

APOLLO

Outlook for Japanese demand for US fixed income in 2024

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Apollo Global Management

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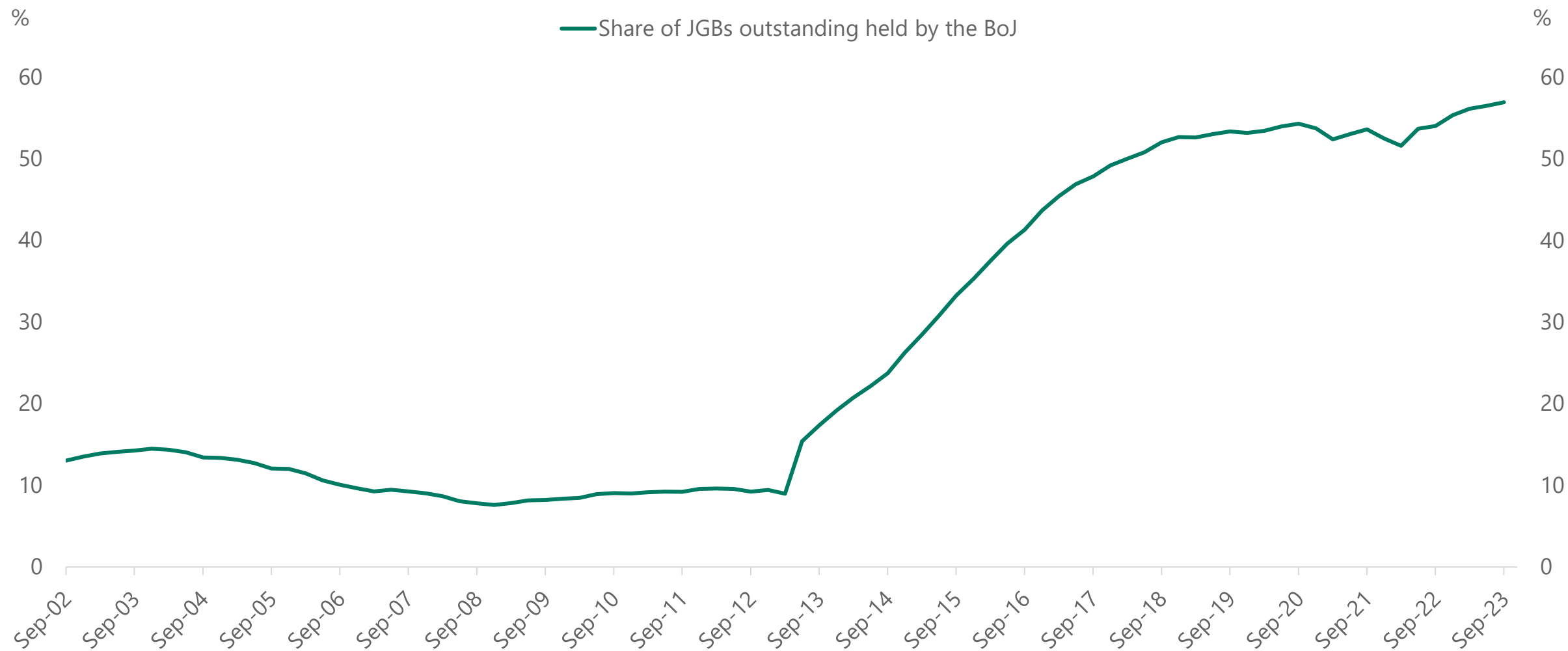
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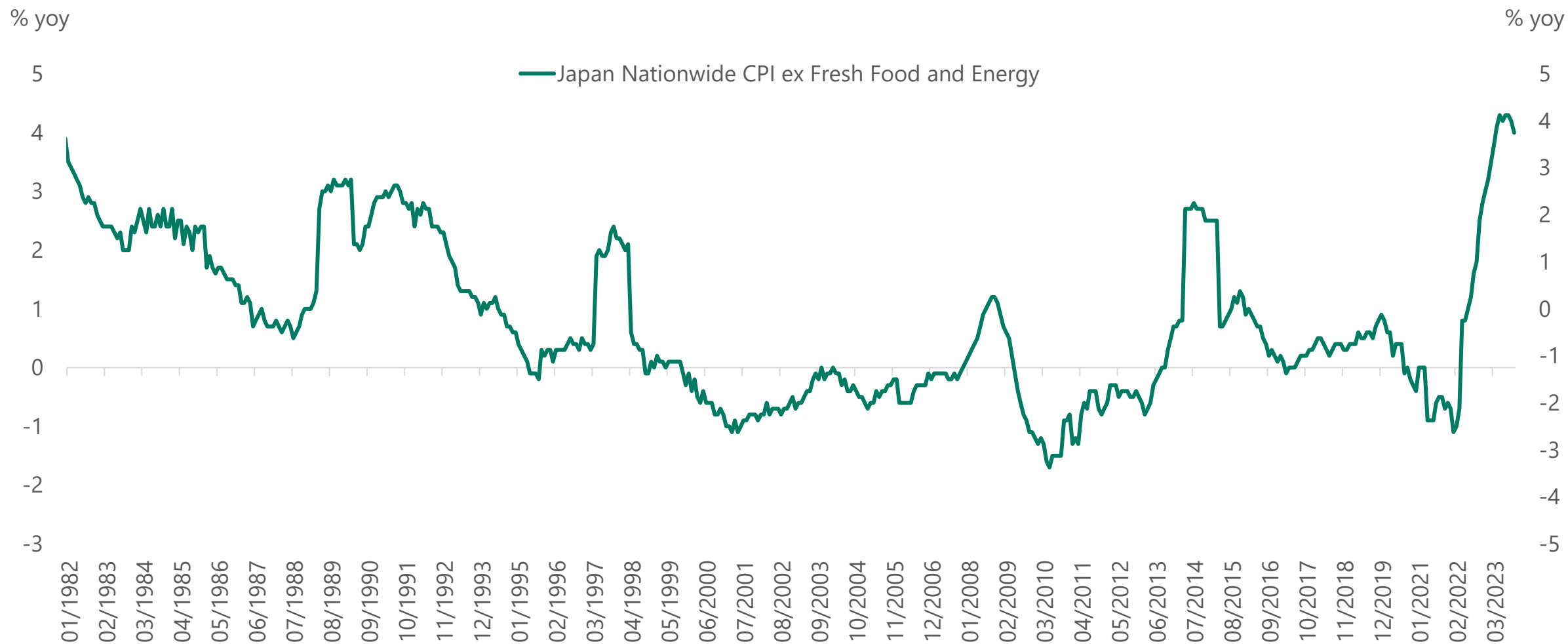


