

APOLLO

# 10-year JGBs above 1% is dampening Japanese demand for US Treasuries

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**Apollo Global Management**

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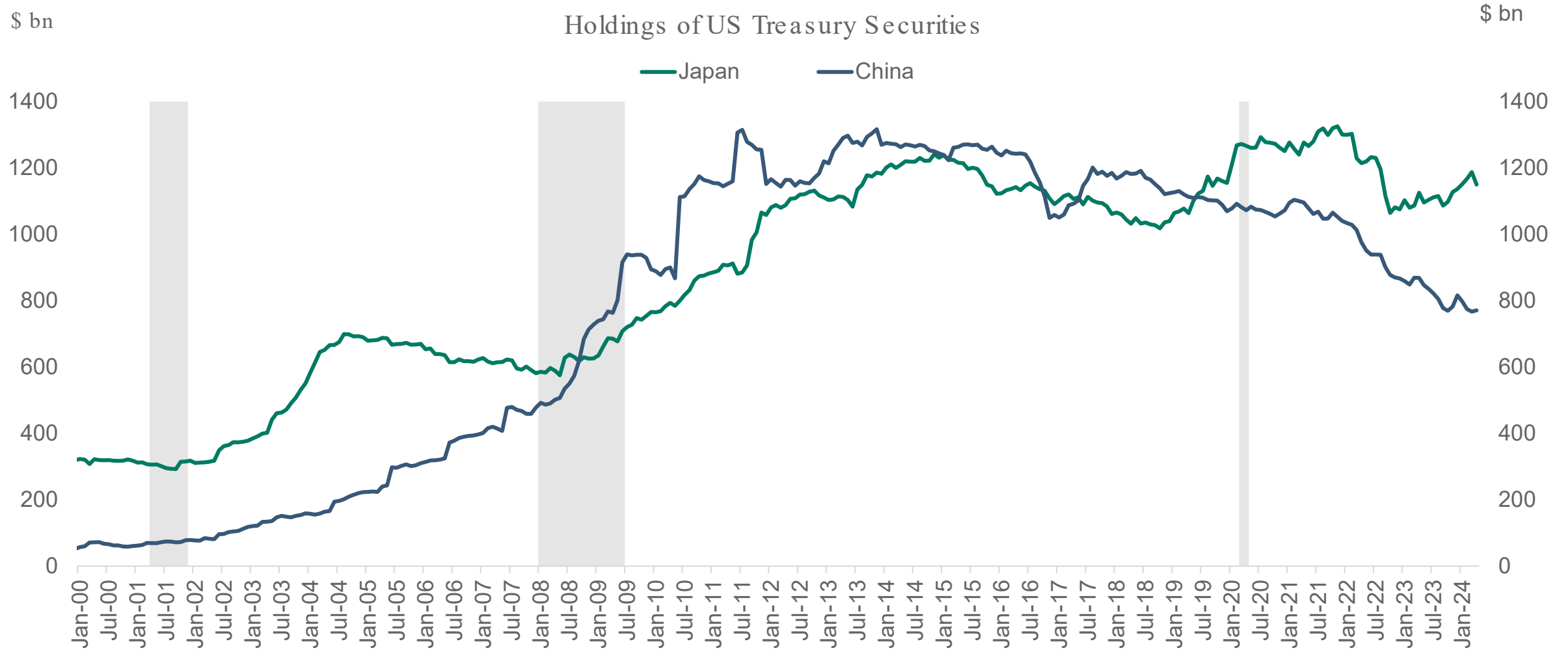
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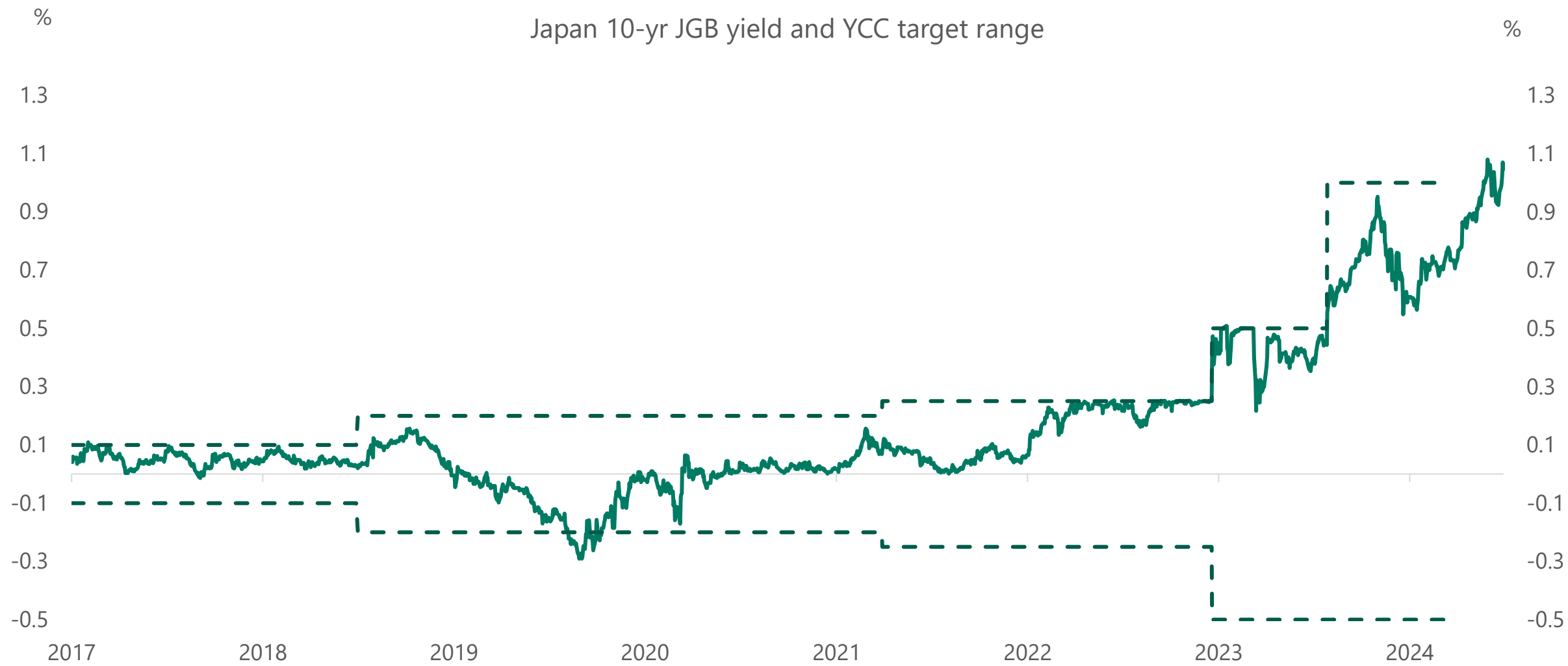
# Overview

Japan owns \$1.2 trillion in US Treasuries. China owns \$770 billion.

