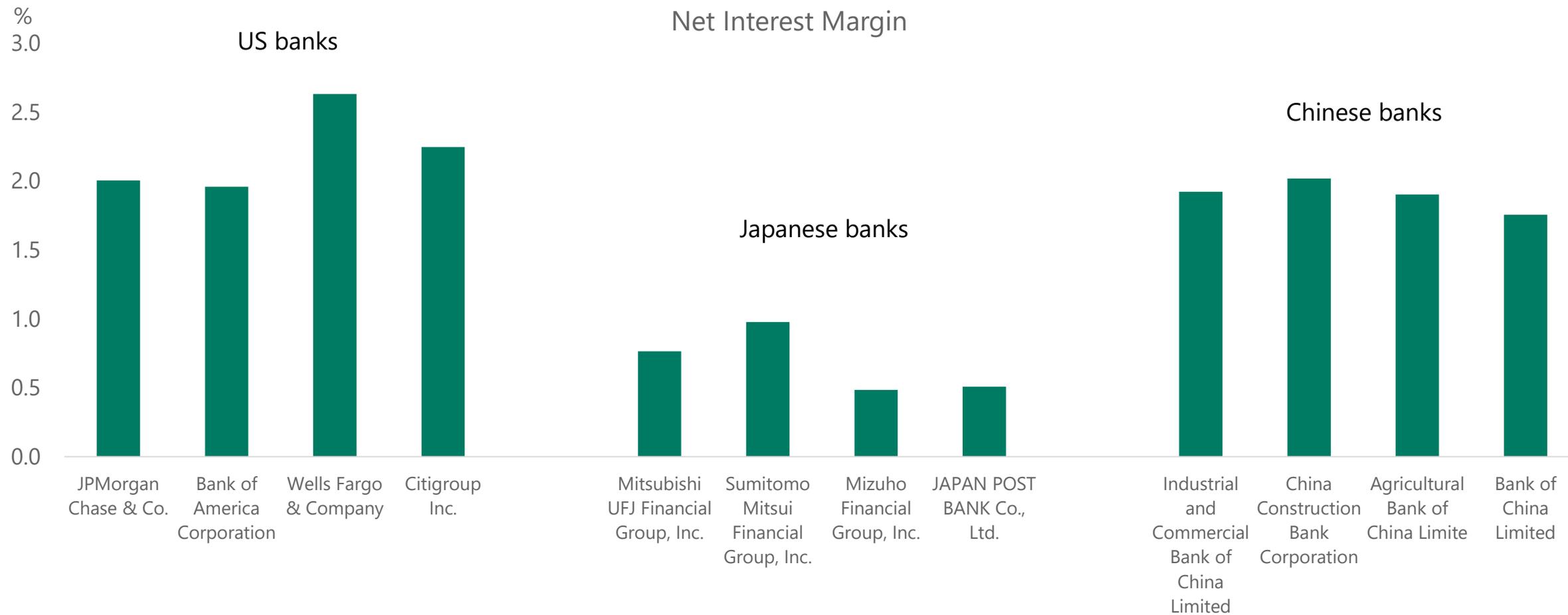


Source: Bloomberg, Apollo Chief Economist

Negative returns from holding JPY-hedged Treasury yields

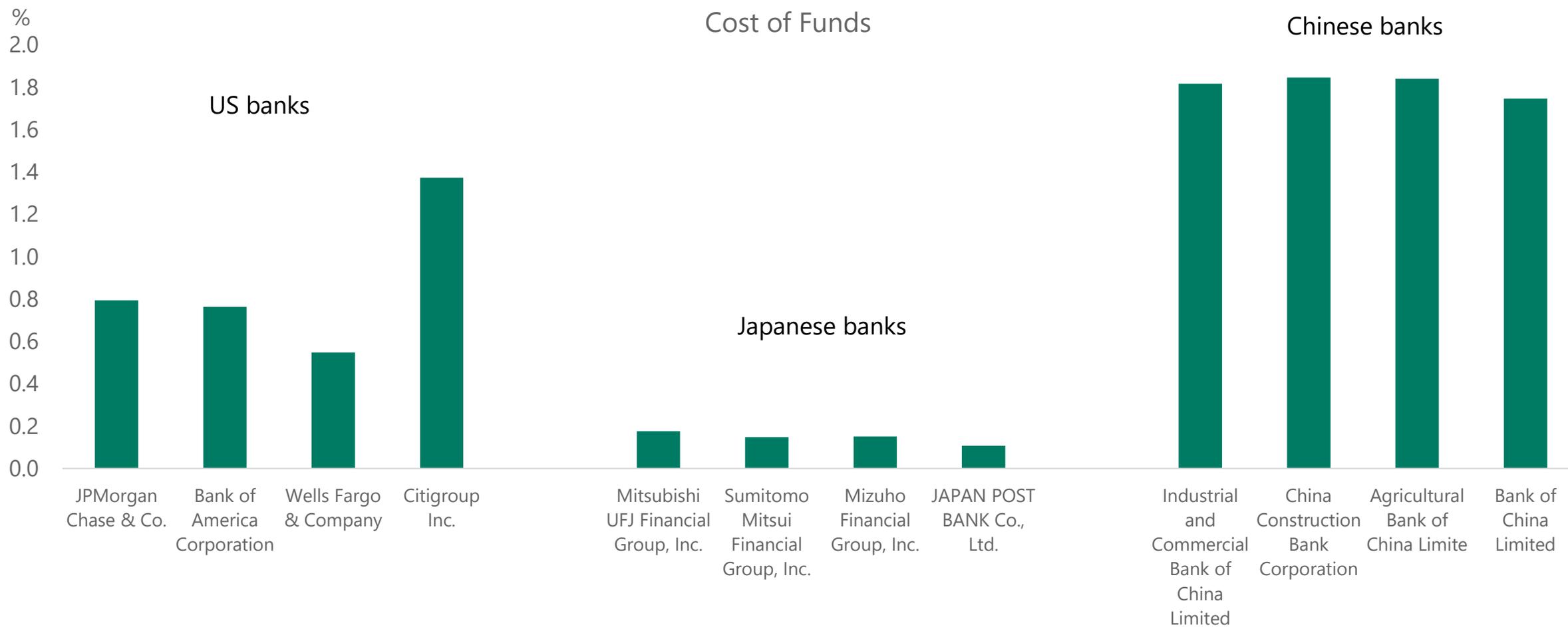


NIM for banks: US, Japan, and China