Overview

The BoJ owns almost 60% of Japanese government bonds outstanding

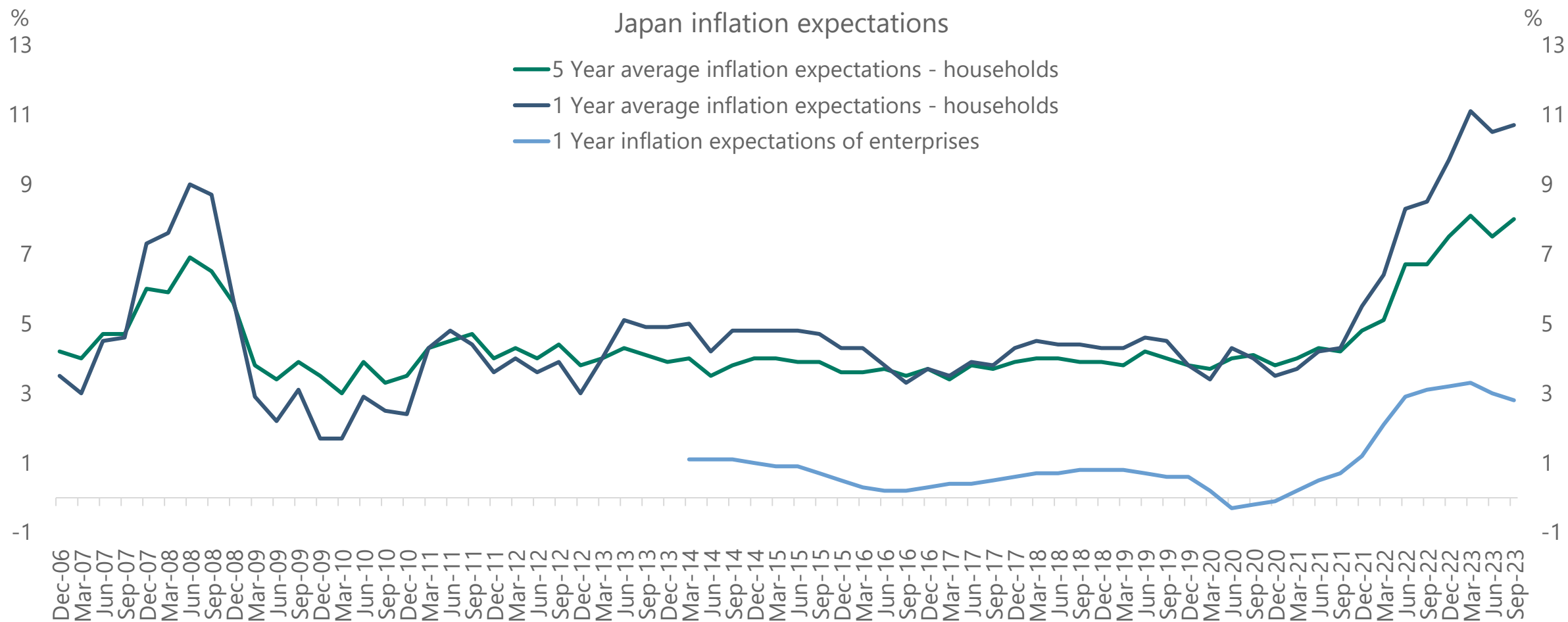


Japan core inflation at highest levels since 1982

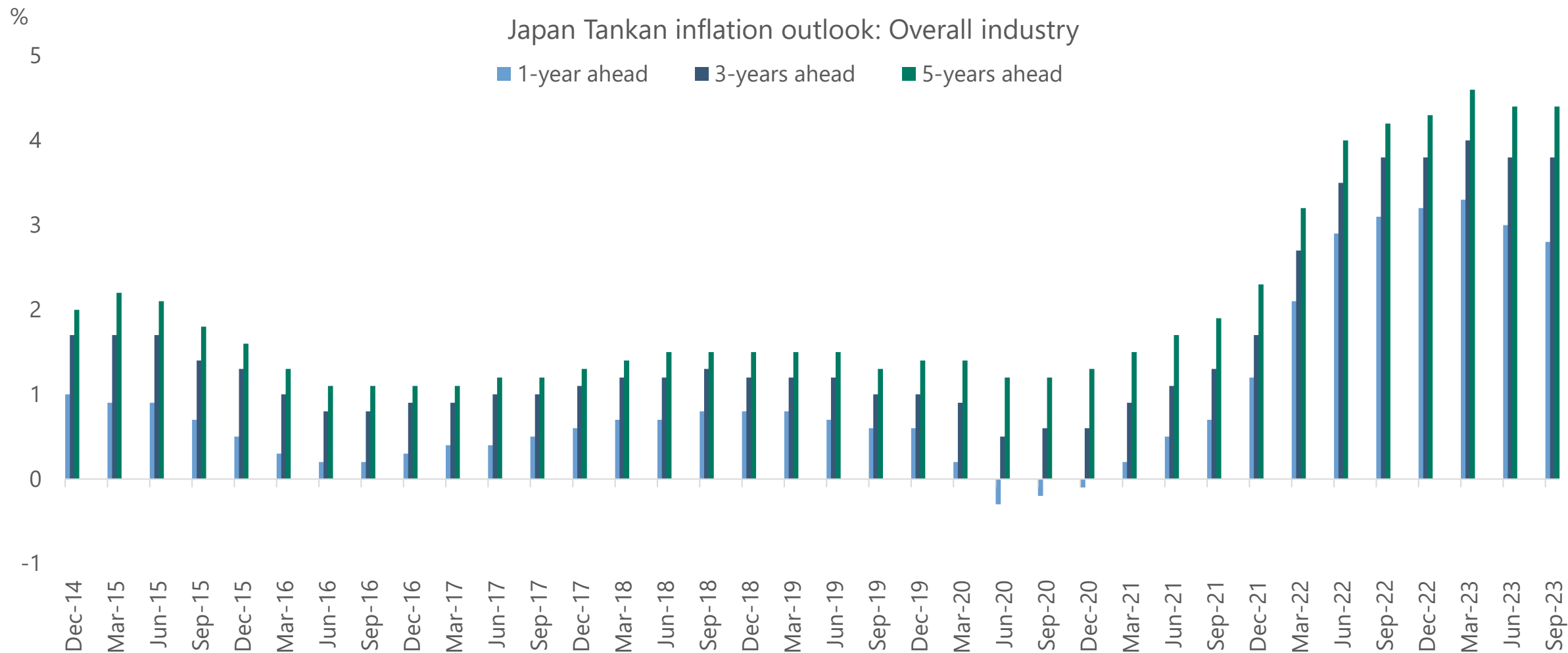


Source: Bloomberg, Apollo Chief Economist

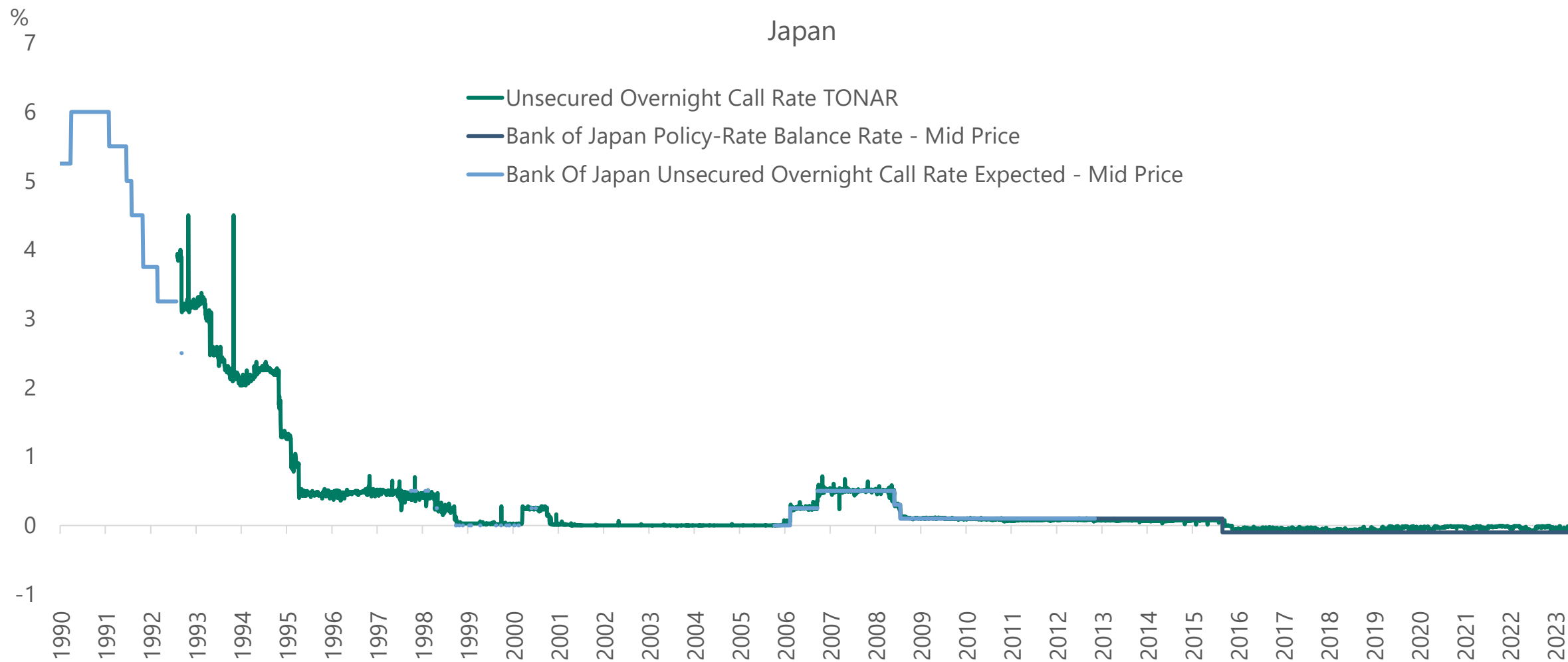
Japanese inflation expectations



Inflation outlook

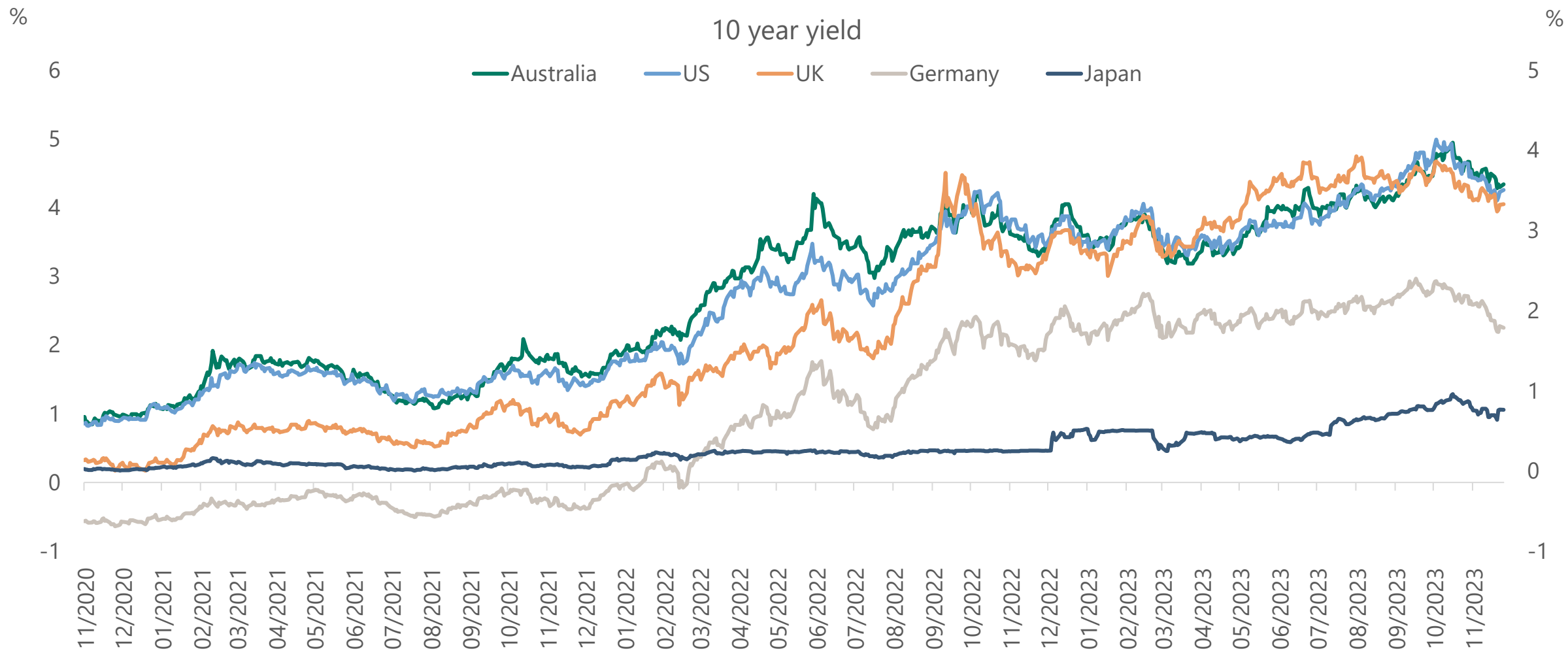


Japan: No rate hike since 2007

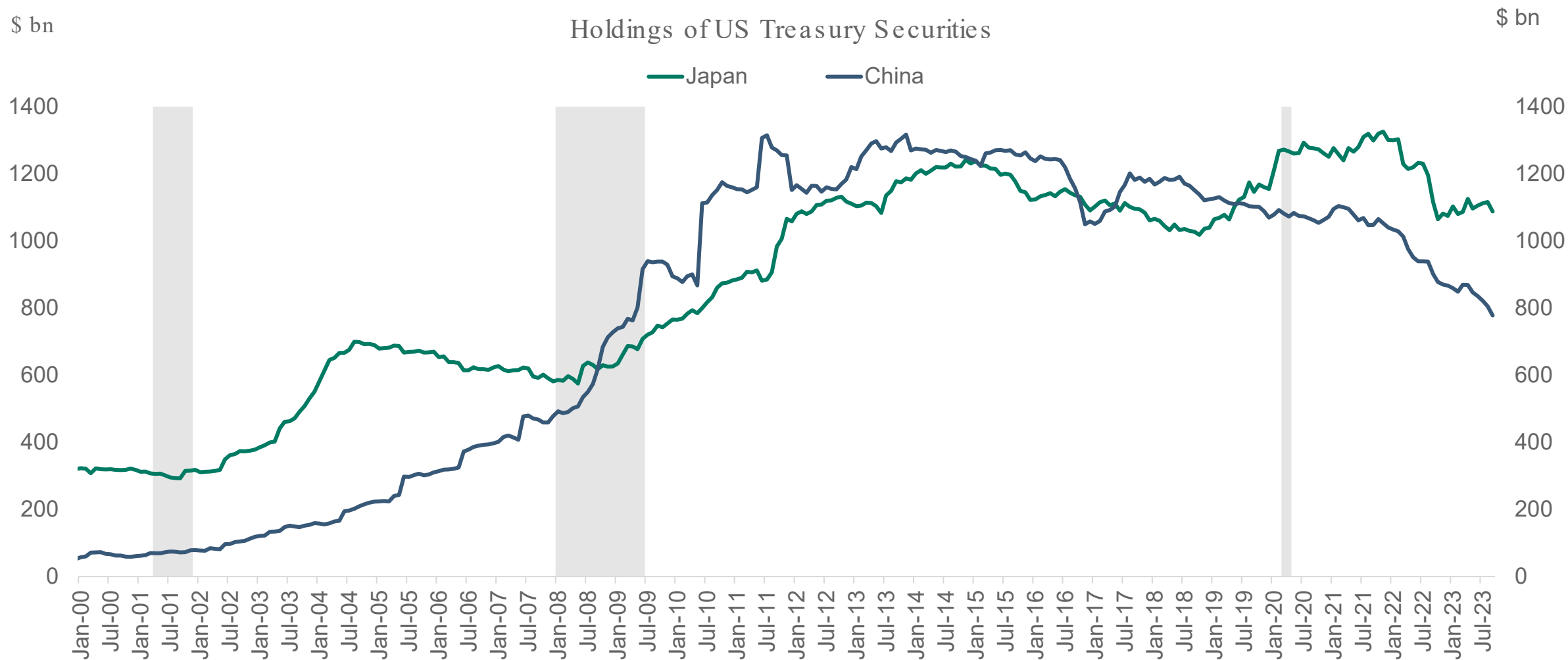


Source: Bloomberg, Apollo Chief Economist

Japanese long-term term interest rates remain very low



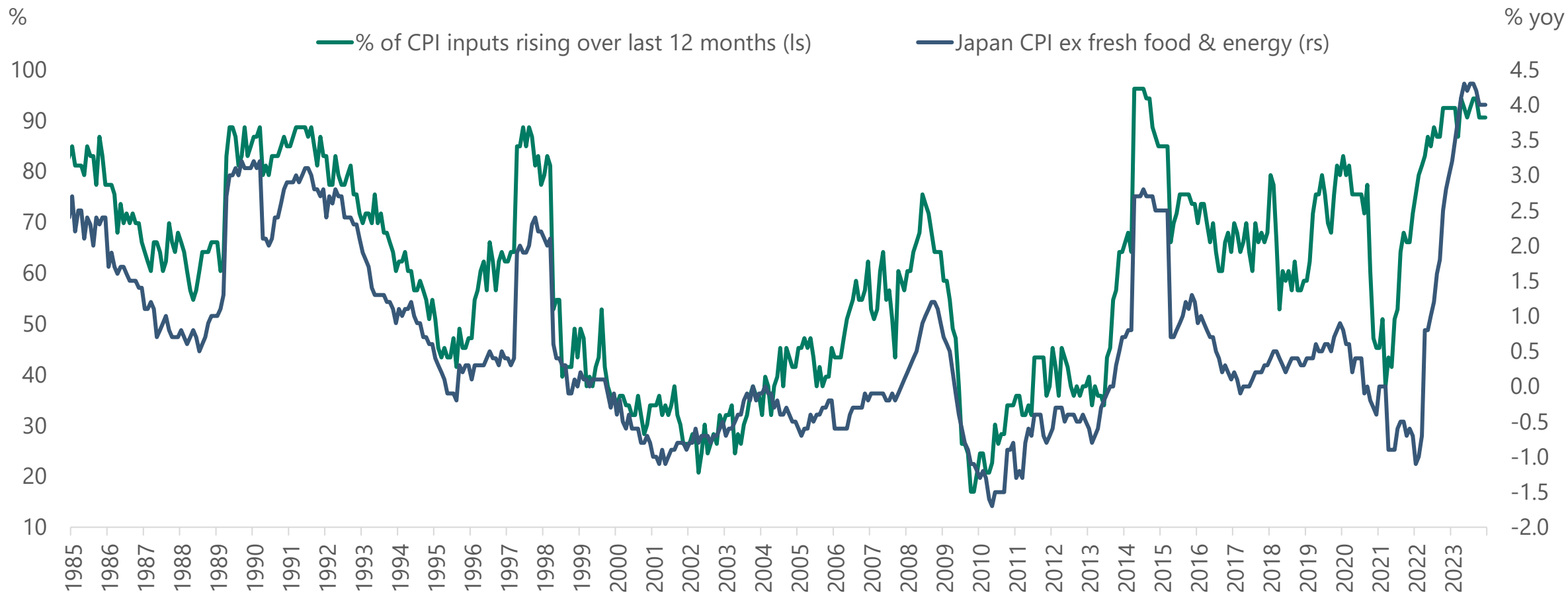
Japan owns more than \$1trn in US Treasuries, more than China