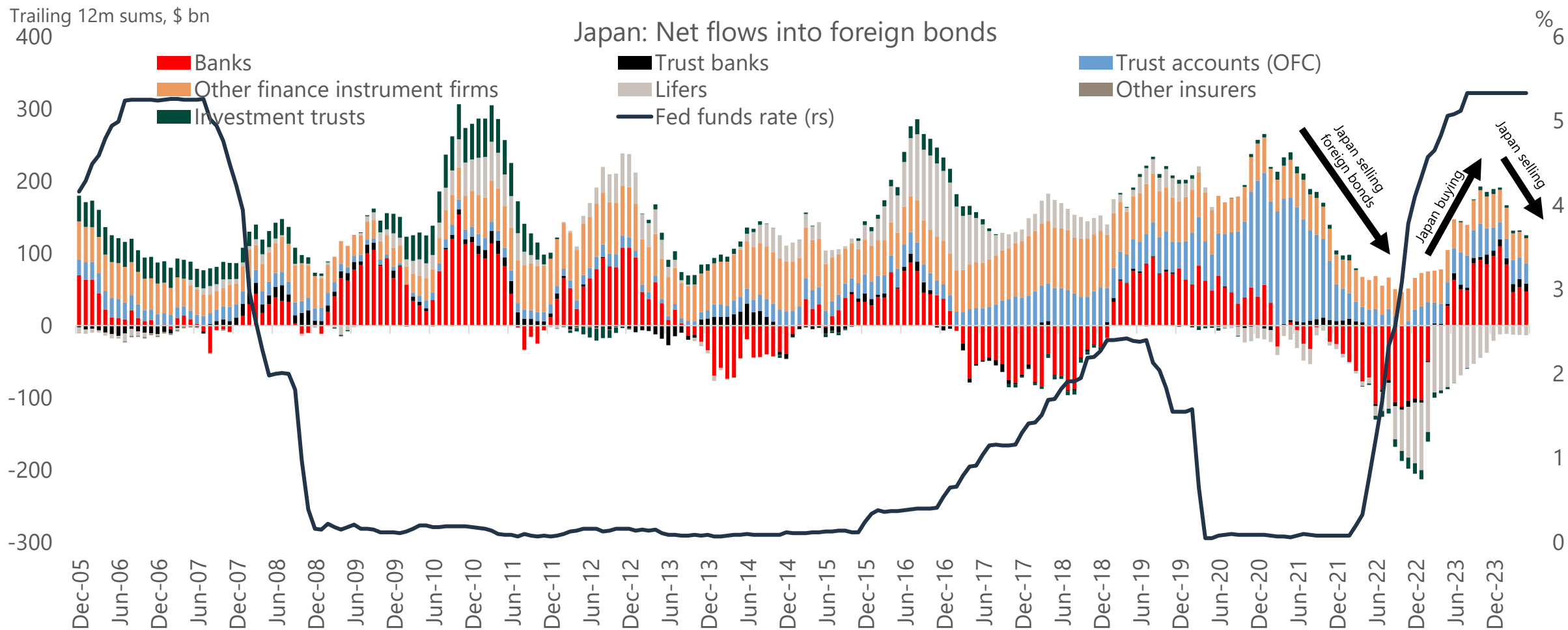


Source: Bloomberg, Apollo Chief Economist

# Japanese 10-year yield

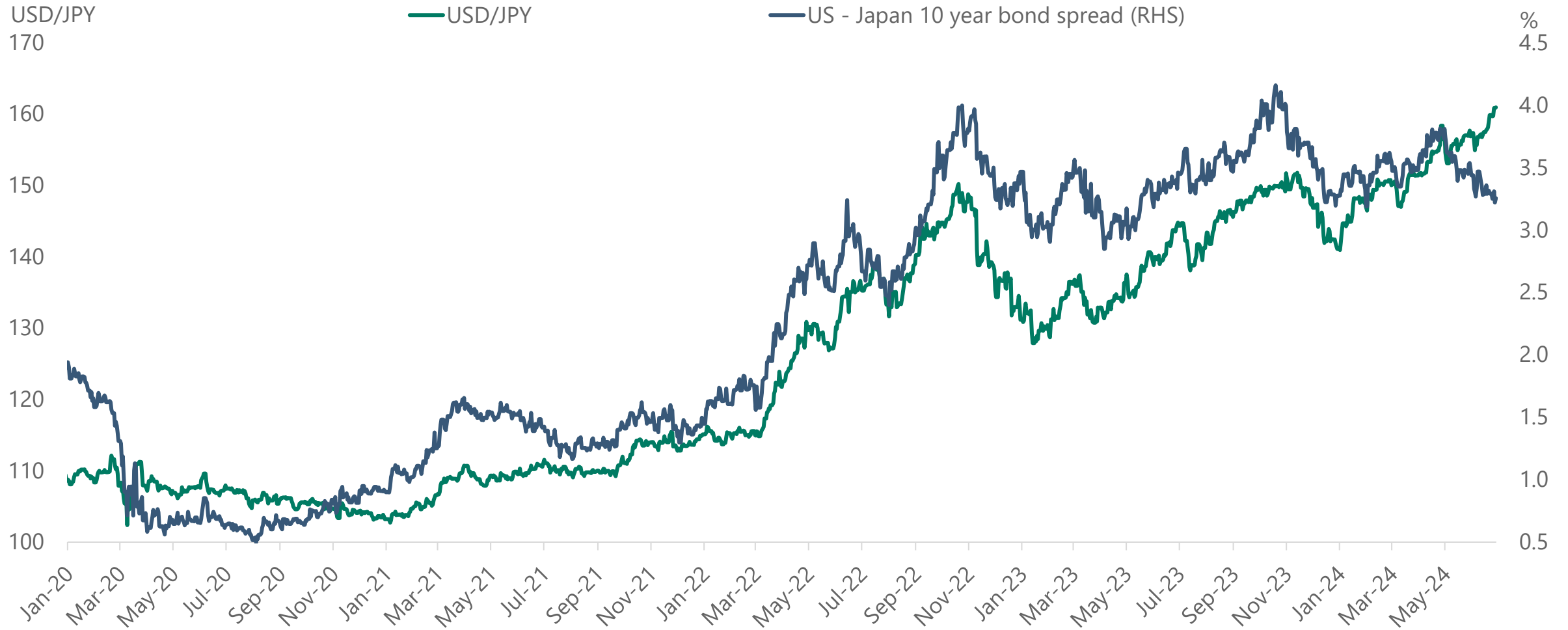


# Japan: Net flows into foreign bonds are sensitive to interest rates

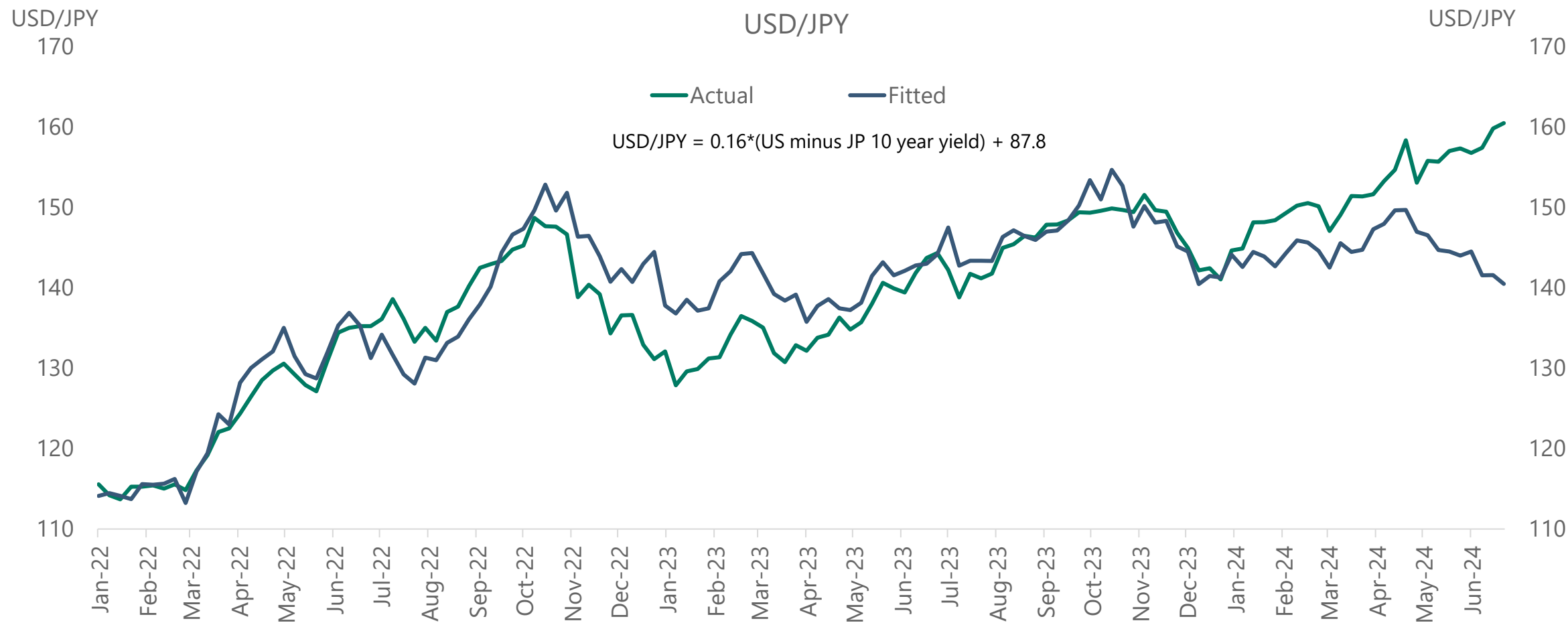


Source: Bloomberg, Apollo Chief Economist

# When Japanese 10-year interest rates move up then USDJPY moves down



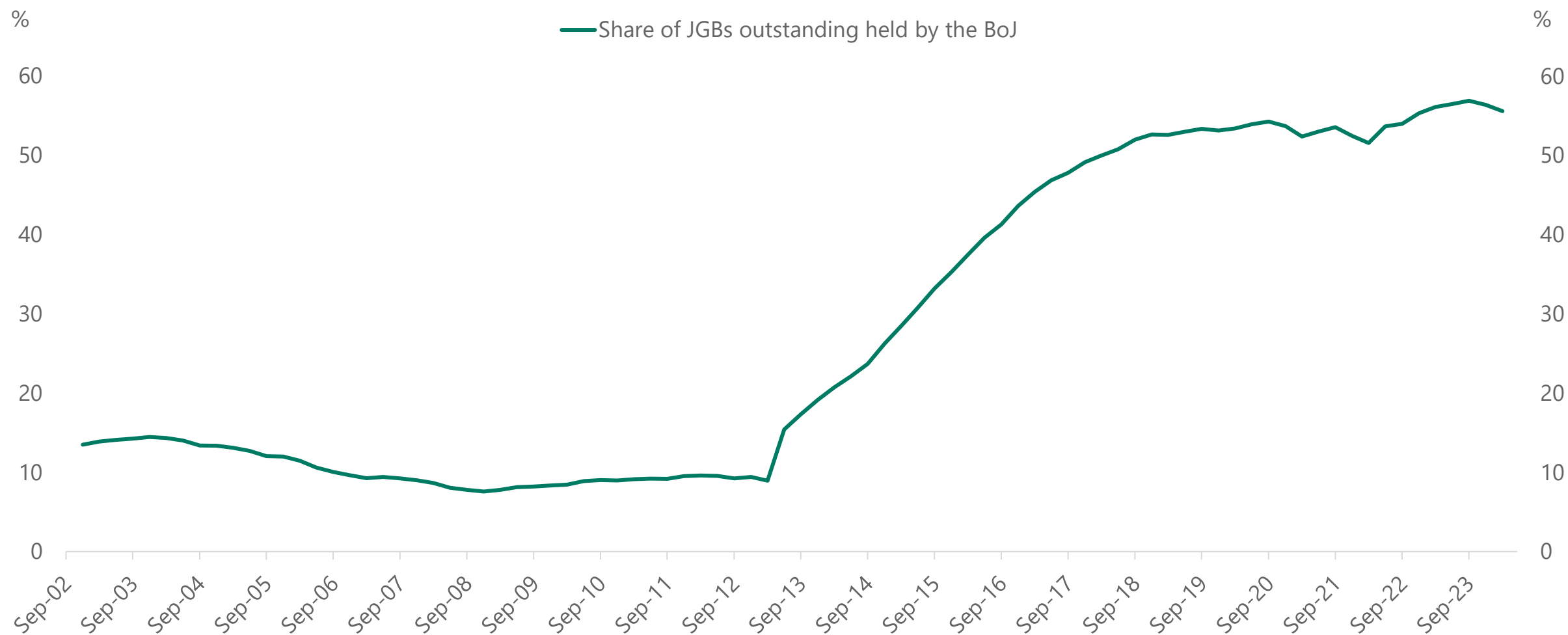
# USD/JPY has depreciated 20 points more than predicted by US/JP interest rate differentials