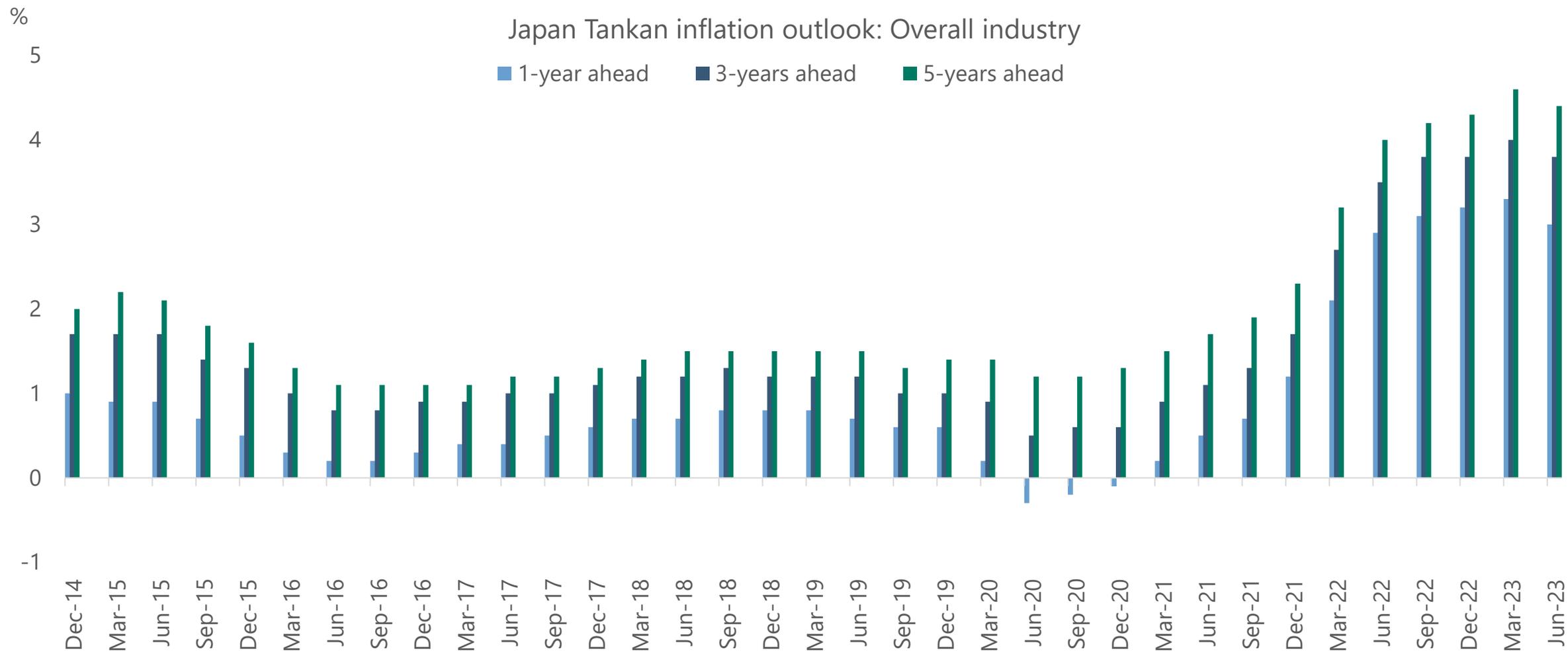


Source: S&P, Apollo Chief Economist

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



Inflation outlook





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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.