Source: Bloomberg, Apollo Chief Economist

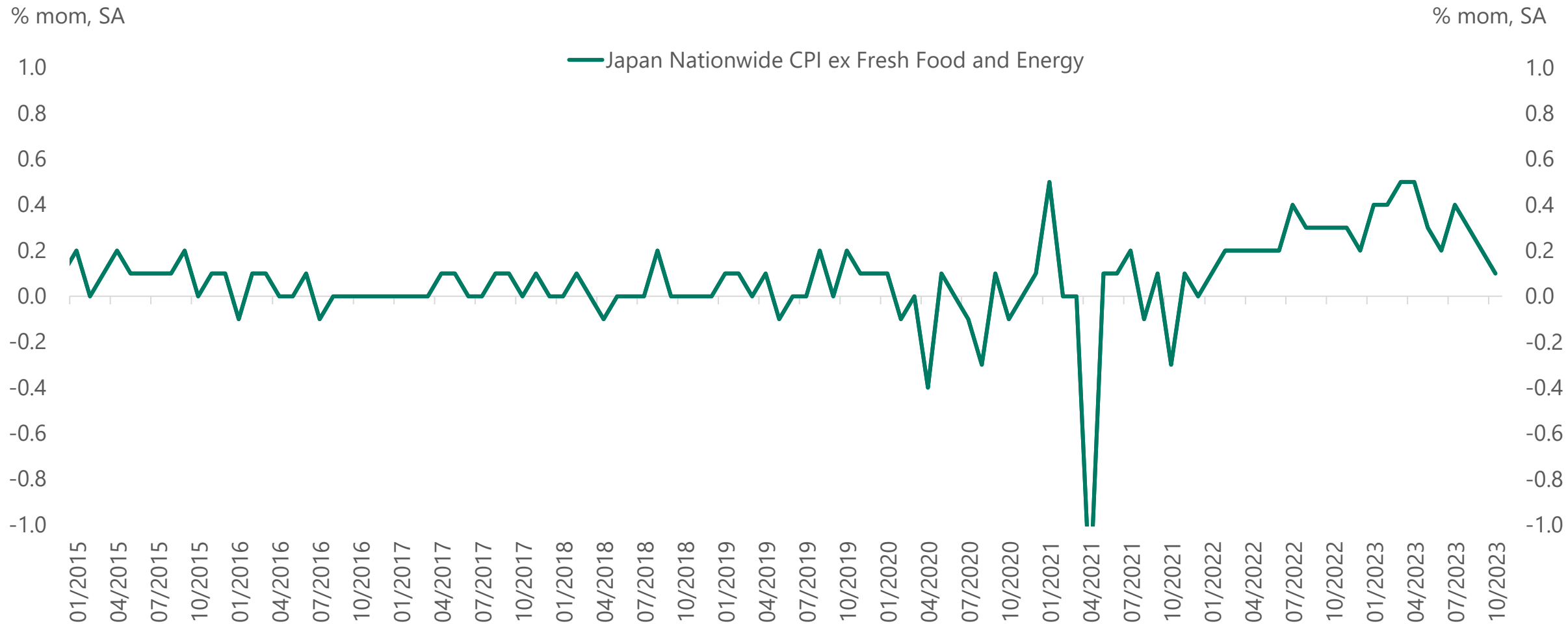
Macro background

Japan core CPI at 4%

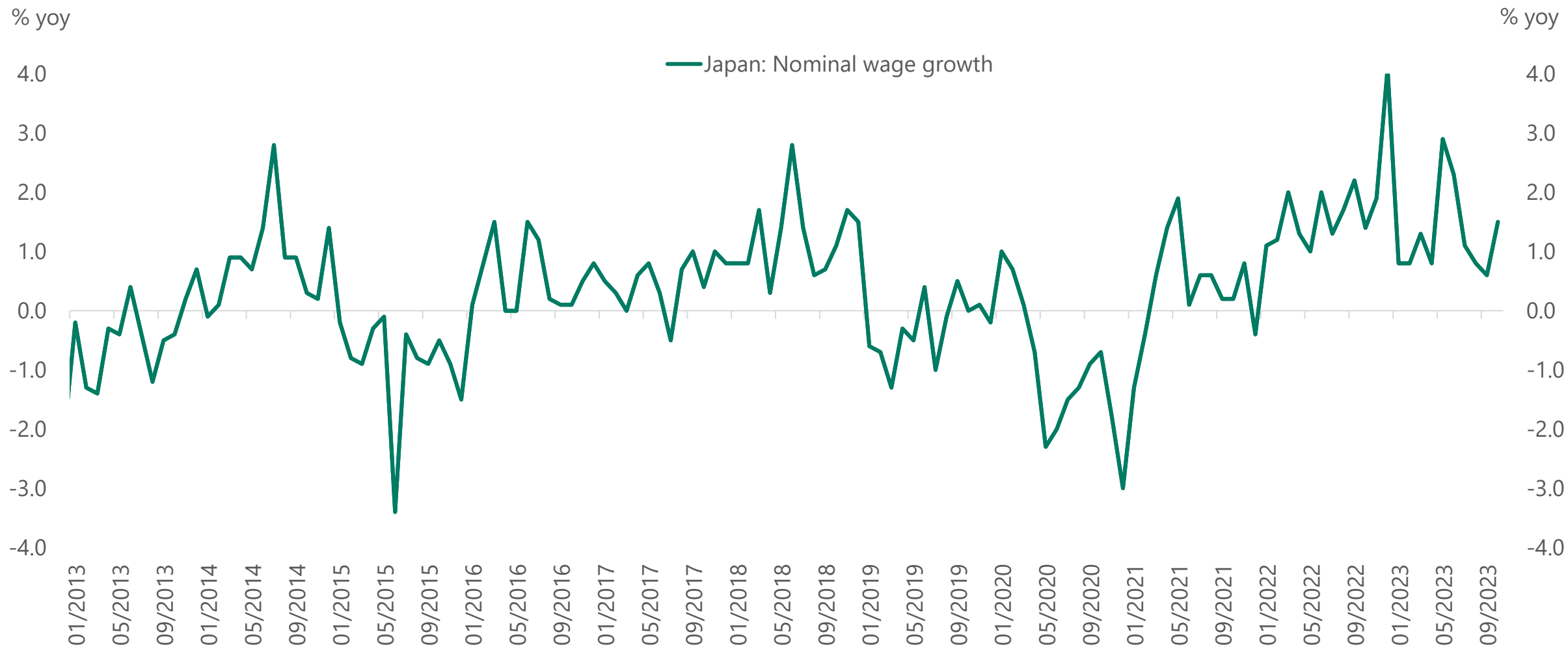


Source: Bloomberg, Apollo Chief Economist

Japan: Core inflation elevated

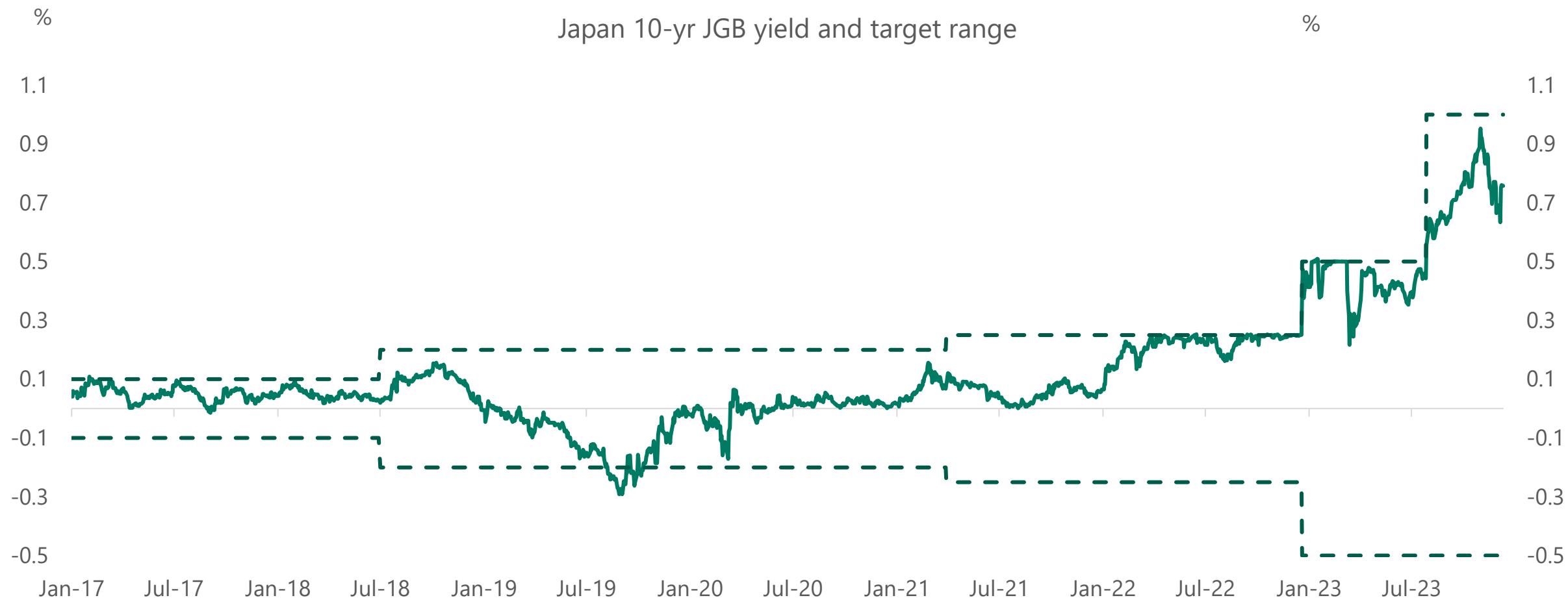


Japan: Wage inflation elevated

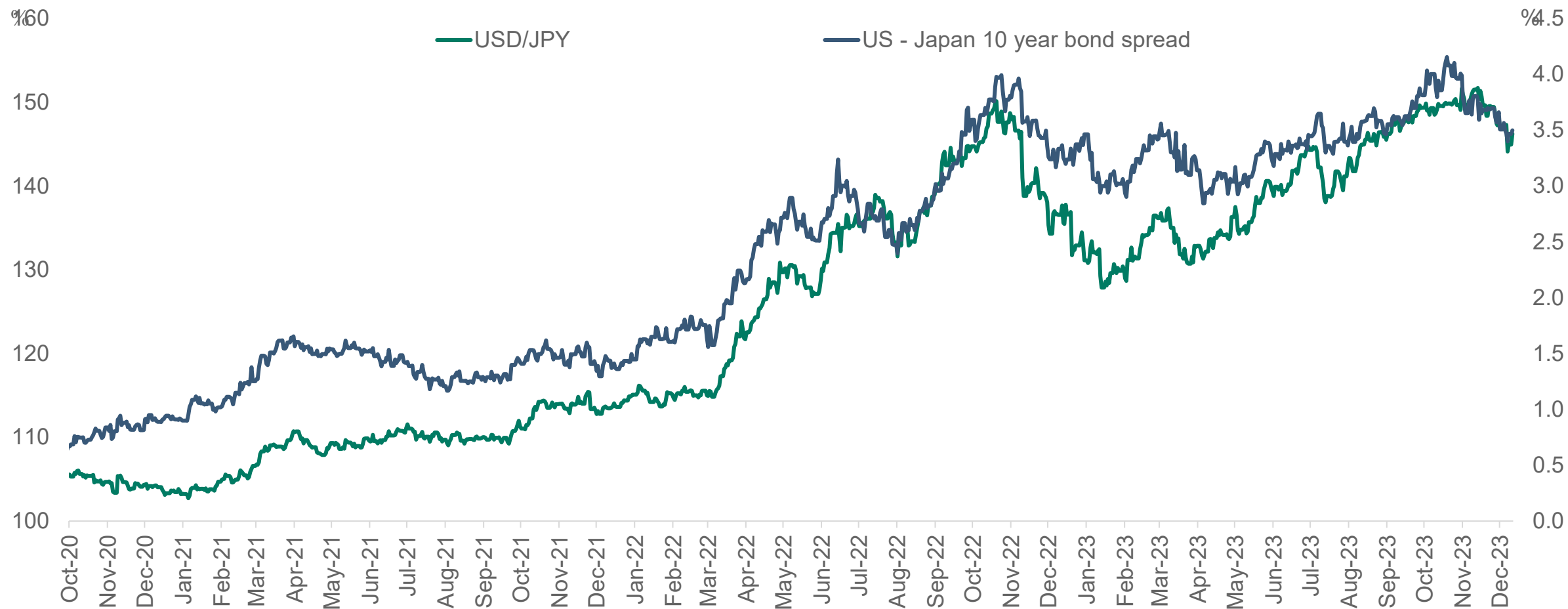


Source: Bloomberg, Apollo Chief Economist (The BOJ has positioned wage growth of at least 3% as a prerequisite for stable achievement of its 2% inflation target.)