Source: Bloomberg, Apollo Chief Economist

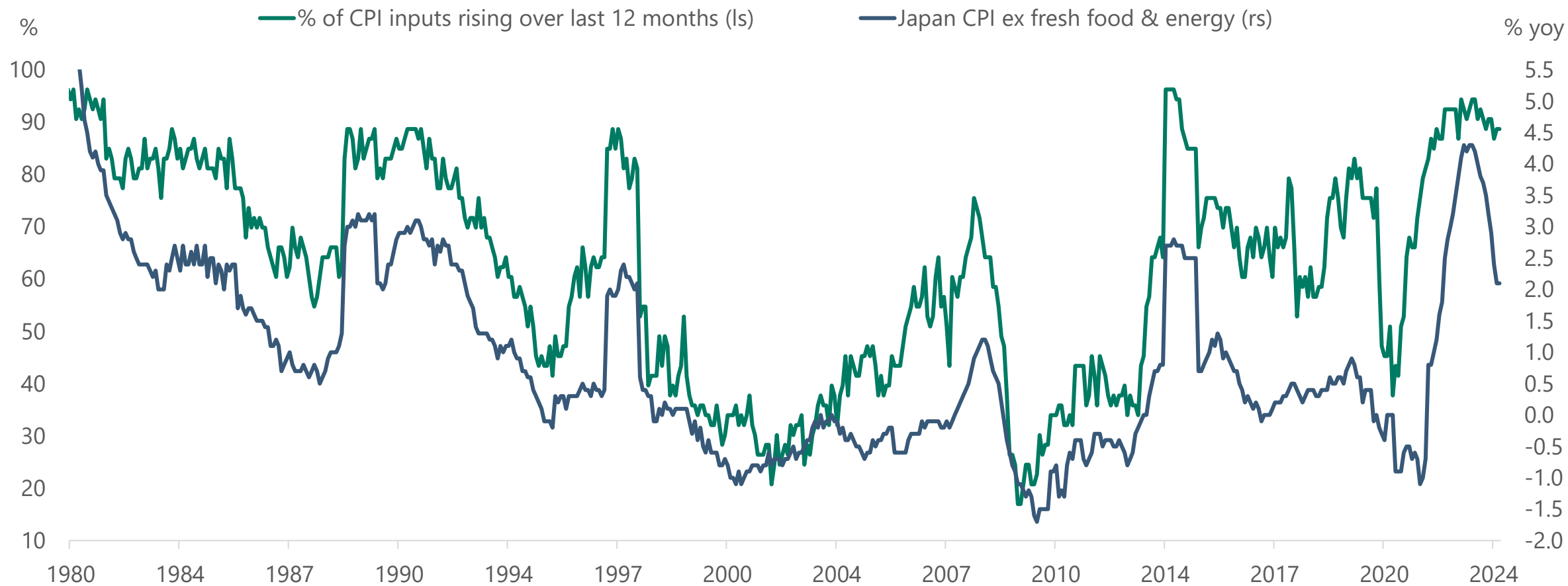


# The BoJ owns 55% of Japanese government bonds outstanding

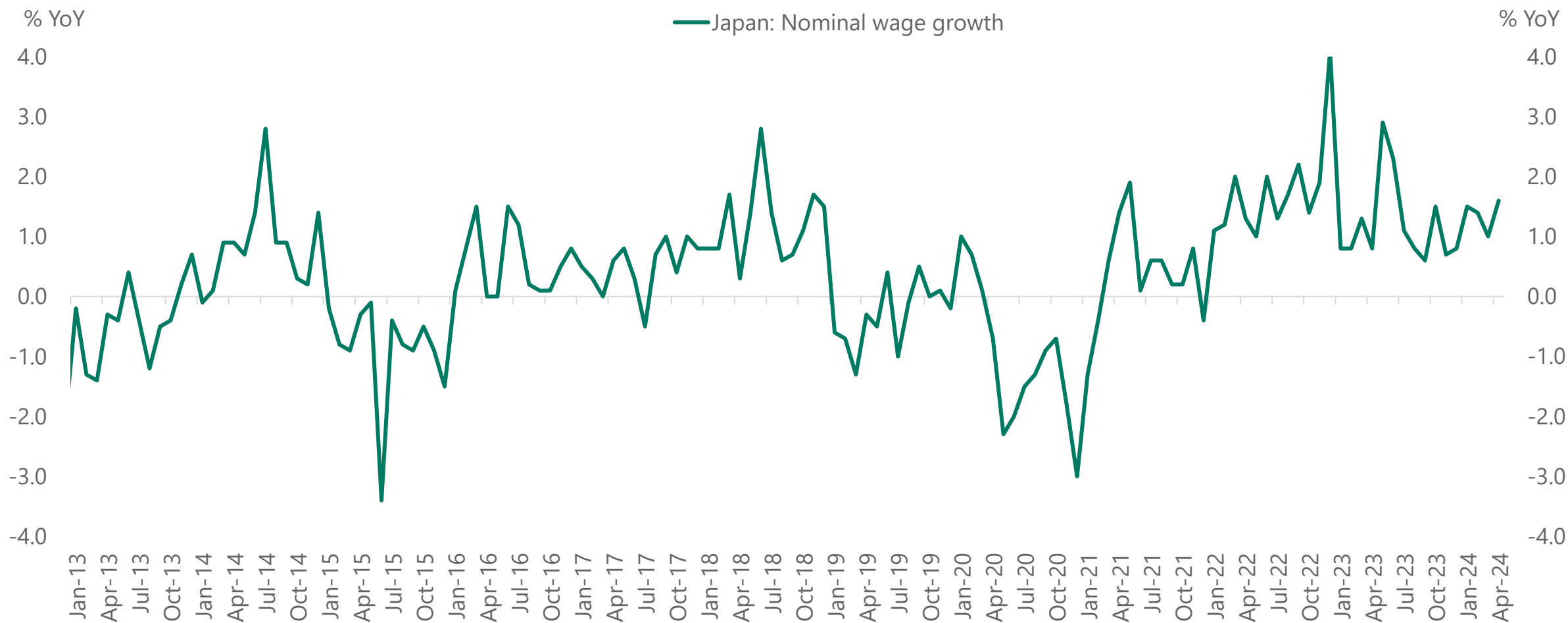


# Macro background

# Japanese inflation still high but starting to come down

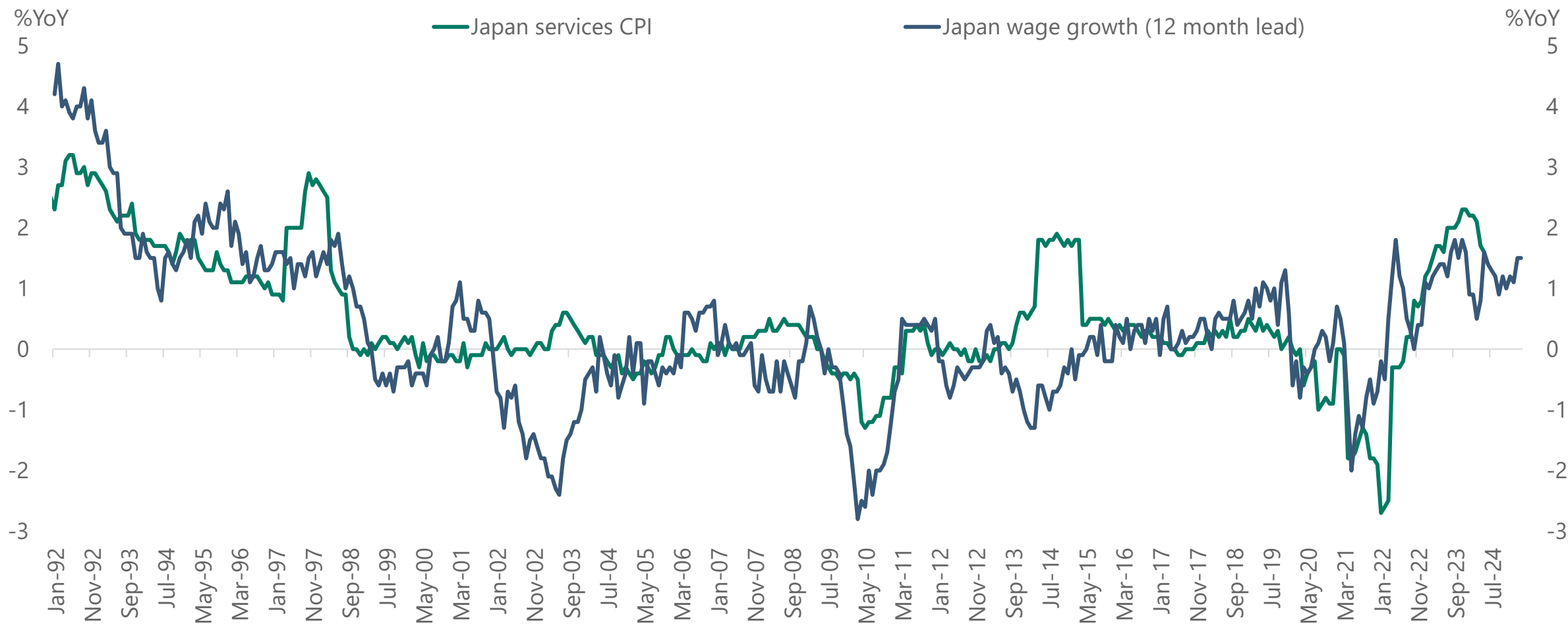


# Japan: Wage inflation

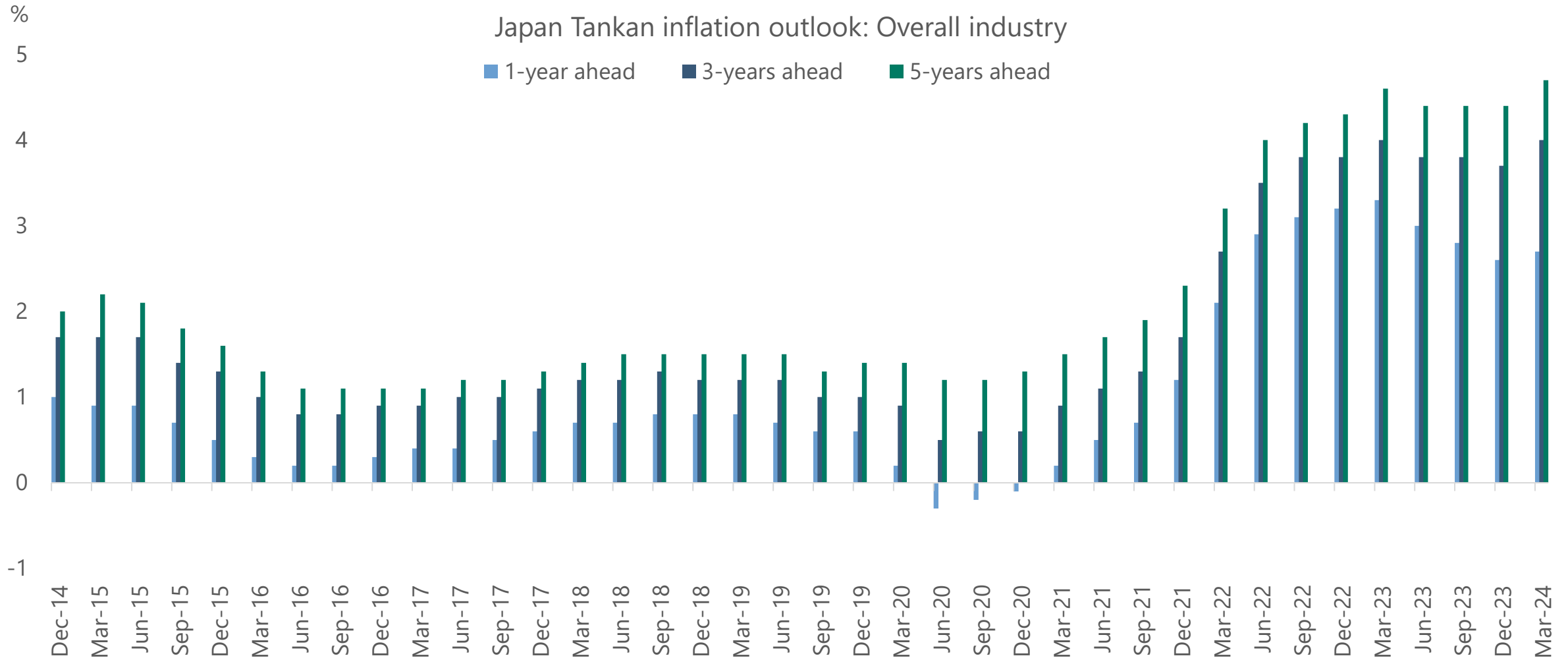


Source: Bloomberg, Apollo Chief Economist (The BOJ has positioned wage growth of at least 3% as a prerequisite for stable achievement of its 2% inflation target.)

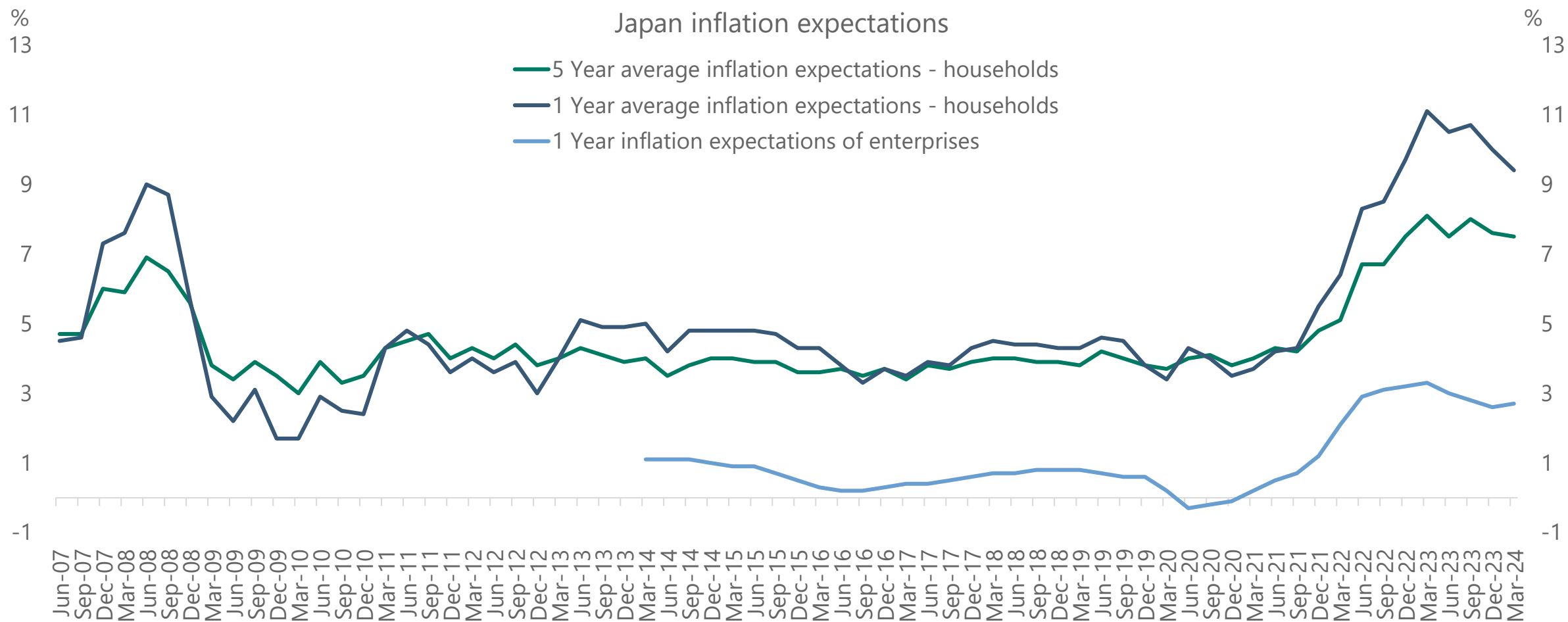
# Japan wage growth indicating continued strength in services inflation



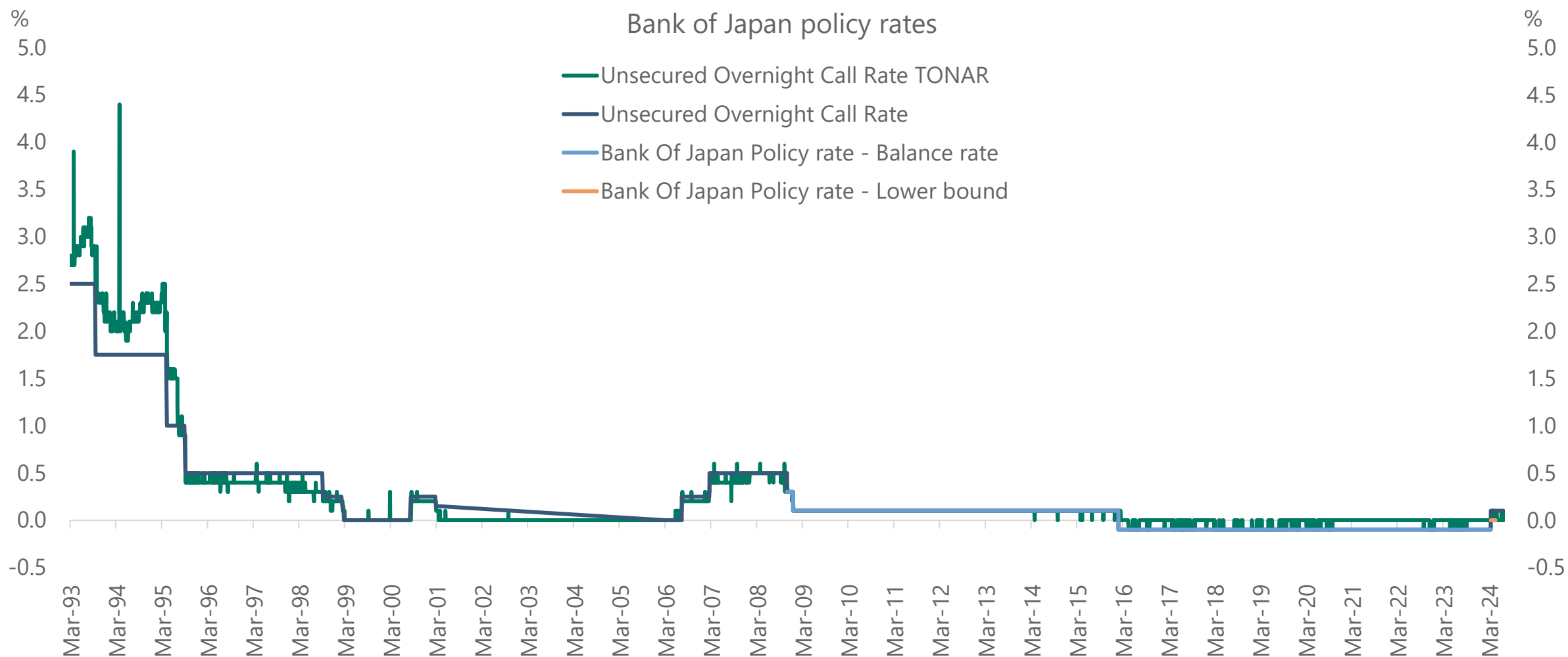
# Japan: Long run inflation expectations rising. This is a problem for the BoJ.