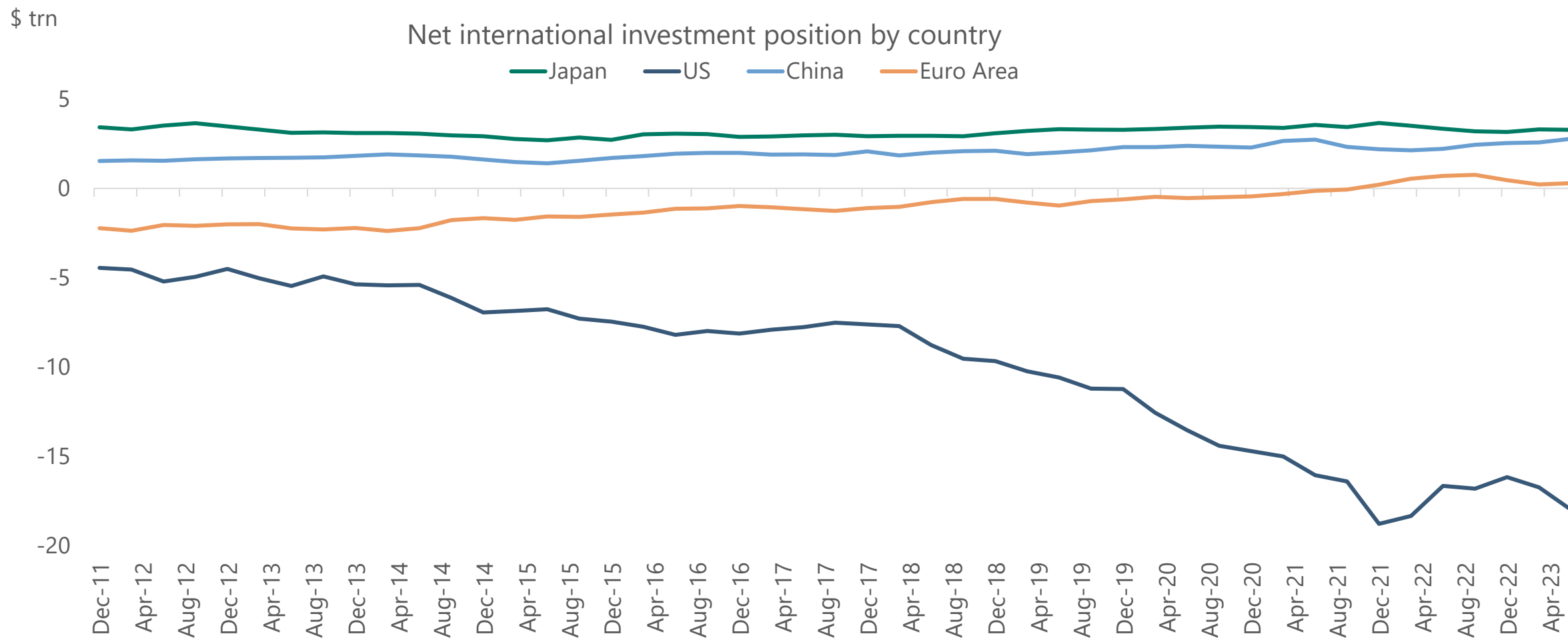
Japan 10-year yield



USDJPY and US/JP 10s highly correlated



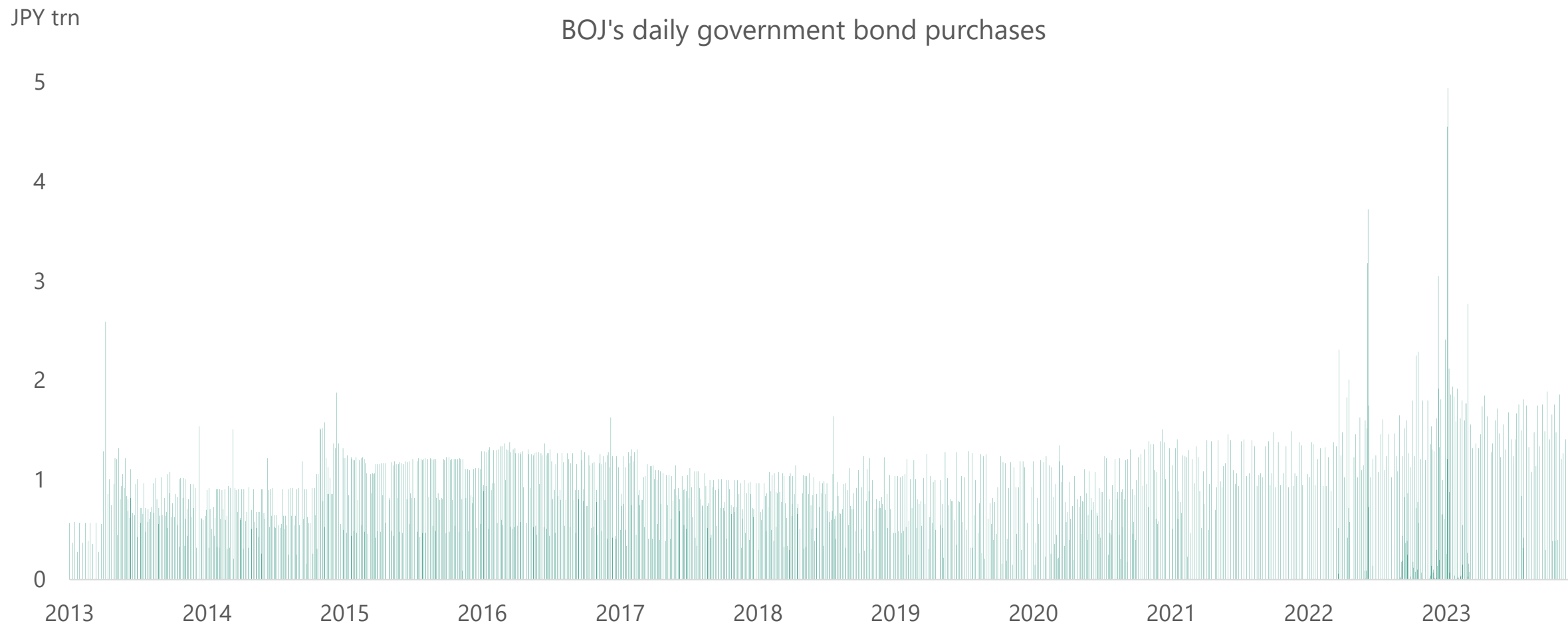
Japan has the largest positive NIIP in the world



Source: The IMF, Bloomberg, Apollo Chief Economist (Data as of Q2 2023)

BoJ JGB purchases and holdings

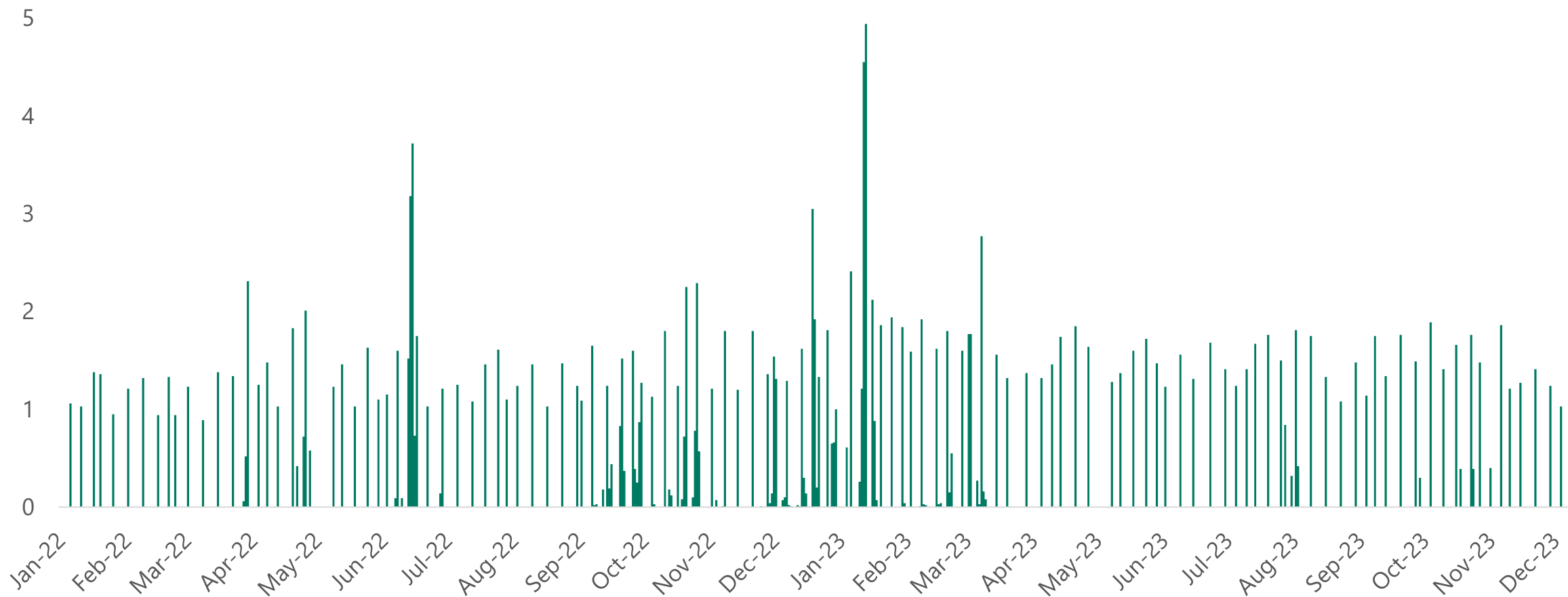
BoJ: Steady buying of JGBs for more than a decade



BOJ's bond buying since 2022

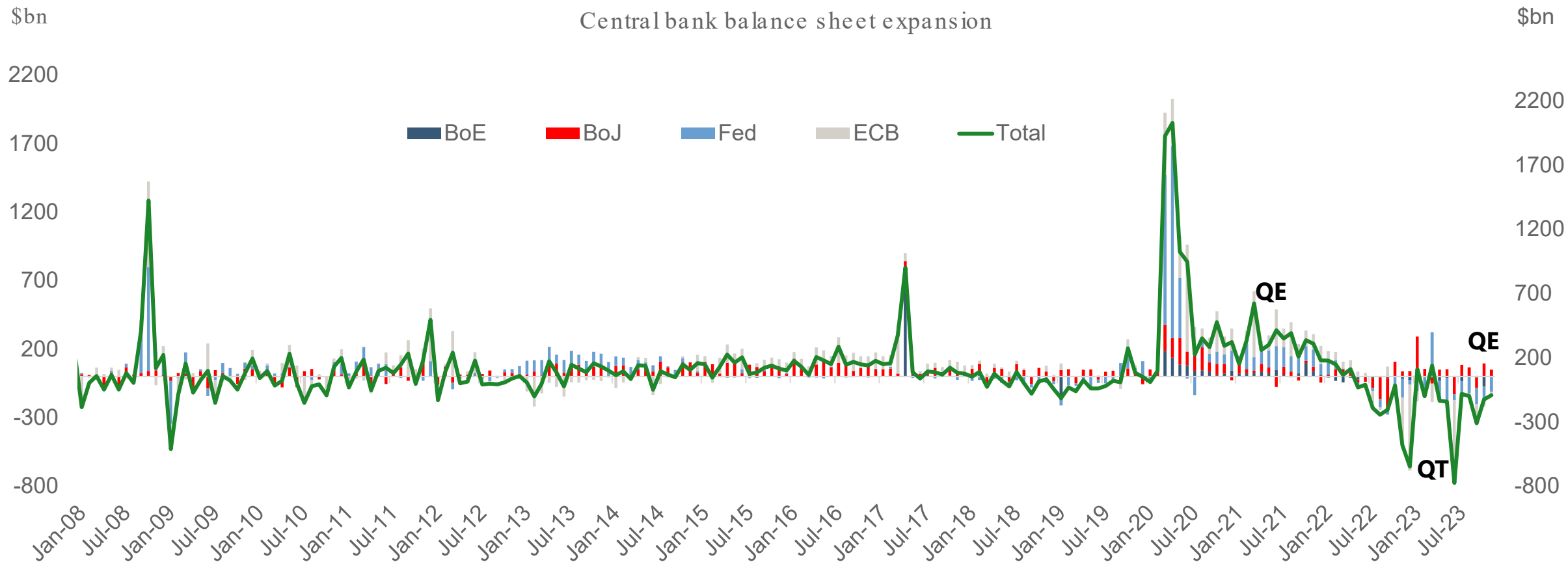
JPY trn

BOJ's daily government bond purchases



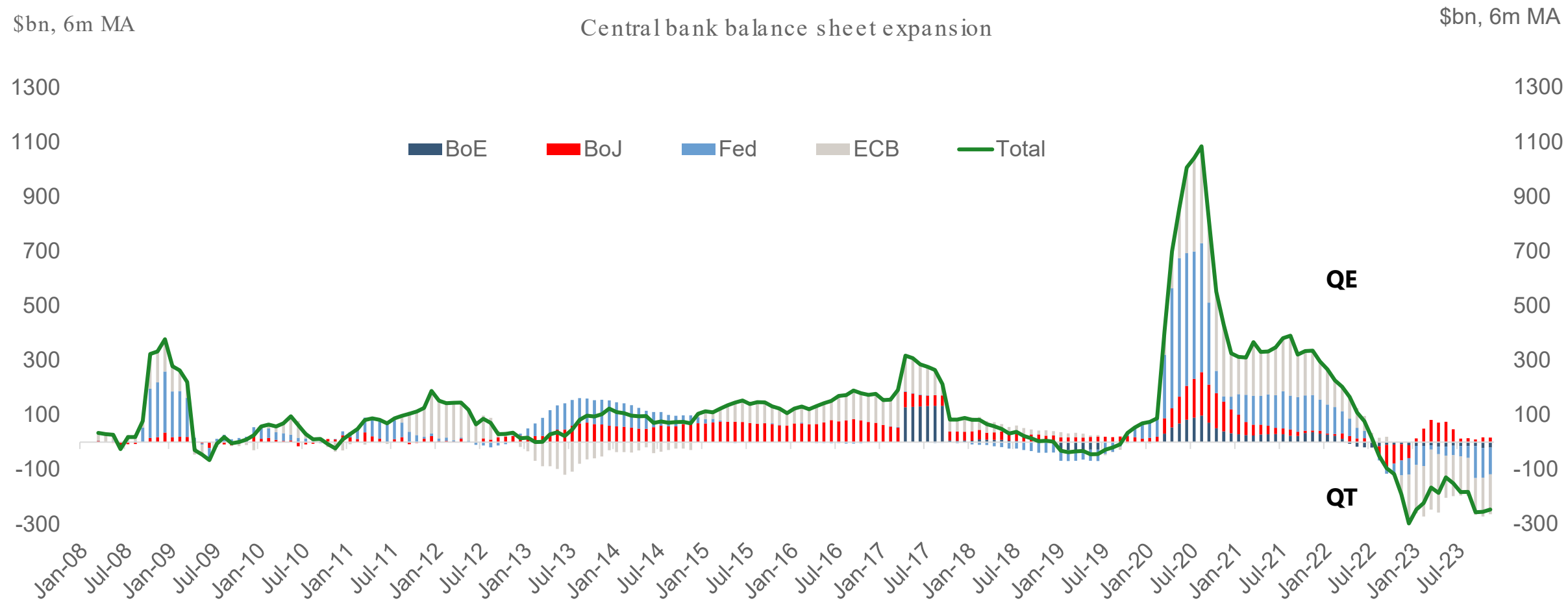
Source: Bloomberg, Apollo Chief Economist