# Japanese inflation expectations elevated and sticky. This is a problem for the BoJ.

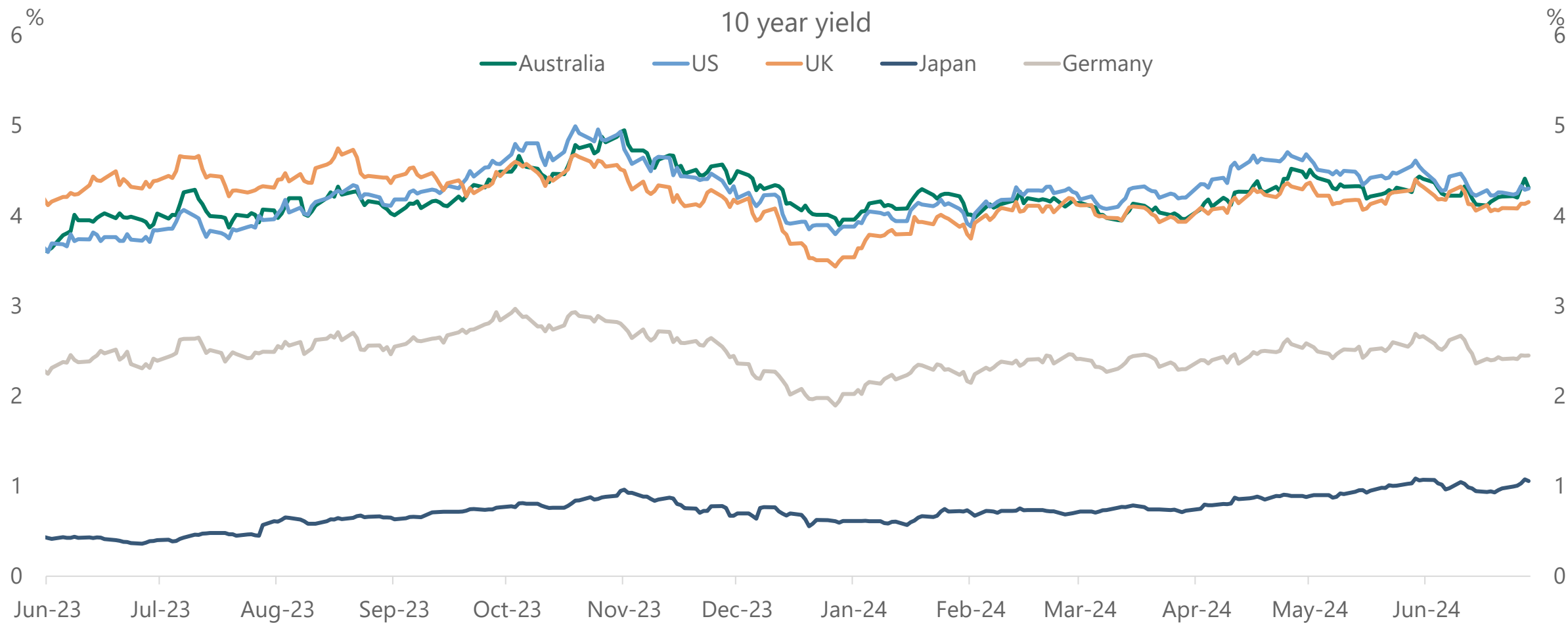


# Japan: Short-term interest rates have been essentially zero for 30 years

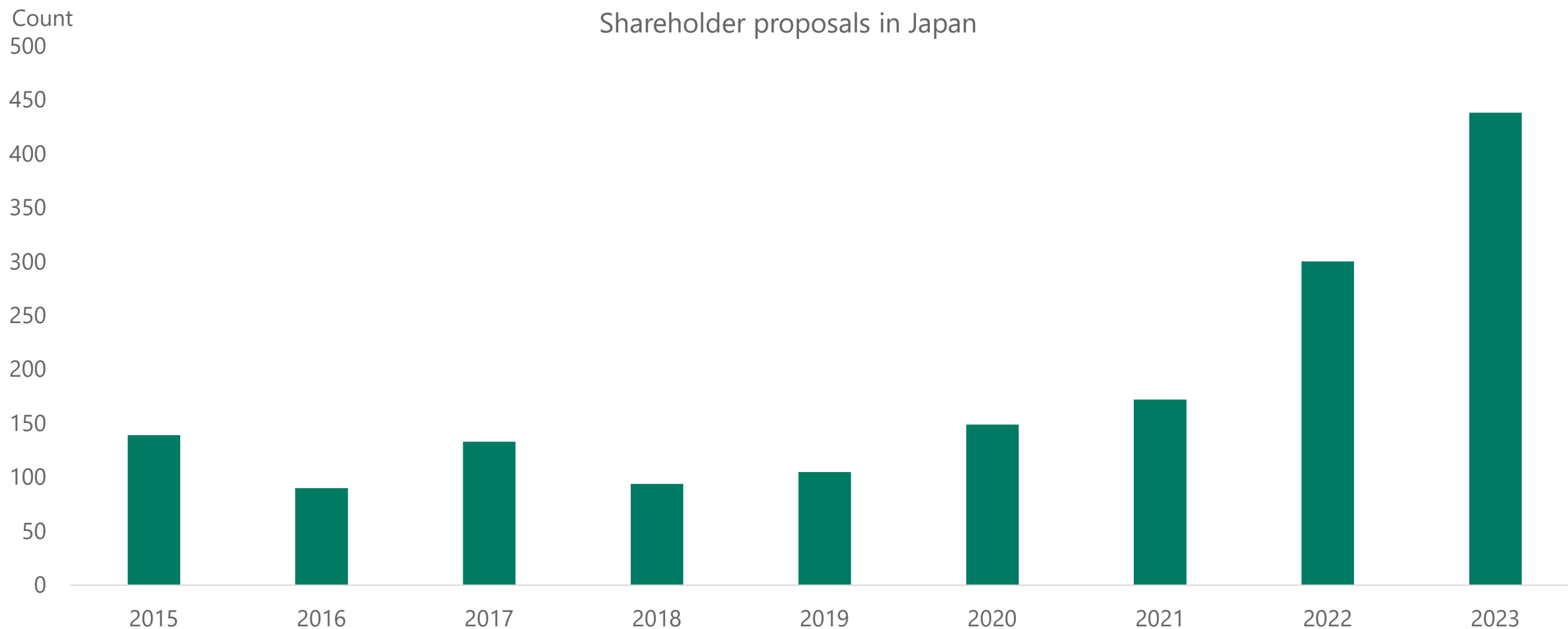




# Japanese long-term term interest rates: JGB 10-year rates now above 1%

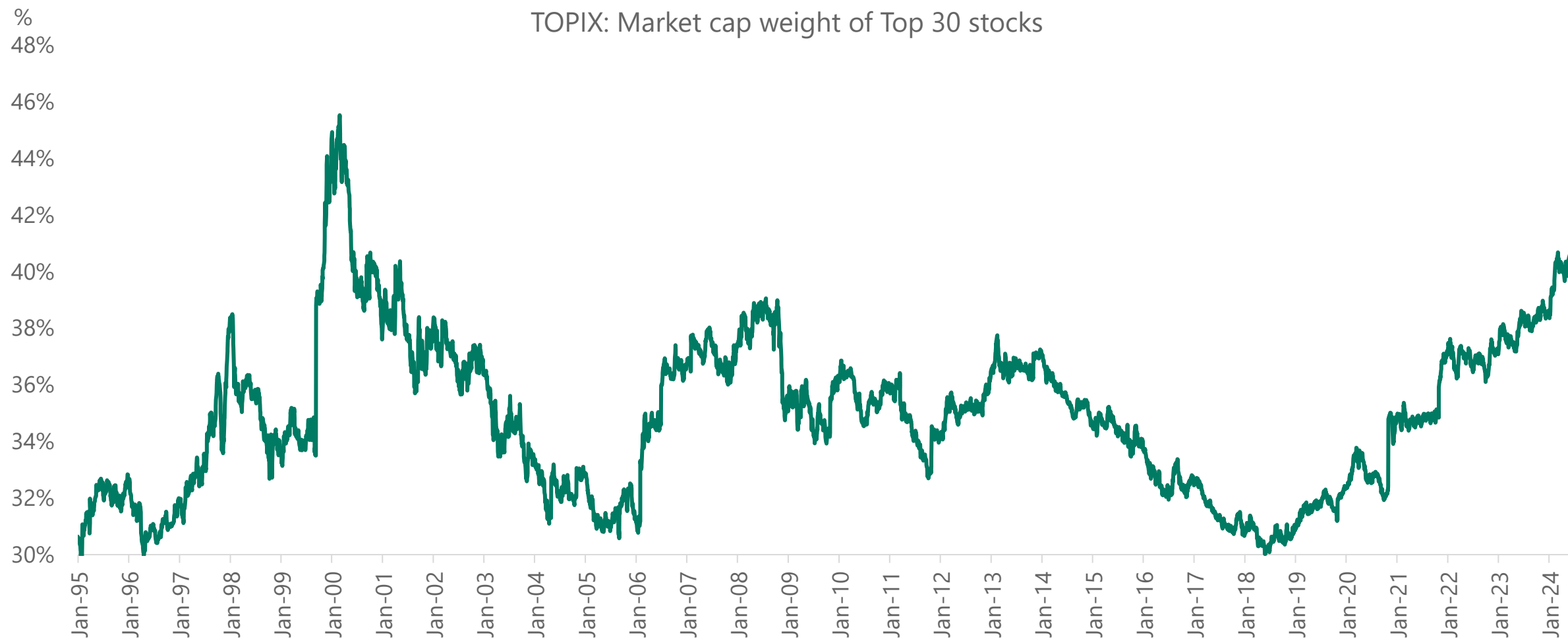


# Shareholder proposals have increased in Japan



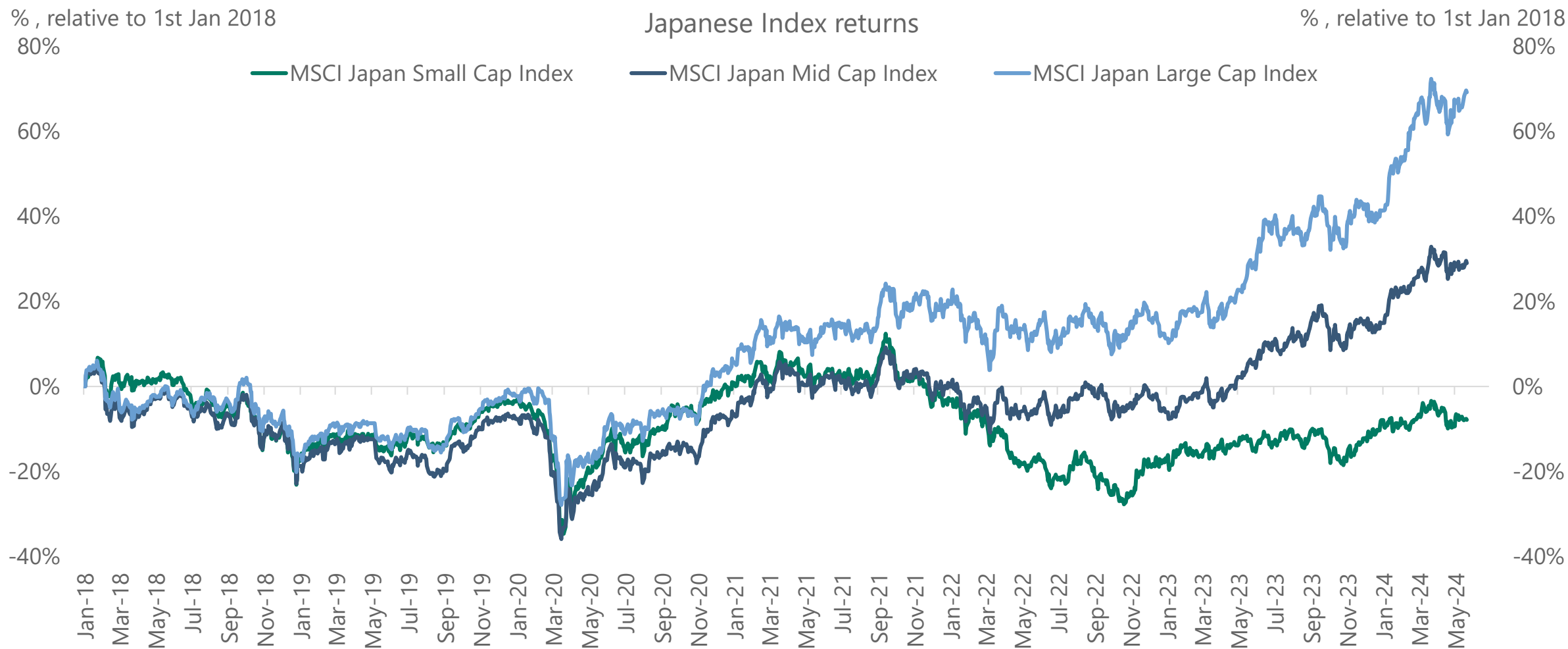
Source: Bloomberg, Apollo Chief Economist. Note: Shareholder proposals include Approve Name Change, Approve Statutory Auditor, Business Operations, Charter/Bylaw Amendment, Climate Change Risk, Decrease Authorized Stock, Director Compensation, Discharge Directors, Dividend/Profit Distribution, Elect Director, Extend Poison Pill (Shareholder Rights Plan), Methane/Greenhouse Gas Emissions, Other Auditor Related, Other Board Related, Other Capital Structure, Other Compensation, Other Governance, Remove Director, Remove Poison Pill (Shareholder Rights Plan), Share Repurchase Related proposals

# Concentration is also a big issue in the Japanese stock market



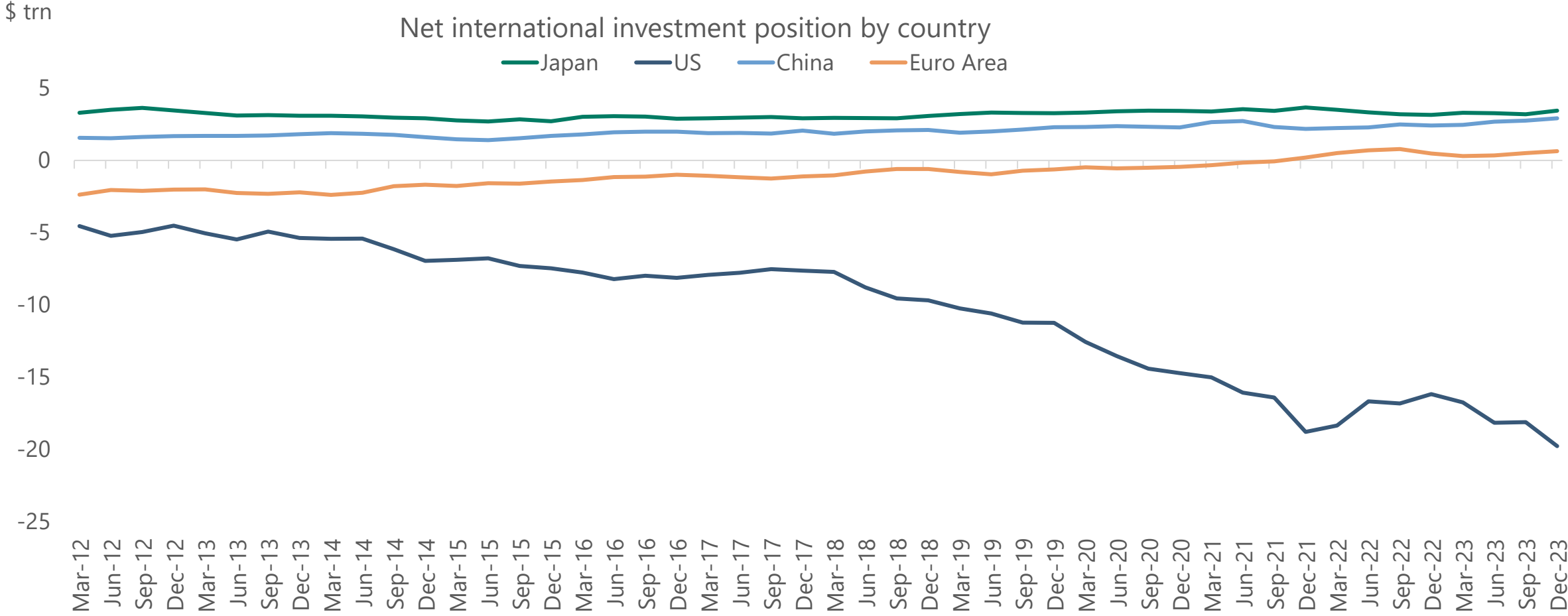
Source: Bloomberg, Apollo Chief Economist

# Large cap stocks outperforming in Japan



Source: Bloomberg, Apollo Chief Economist

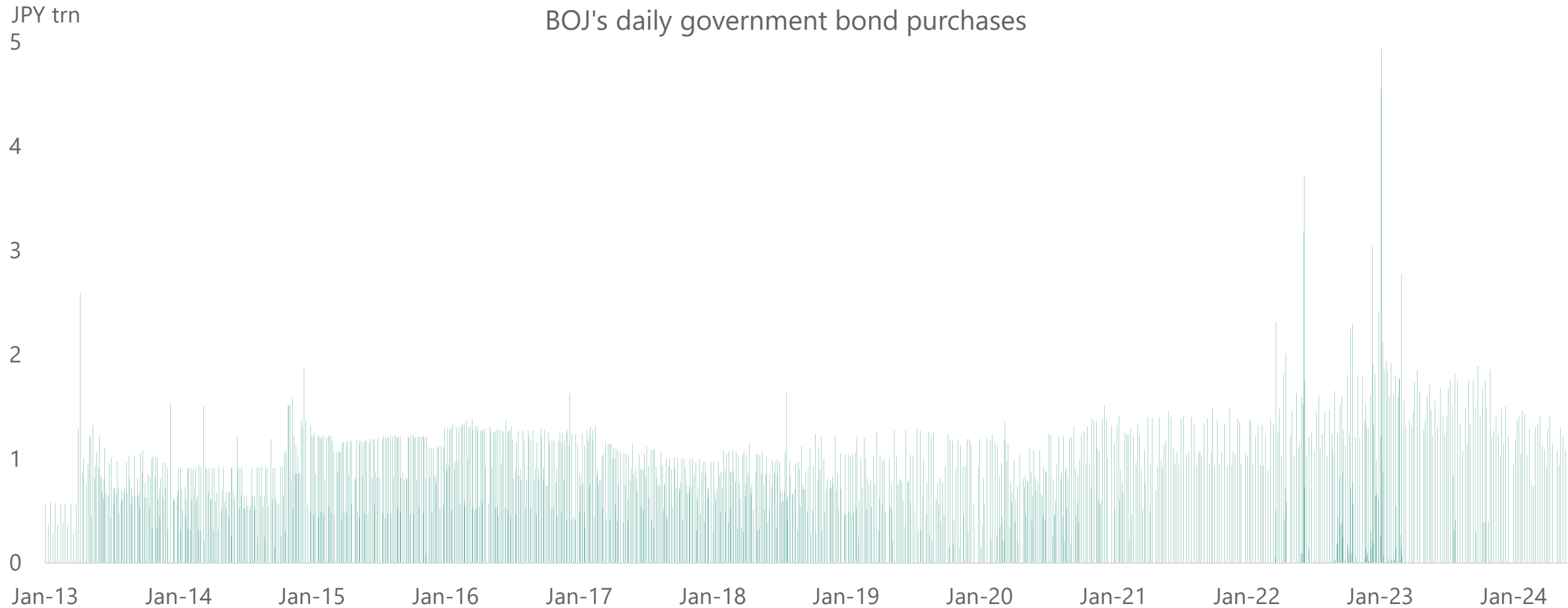
# Japan has the largest positive NIIP in the world



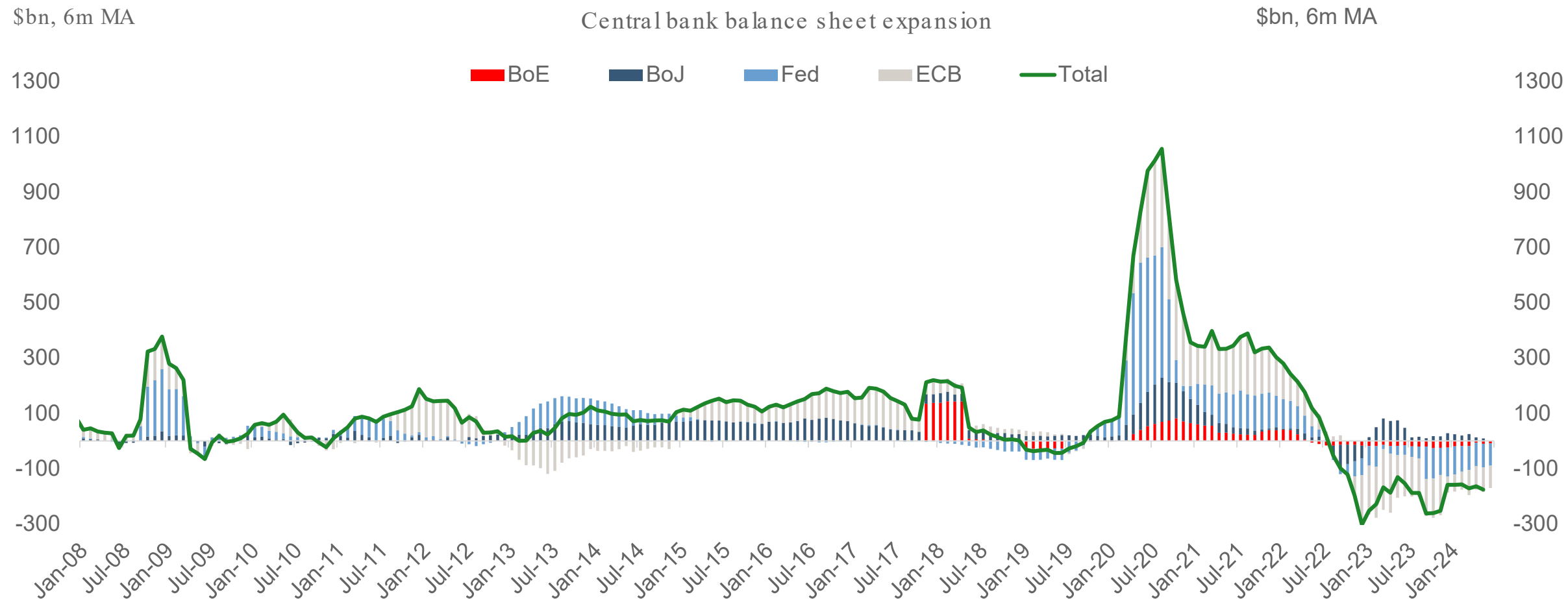
Source: The IMF, Bloomberg, Apollo Chief Economist (Data as of Q4 2023)