From QE to QT to QE

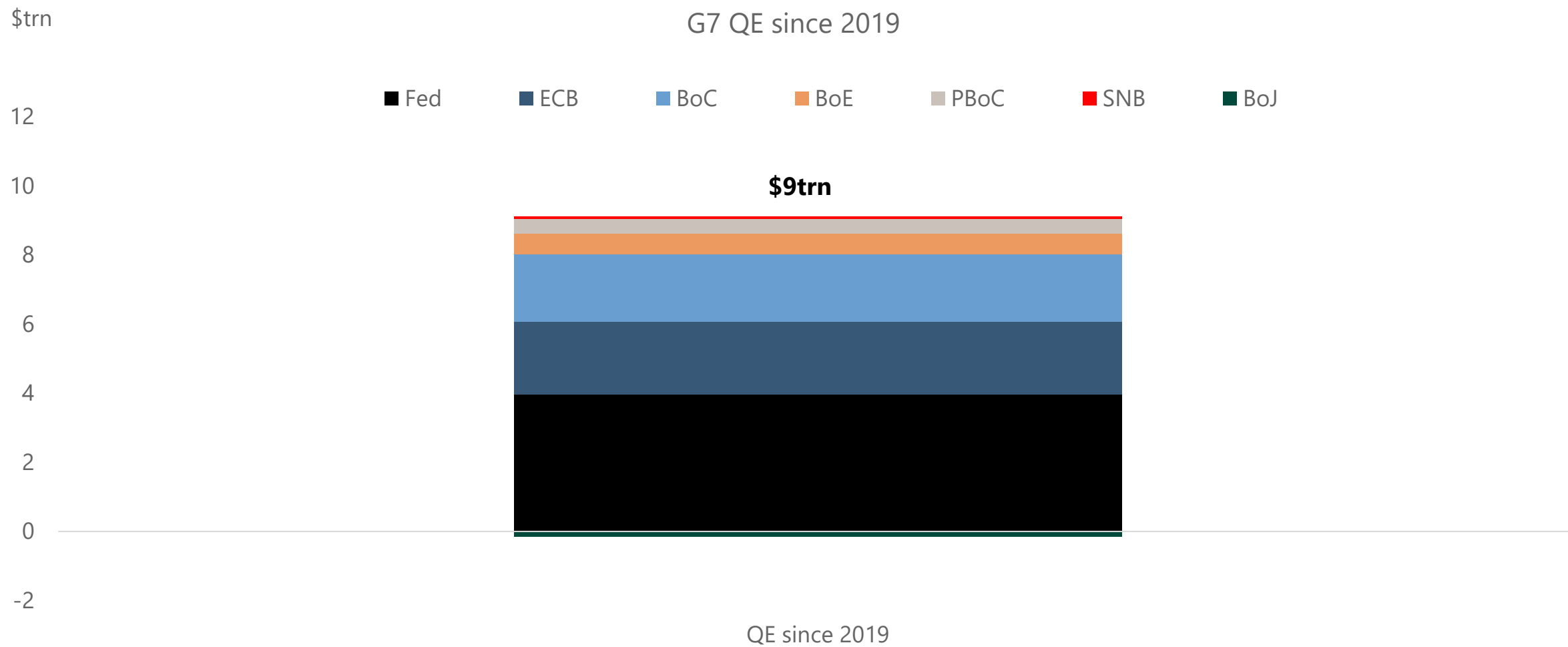


Source: Bloomberg, Apollo Chief Economist

G4 central bank balance sheets

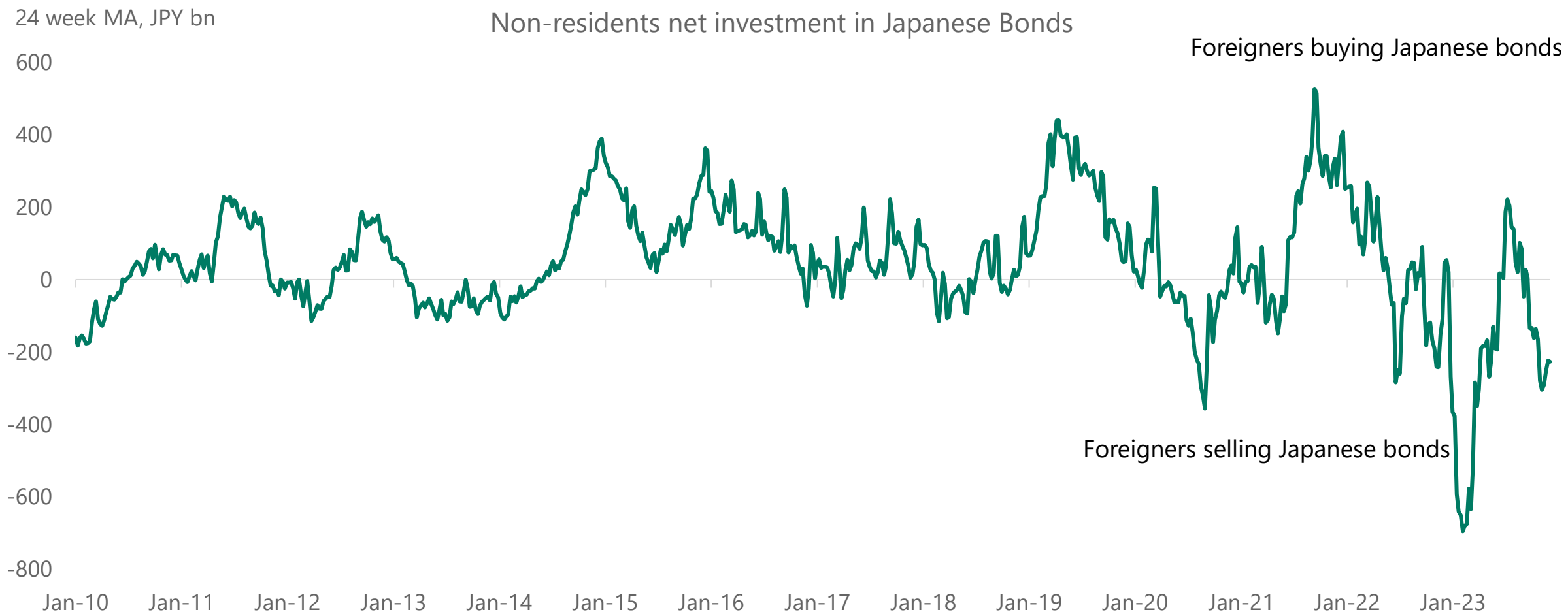


Central bank balance sheet expansions since 2019



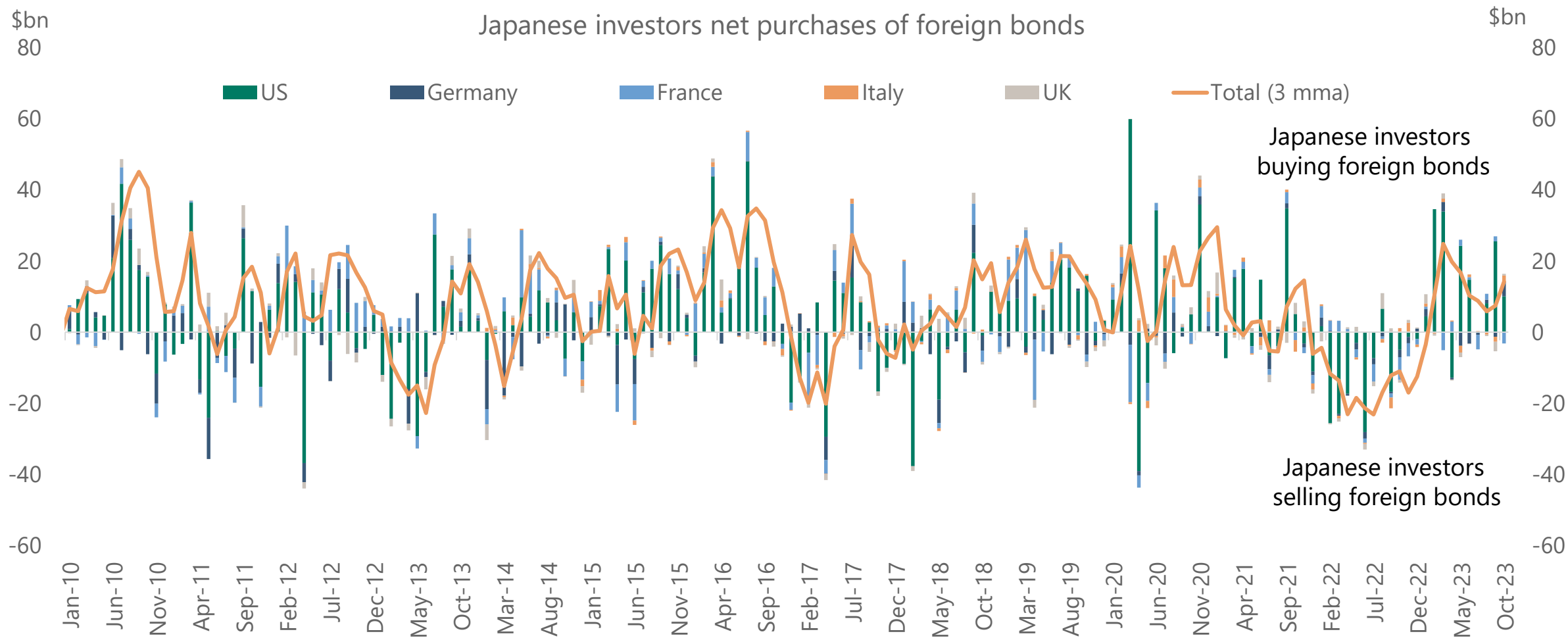
Bond flows in and out of Japan

Foreign net purchases of Japanese bonds



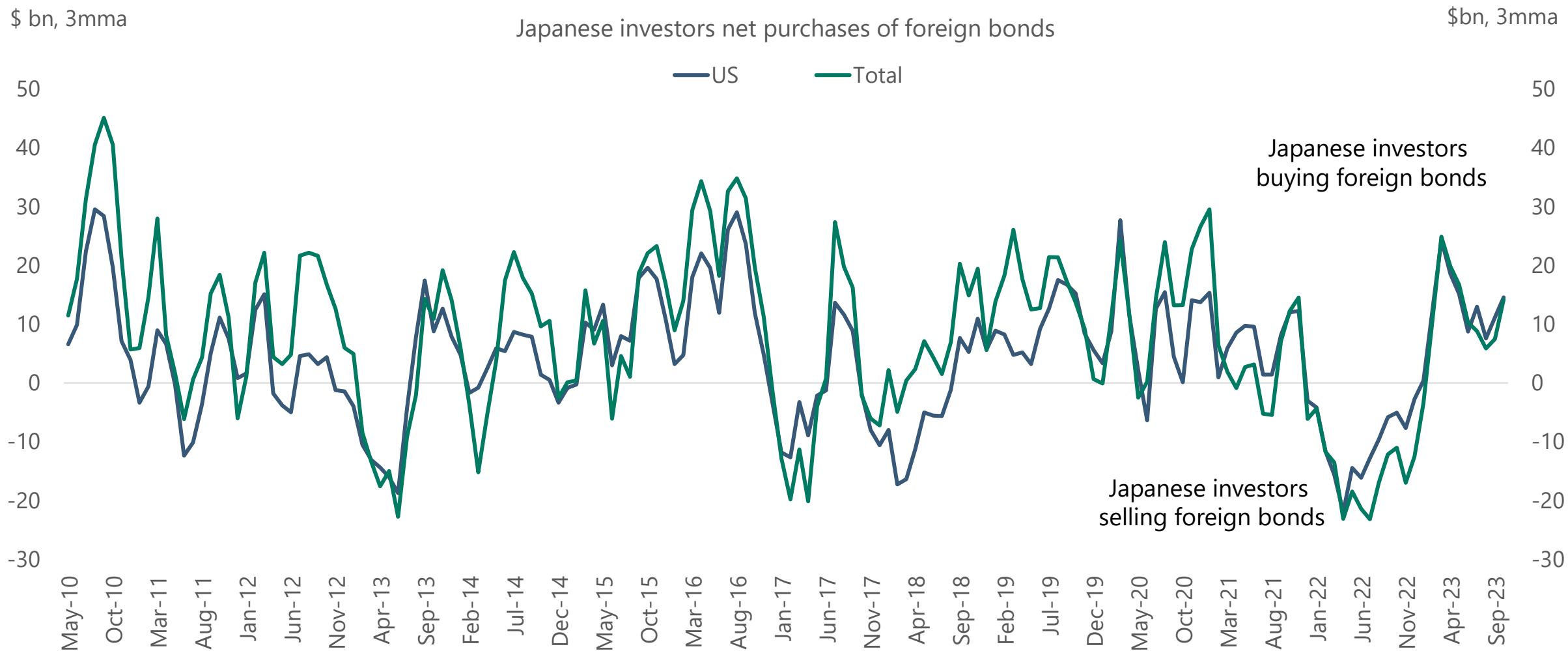
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Japanese investors buying foreign bonds



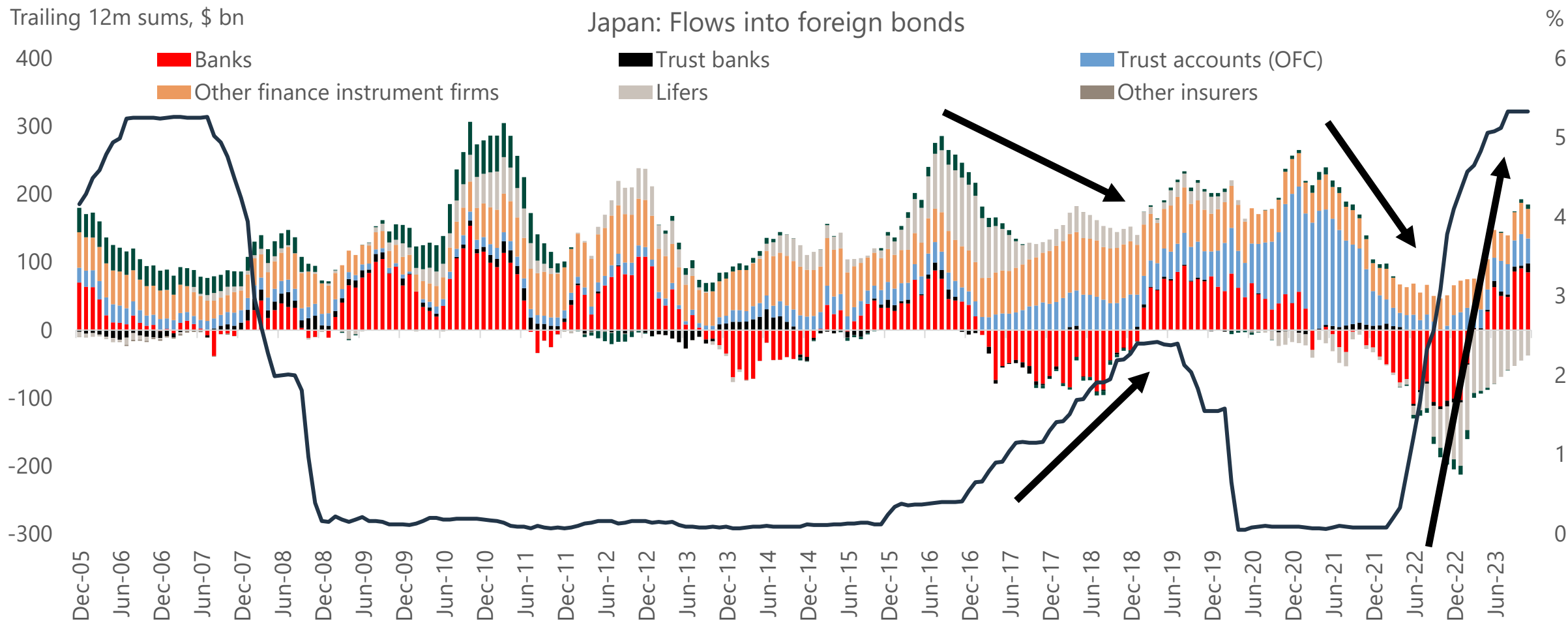
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Japanese investors have been net buyers of US Treasuries recently



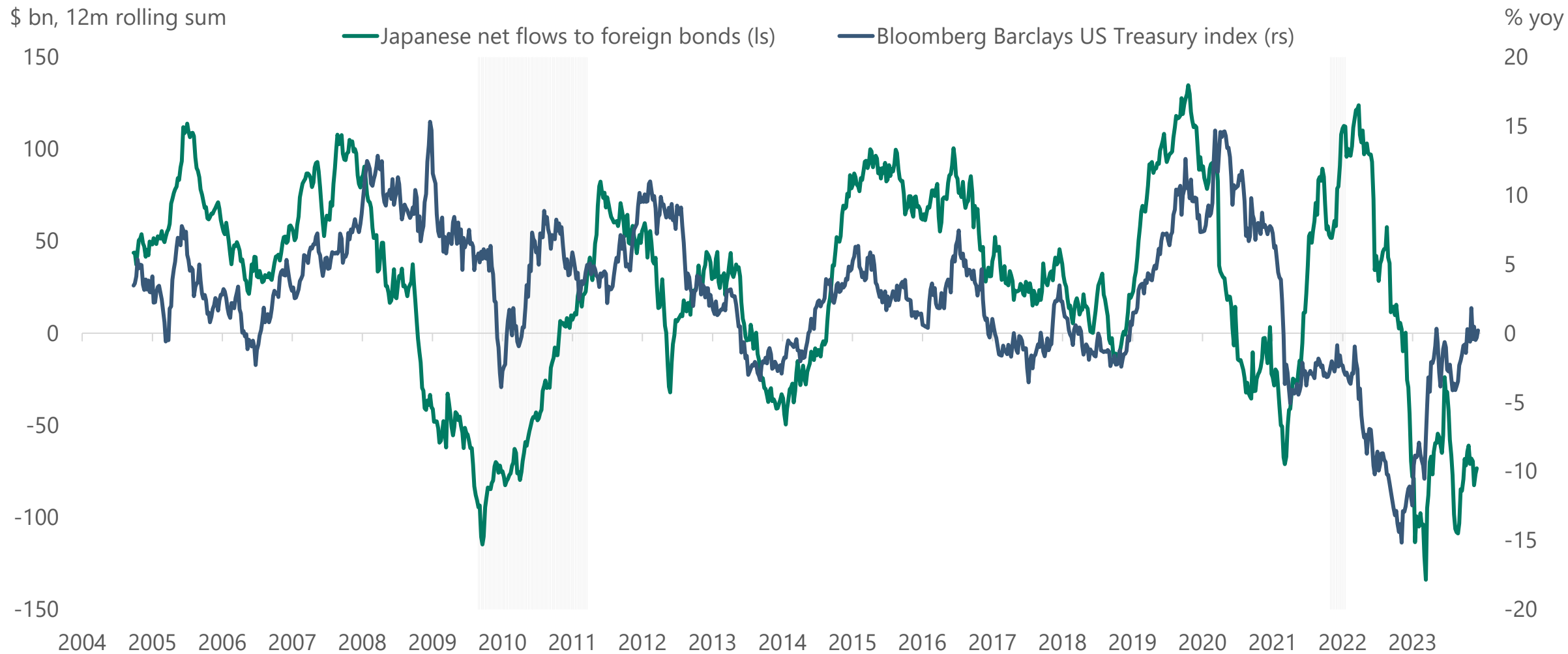
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