# BoJ JGB purchases and holdings

# BoJ: Steady buying of JGBs for more than a decade

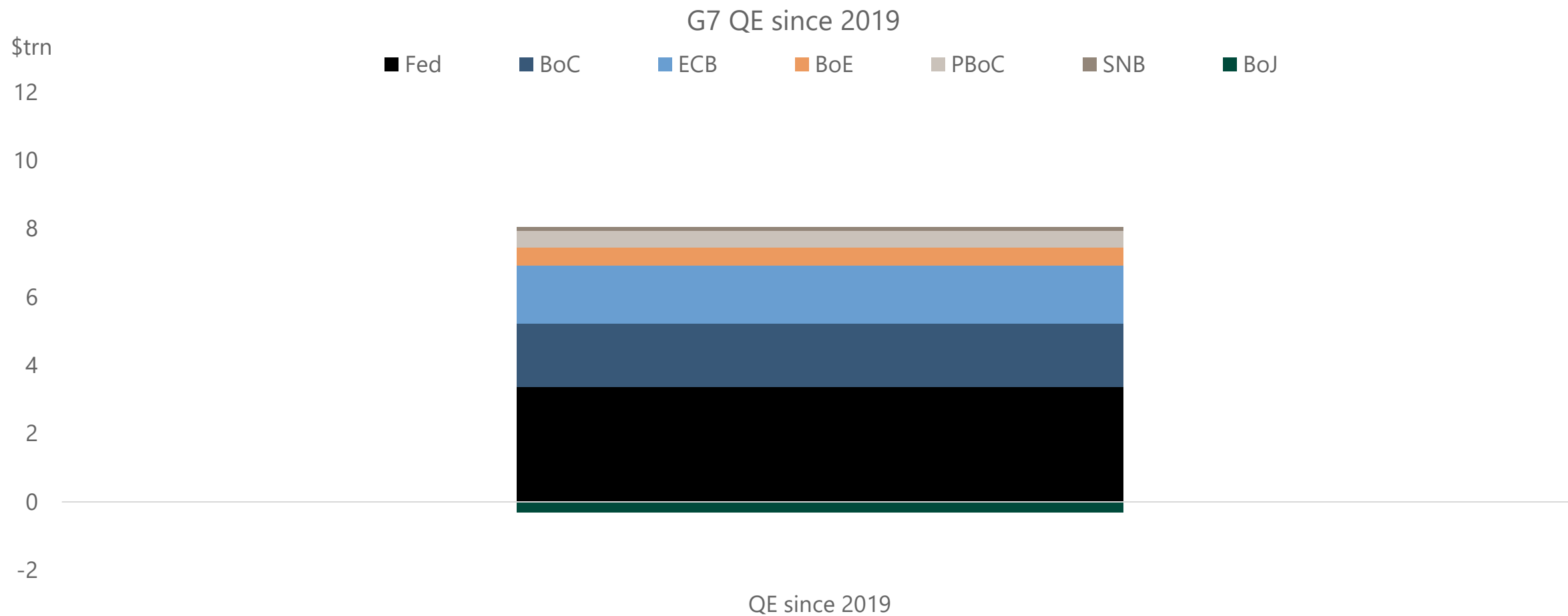


# G4 central bank balance sheets

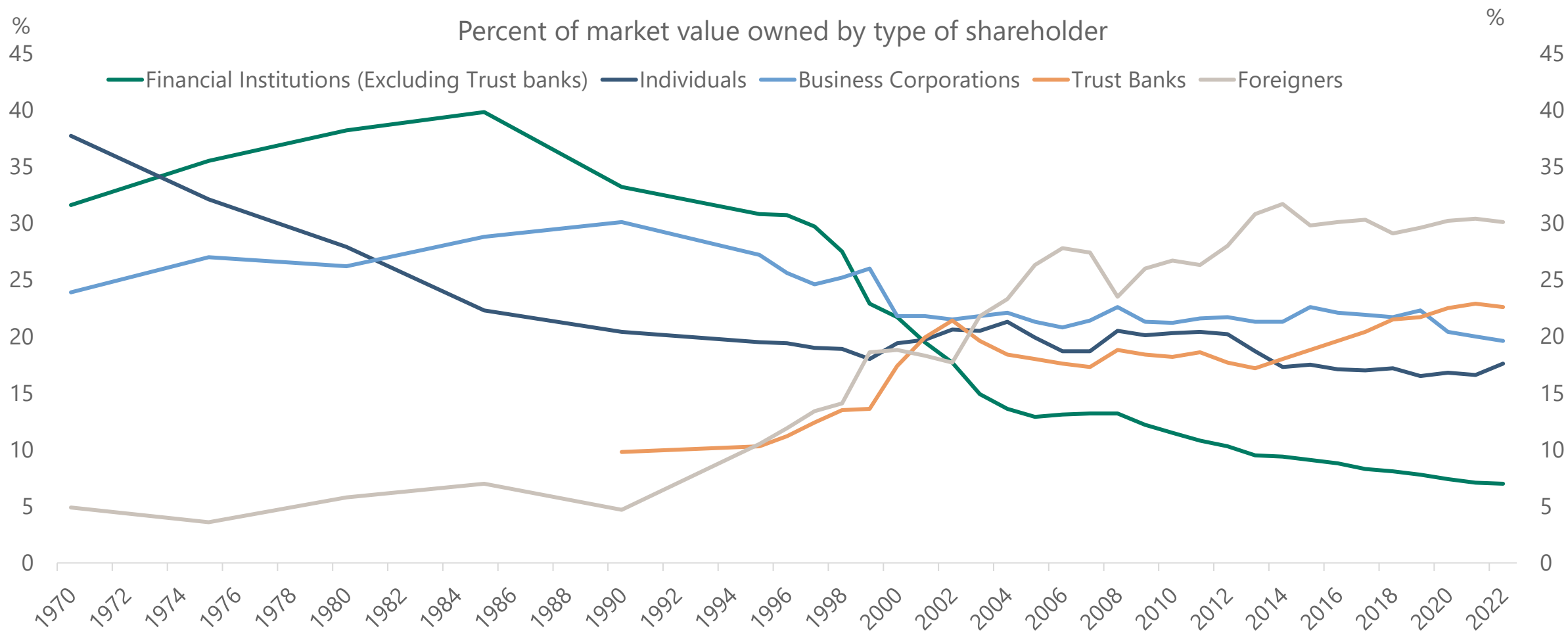




# G7 central banks have printed \$8trn since 2019



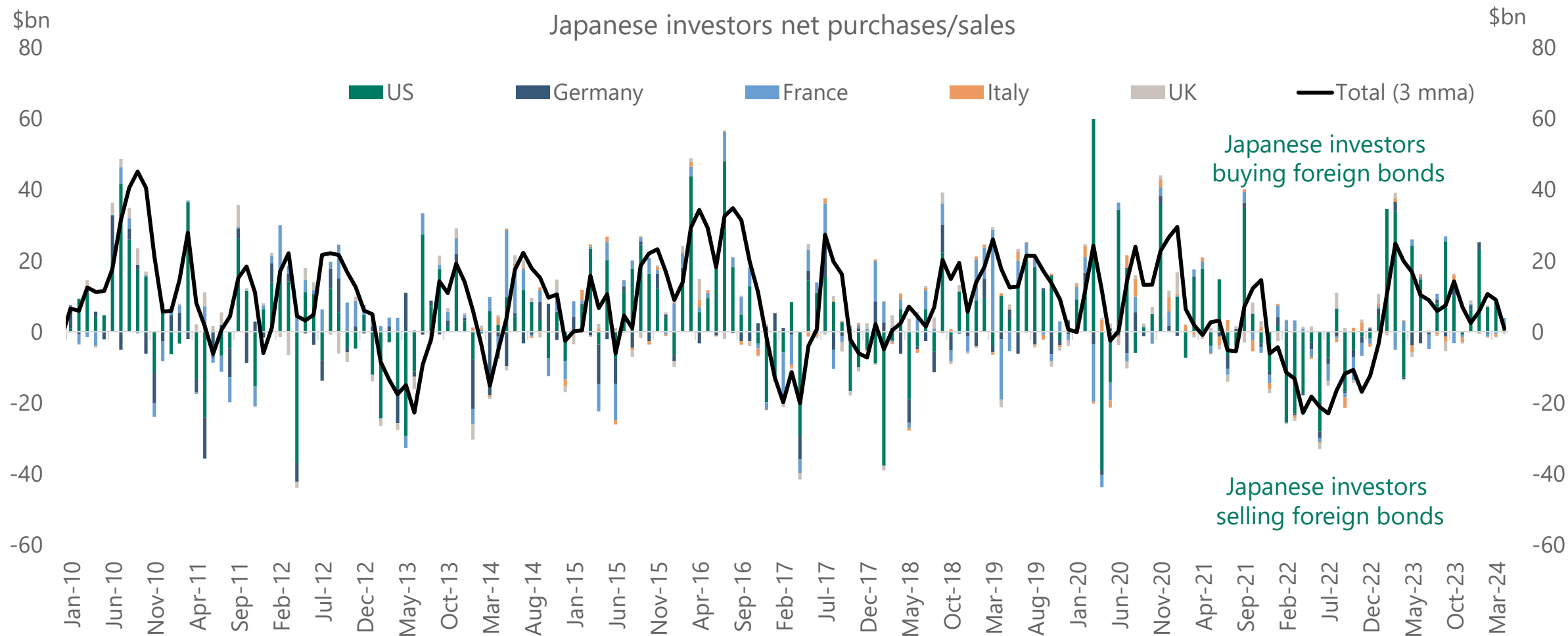
# Foreign holdings of Japanese stocks rising



Source: Tokyo Stock Shareownership Survey, Apollo Chief Economist. Note: The number of Trust Banks are included in that of City & Regional Banks in and before 1985 Survey.

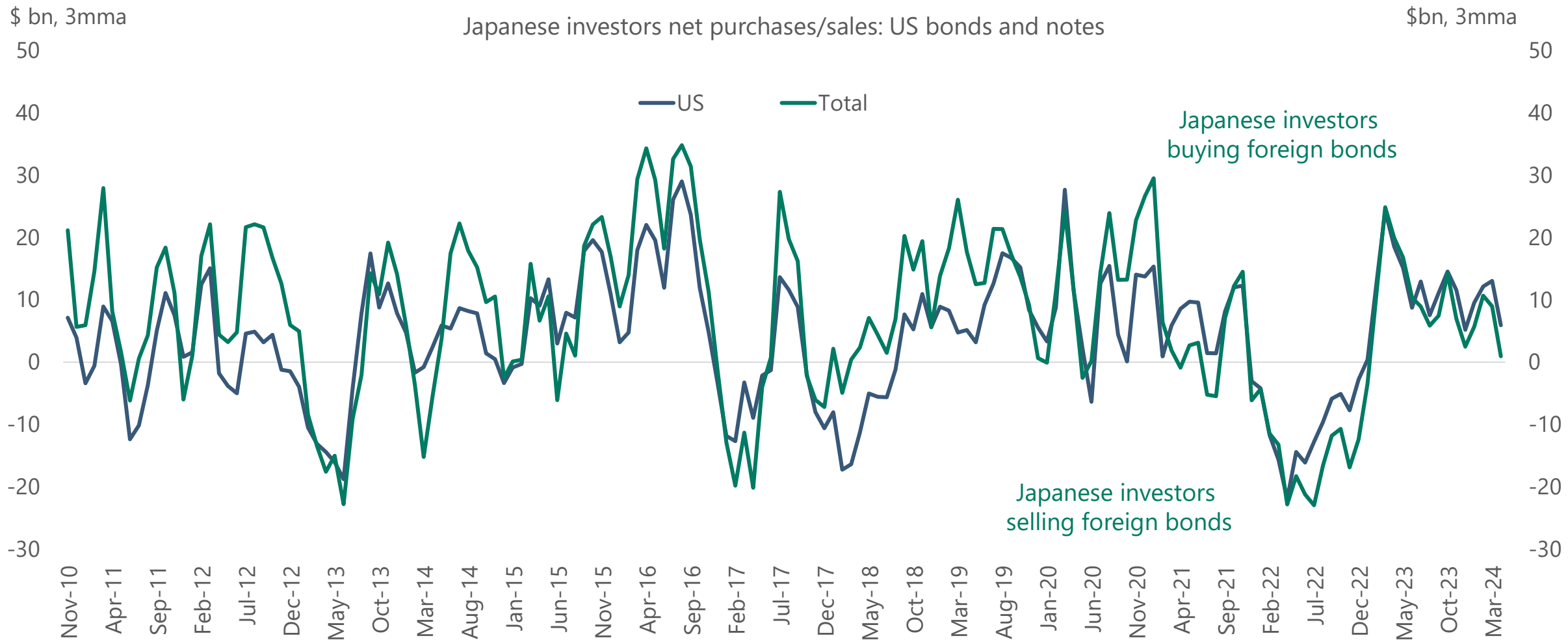
# Bond flows in and out of Japan

# Japanese investors moving toward selling foreign bonds



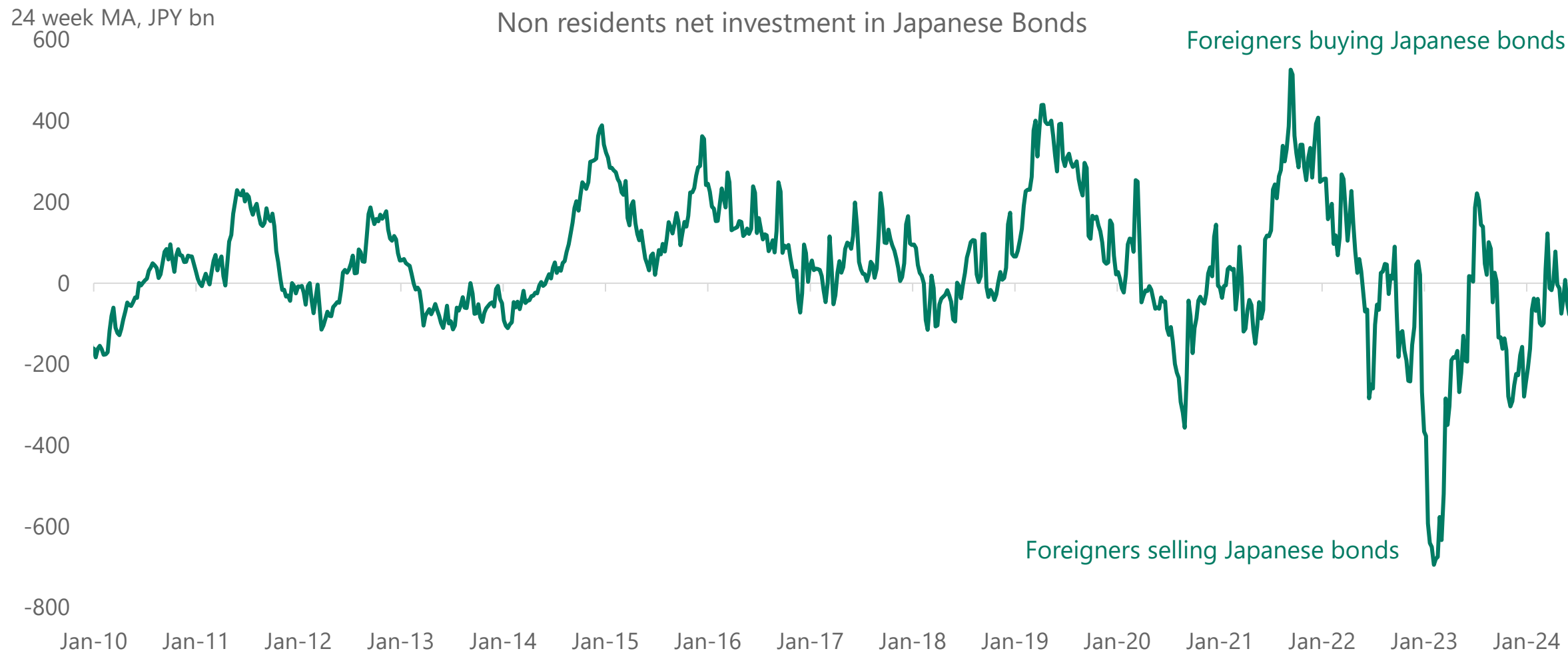
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

# Japanese investors moving toward selling US Treasuries



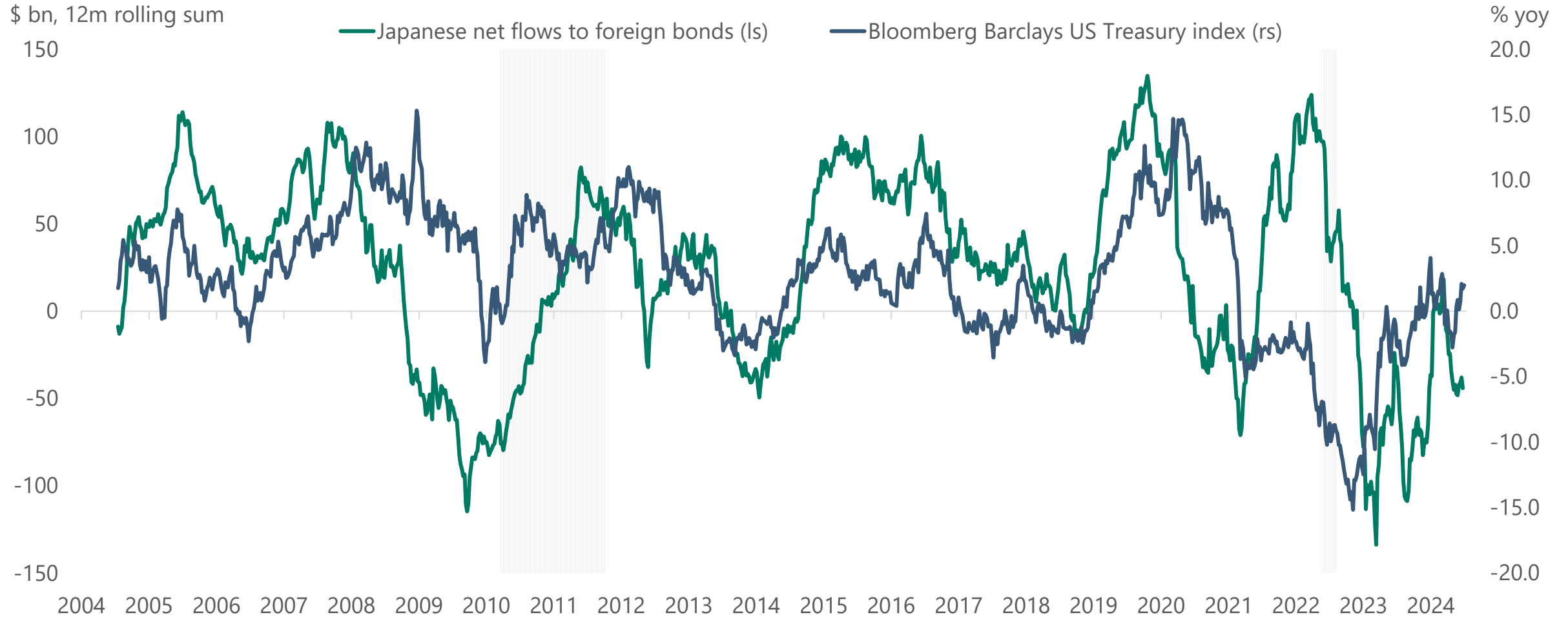
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

# Foreign net purchases of Japanese bonds

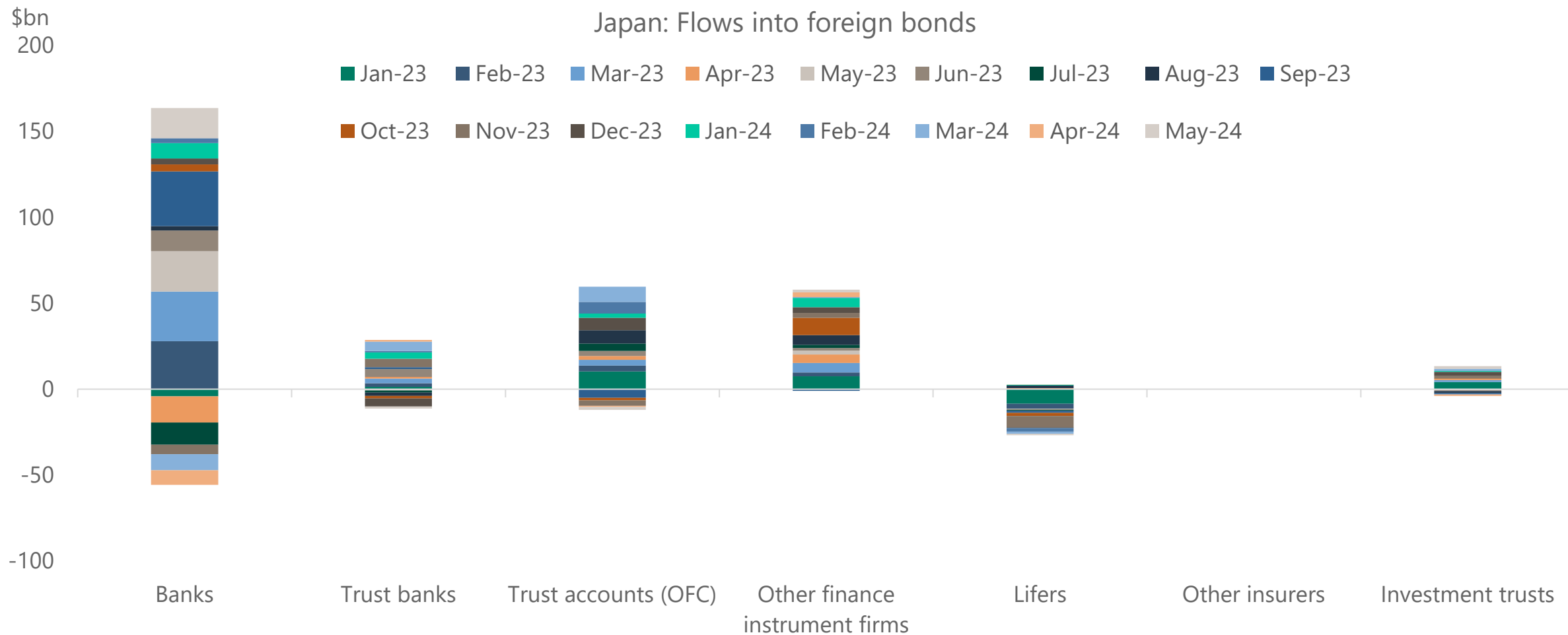


Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Initially, when US rates went up, Japanese investors started selling US fixed income. But more recently, Japanese investors have been coming back

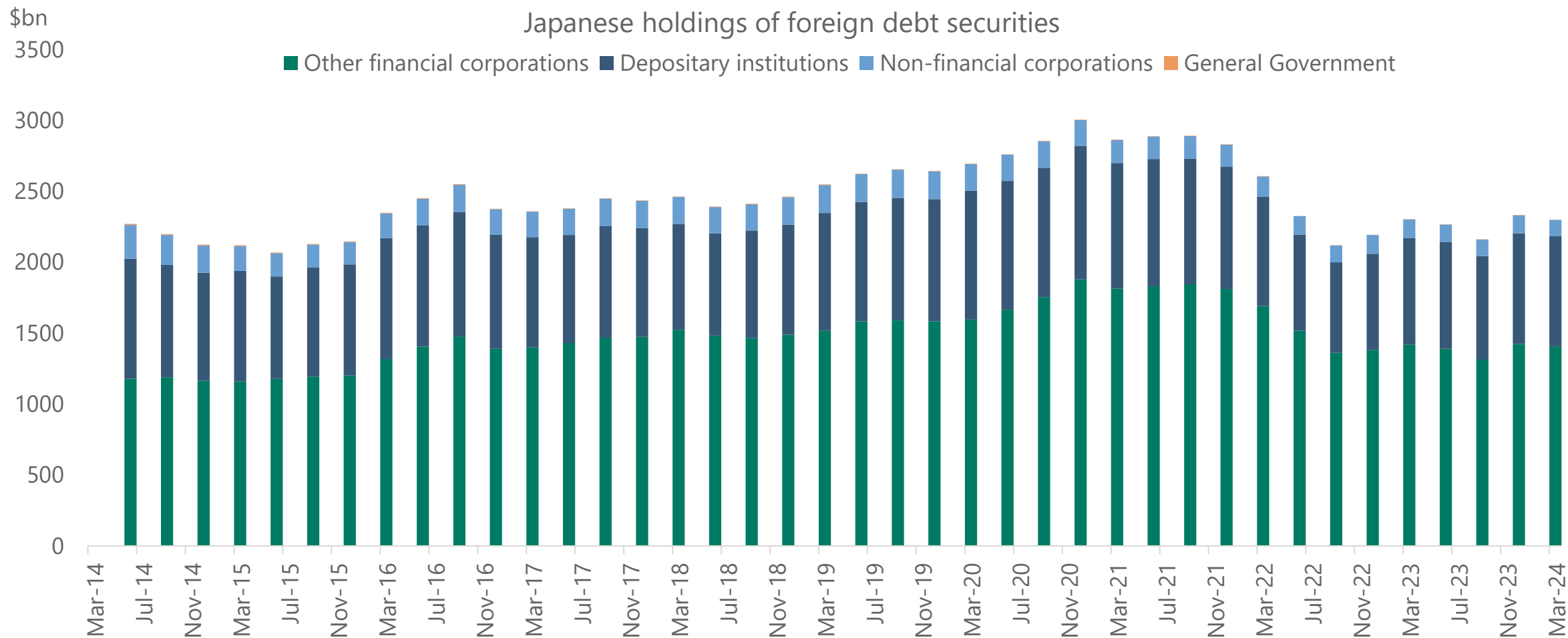


# Japan: Banks continue to buy foreign bonds





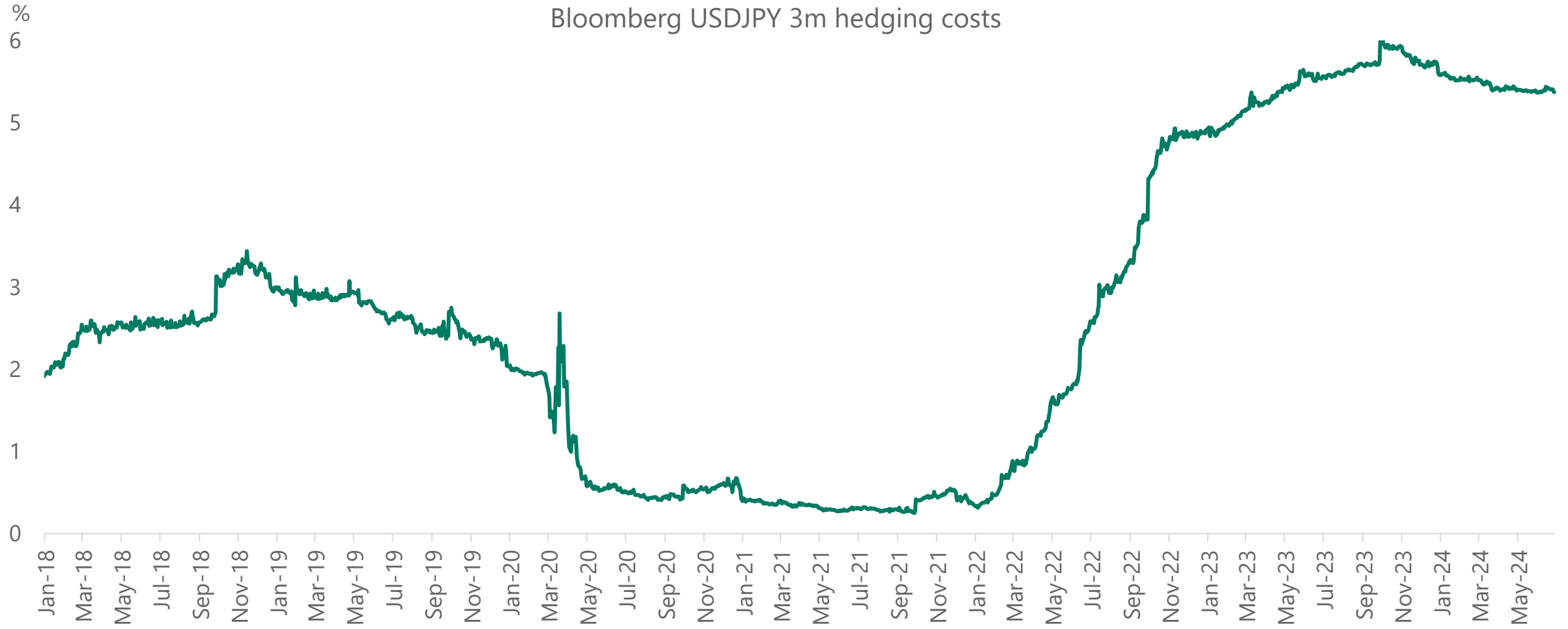
# Japanese banks and real money investors are key holders of foreign debt securities



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

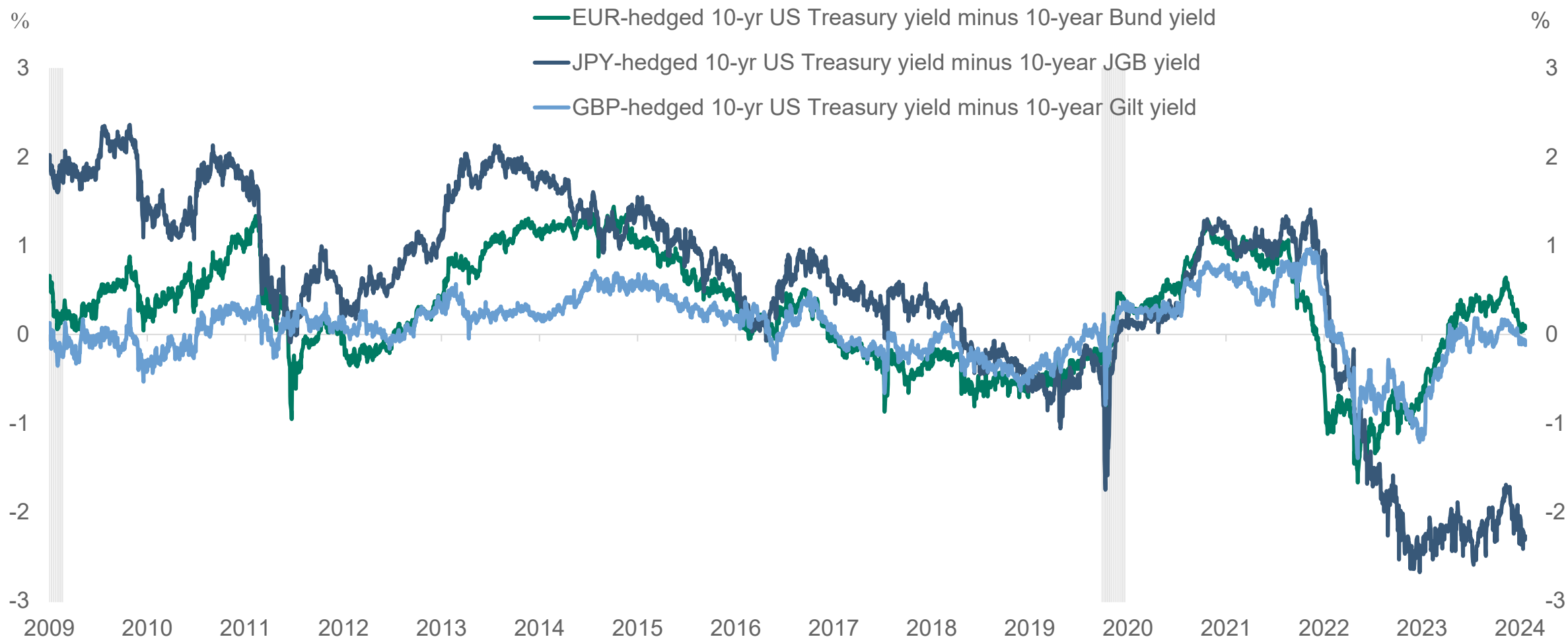
# Hedging costs

# Dollar-hedging costs are very high for Japanese investors



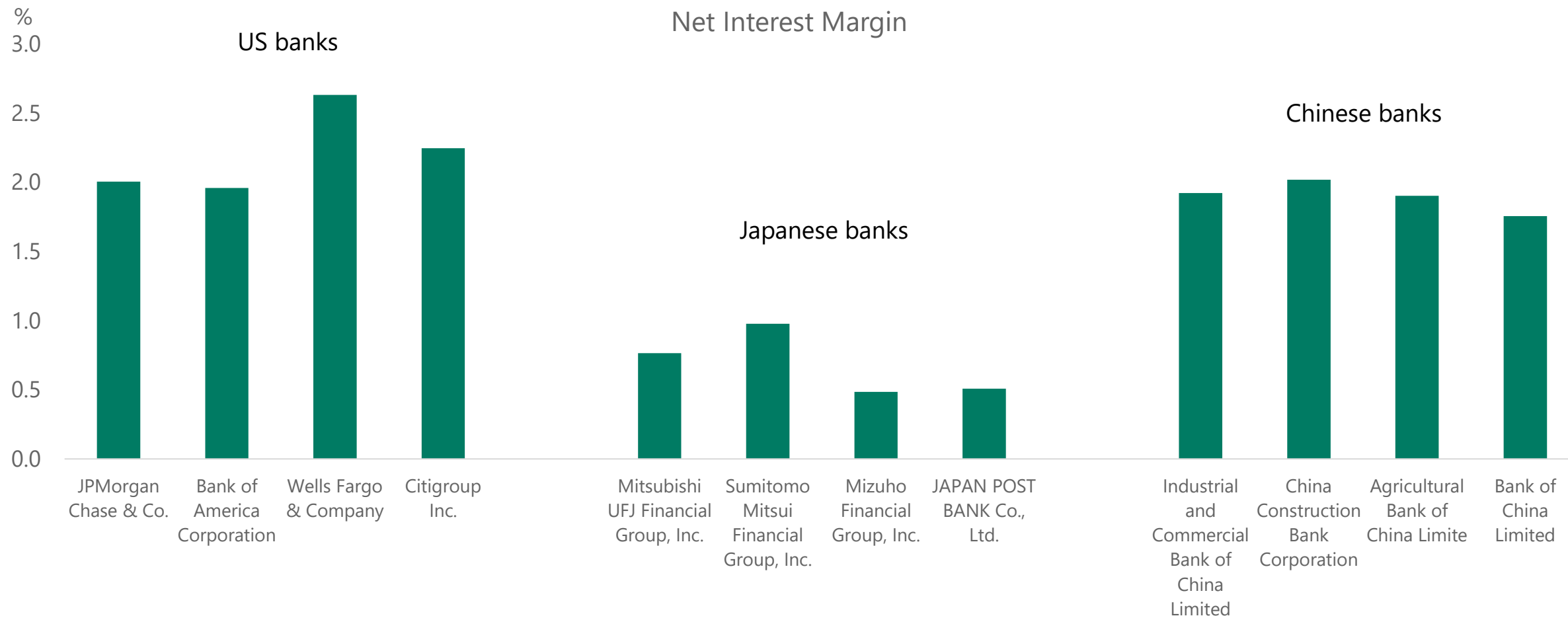
Source: Bloomberg, Apollo Chief Economist