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

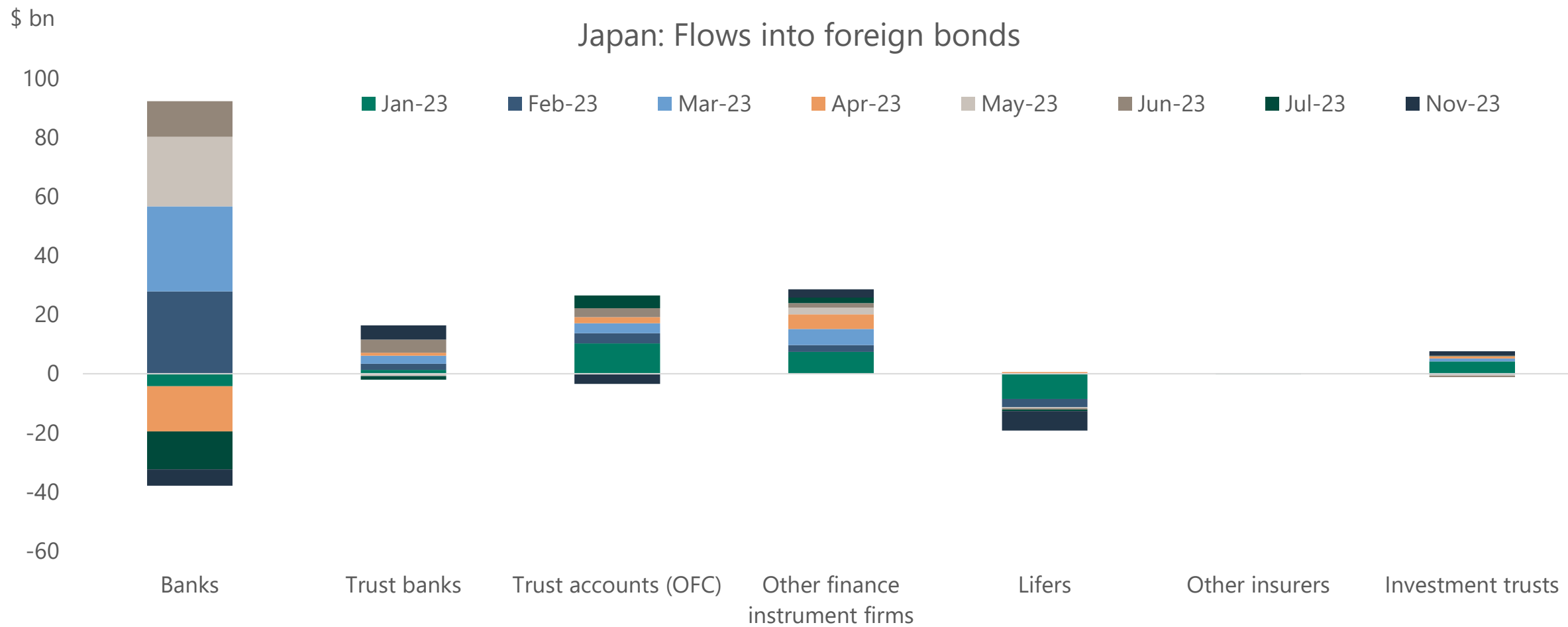


Source: Bloomberg, Apollo Chief Economist

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

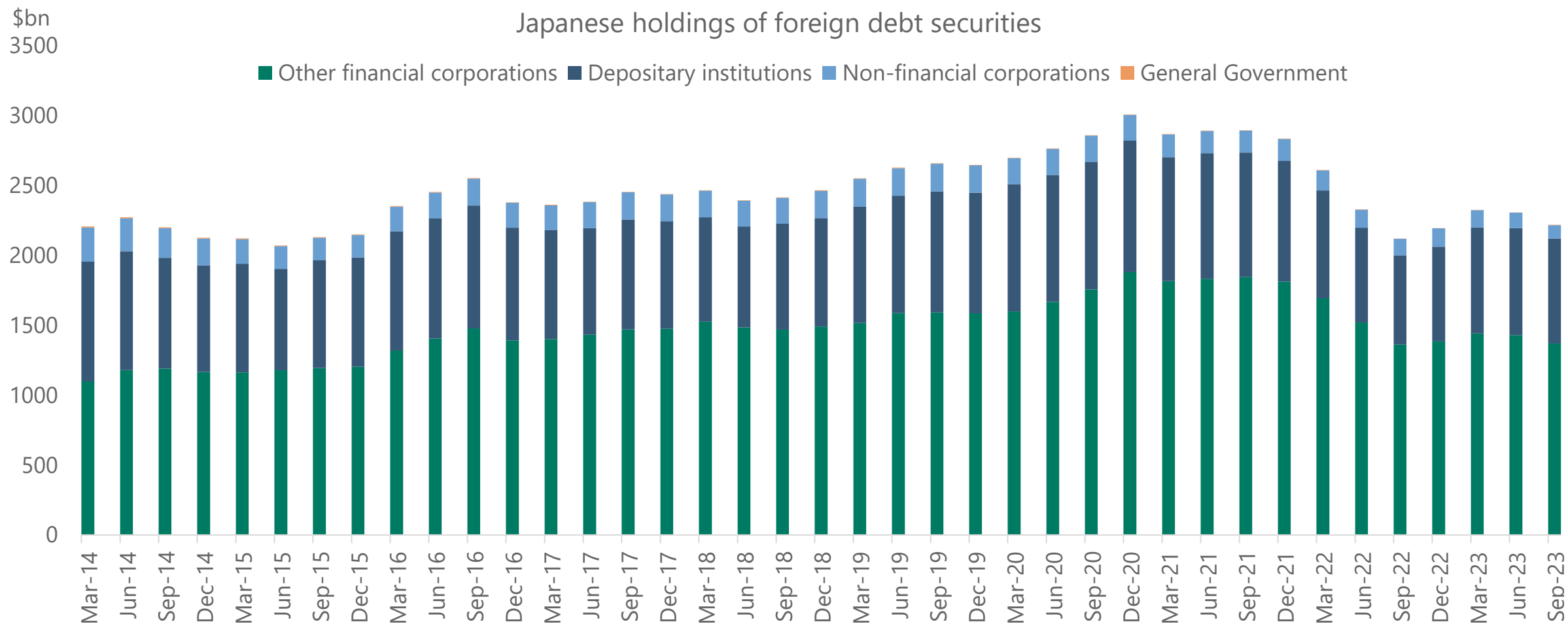


Japan: Banks continue to buy foreign bonds



Source: Bloomberg, Apollo Chief Economist

Other financial corporations hold most of the foreign debt securities

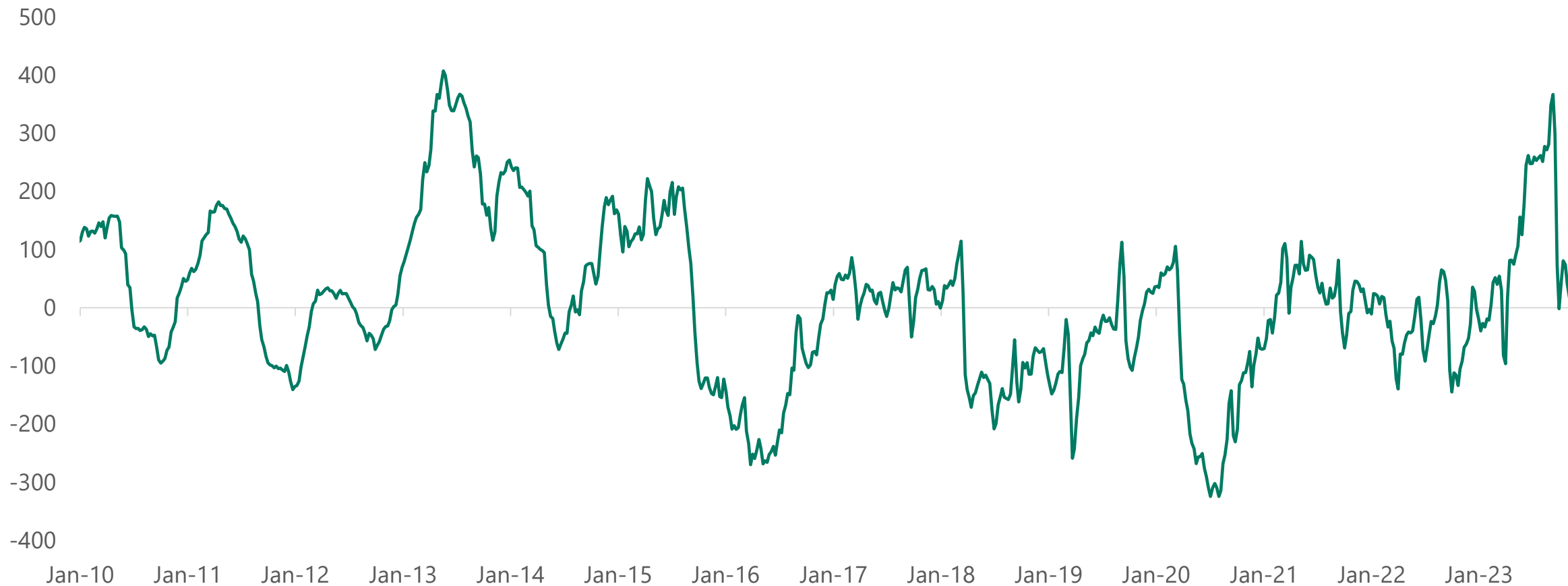


Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Foreign investors are now net sellers of Japanese stocks

24 week MA, JPY bn

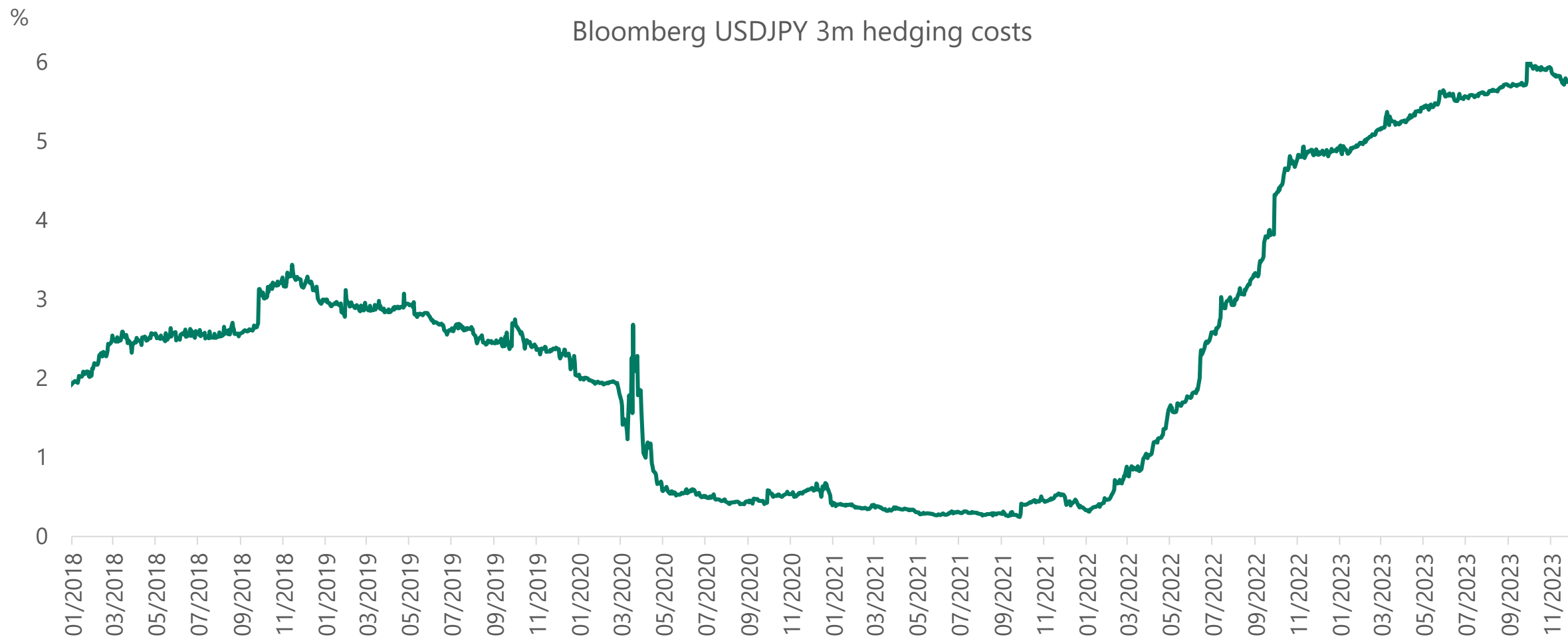
Non-residents' net investment in Japanese stocks



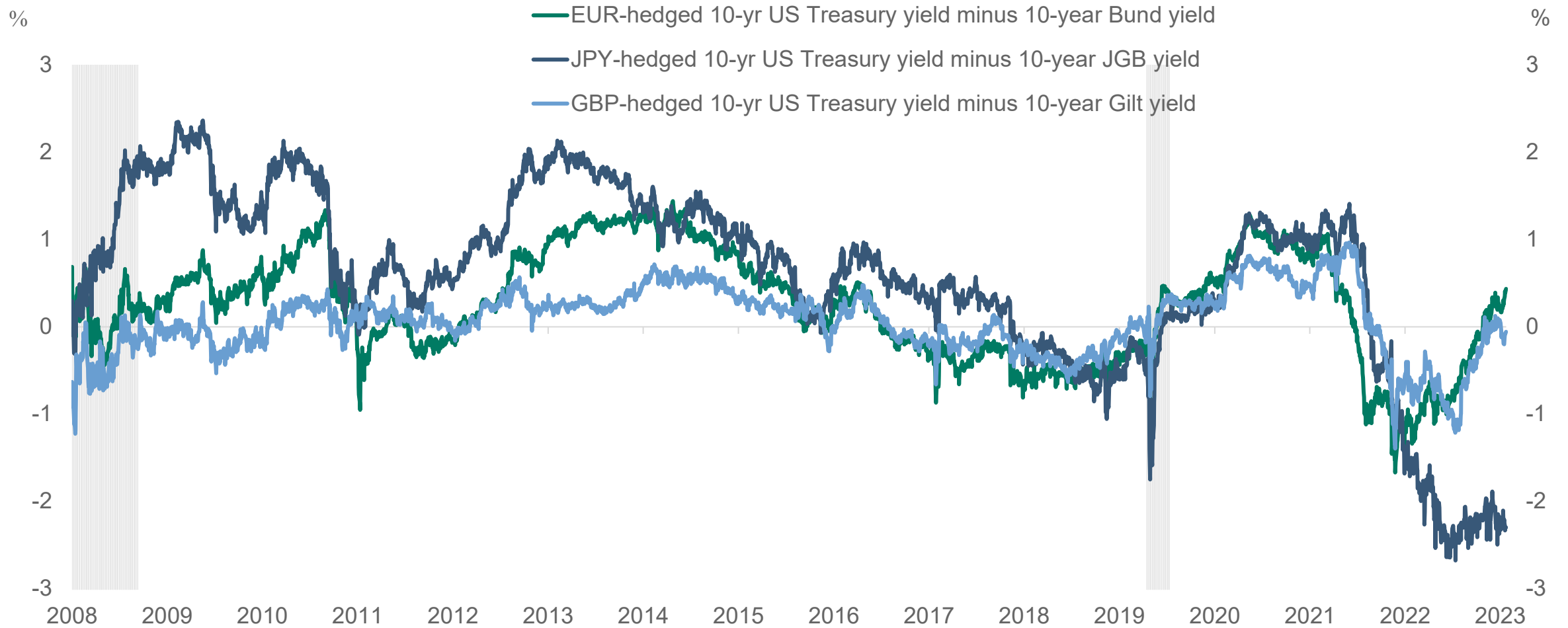
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Hedging costs

Dollar-hedging costs for Japanese investors

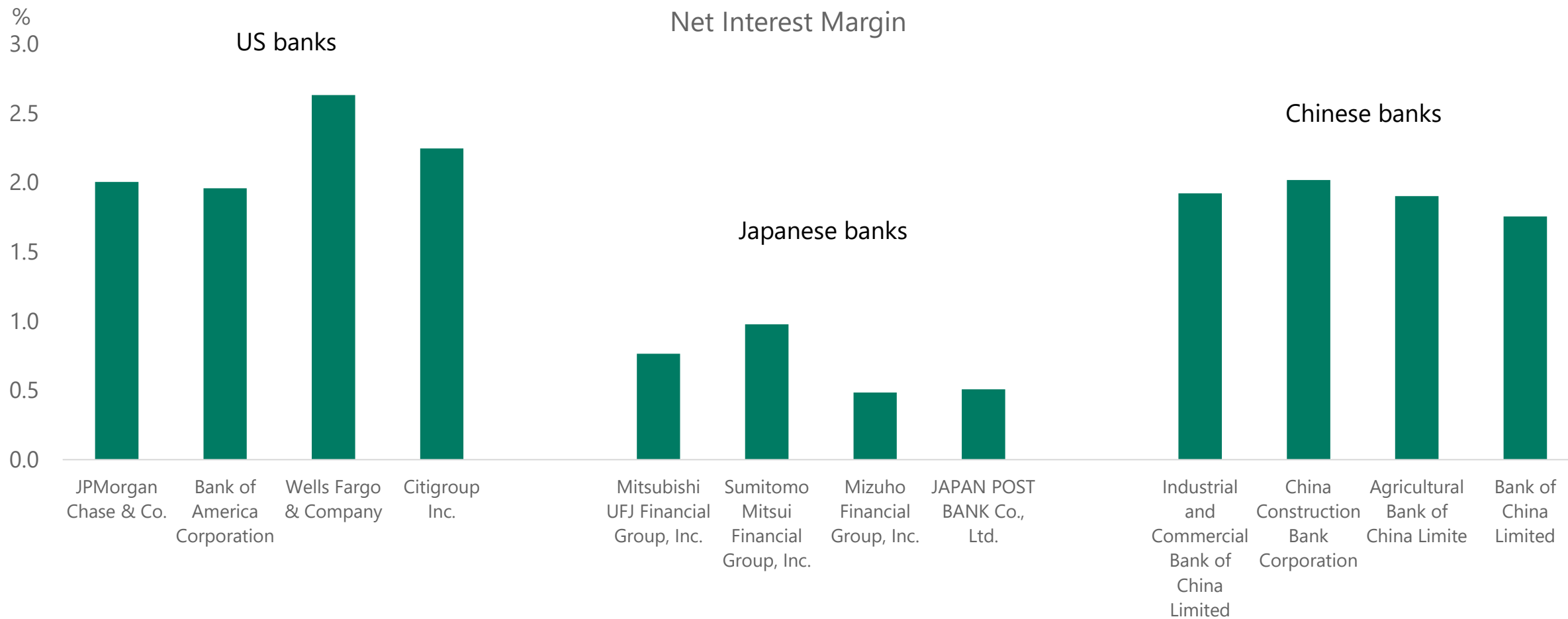


Negative returns from holding JPY-hedged Treasury yields



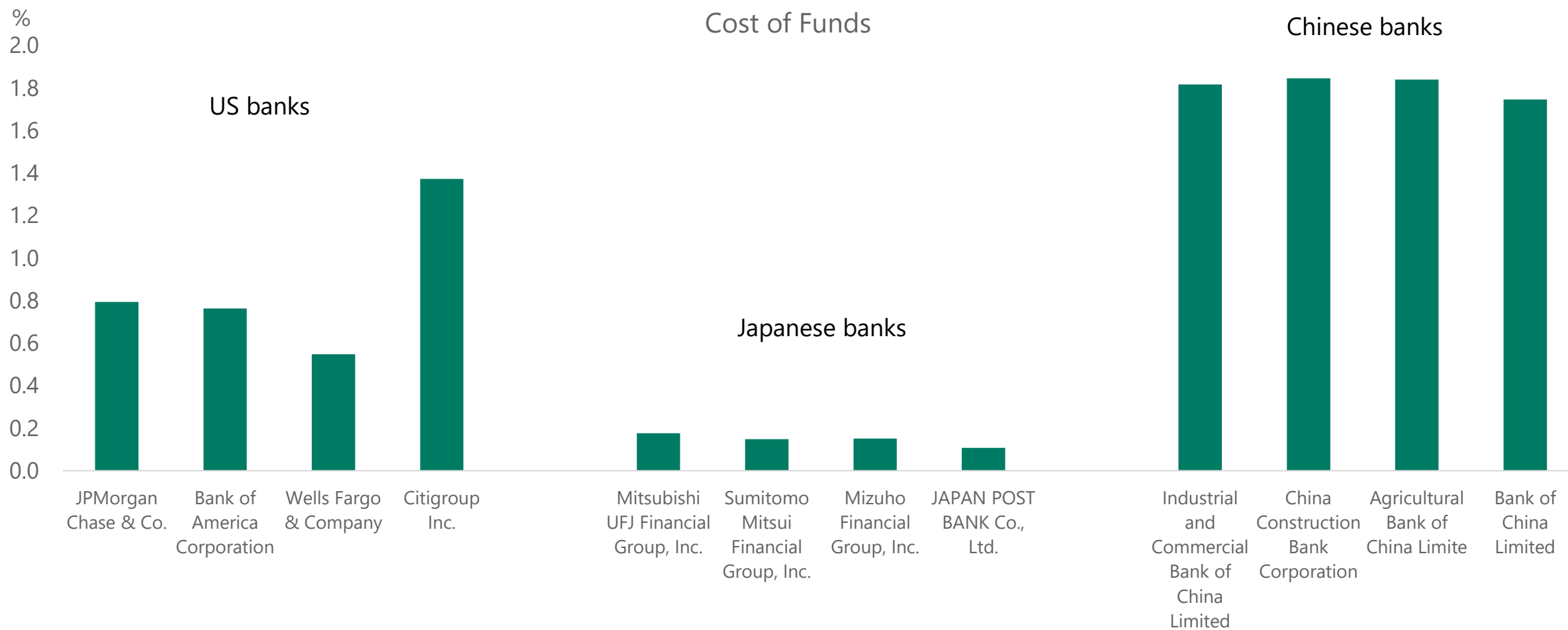
Japanese banks

NIM for banks: US, Japan, and China



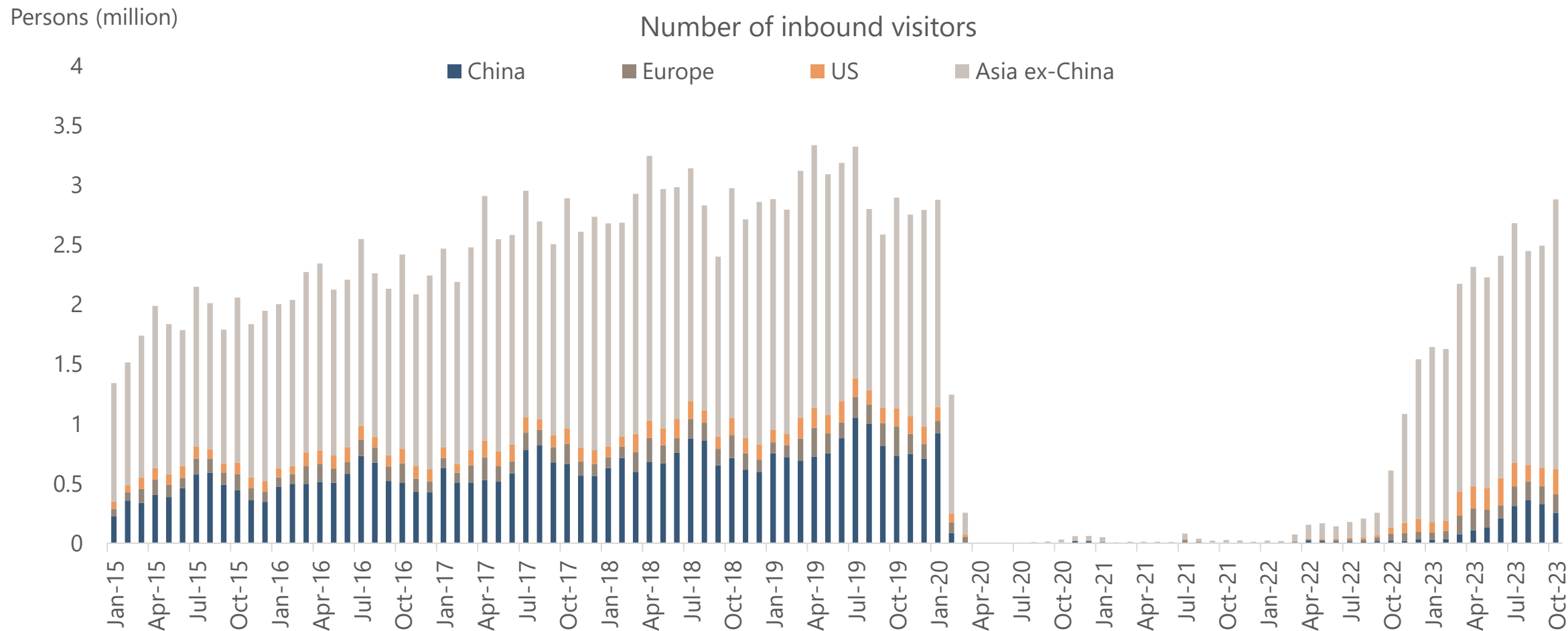
Source: S&P, Apollo Chief Economist

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



Tourism

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



Source: Japan National Tourism Organization, Bloomberg, Apollo Chief Economist



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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.