# Negative returns from holding JPY-hedged Treasury yields

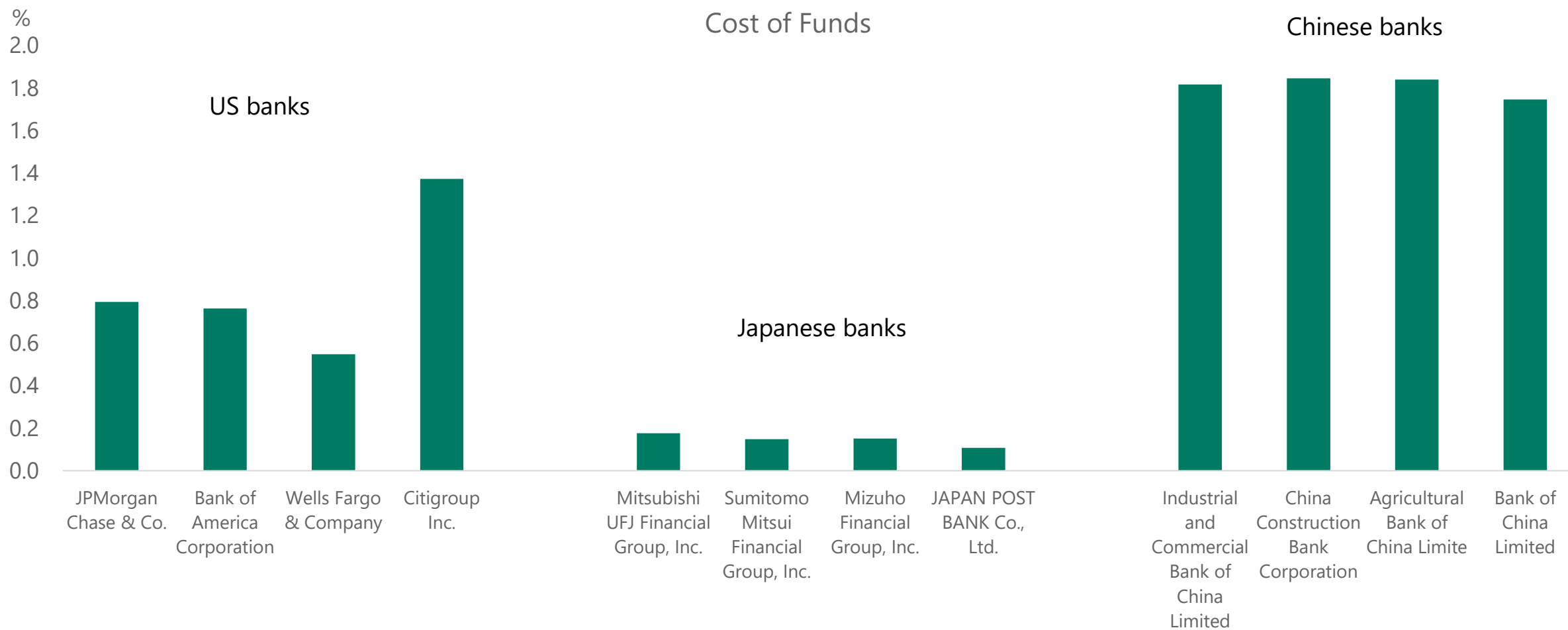


# Japanese banks

# NIM for banks: US, Japan, and China



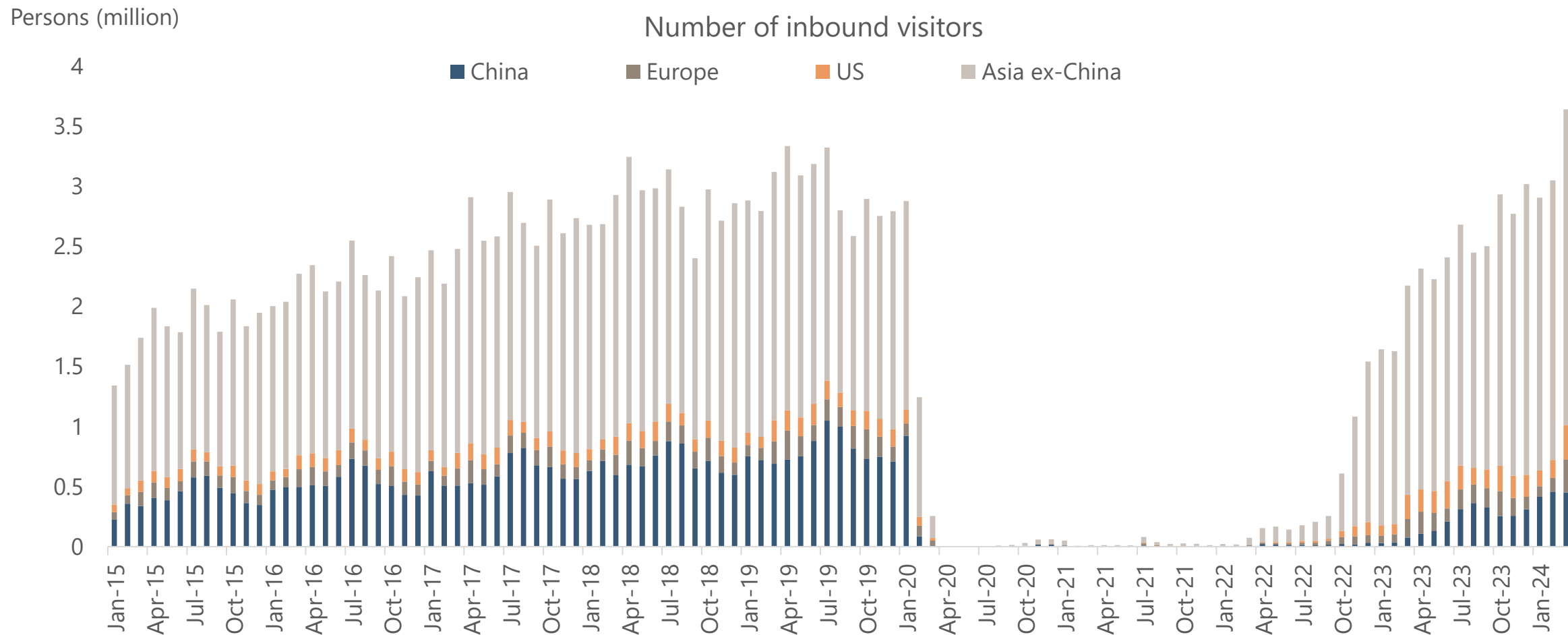
# Cost of funds for banks: US, Japan, and China



# Other indicators for Japan

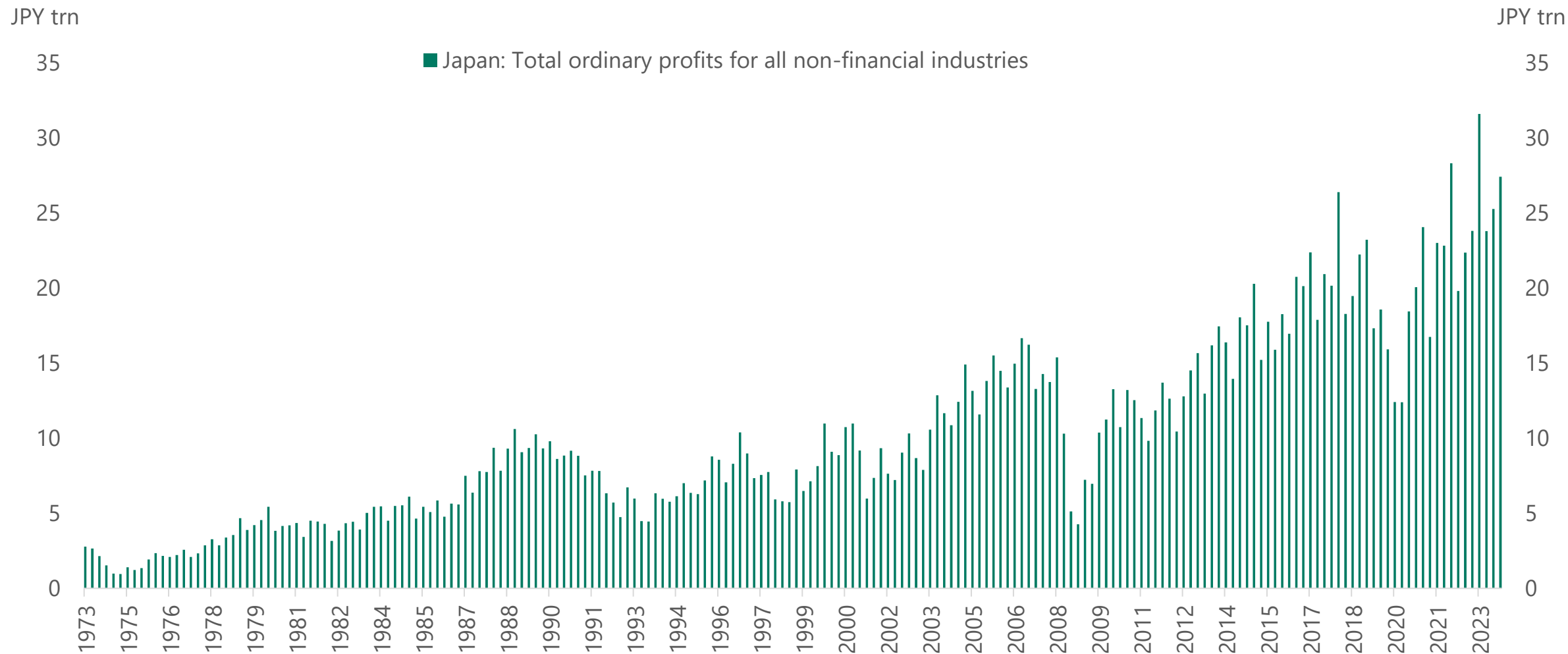


# Tourism: International visitors coming back to Japan, partly driven by the weak yen



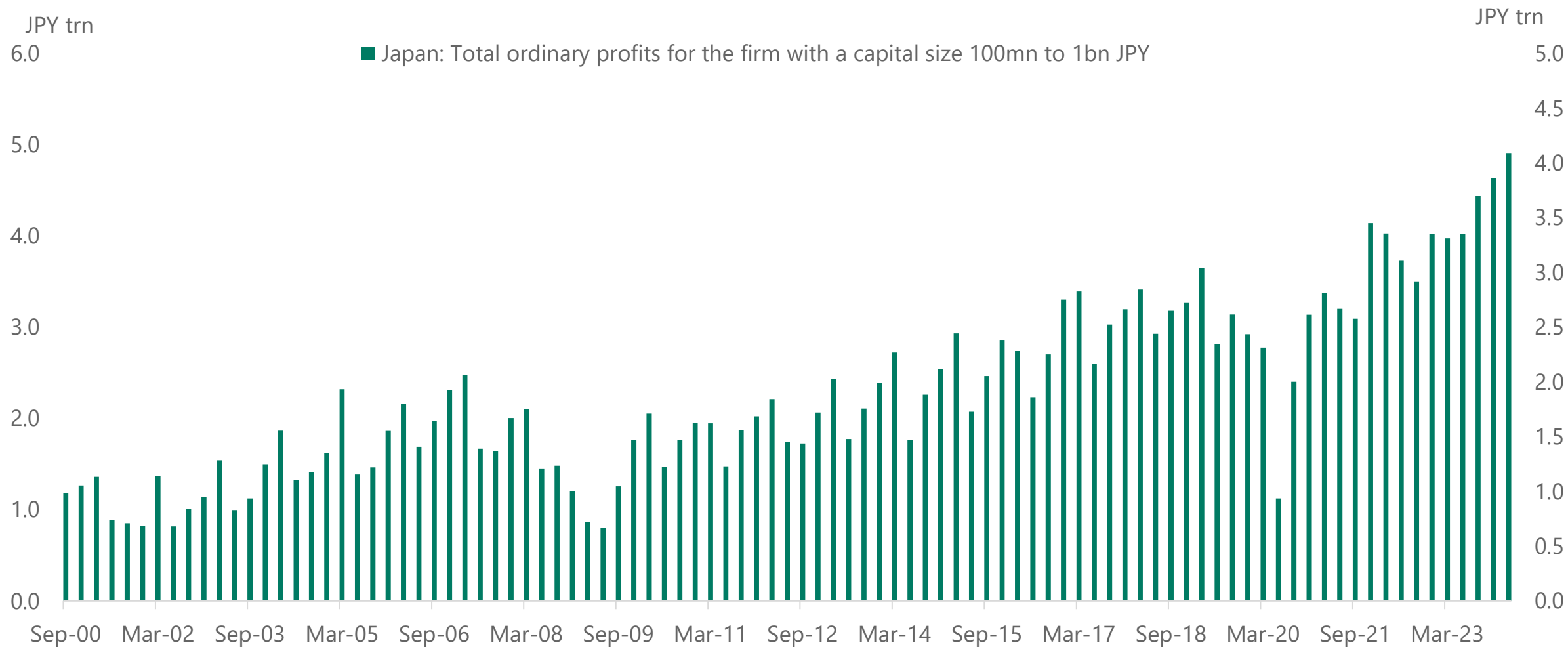
Source: Japan National Tourism Organization, Bloomberg, Apollo Chief Economist

# Japan: Corporate ordinary profits for all industries is rising



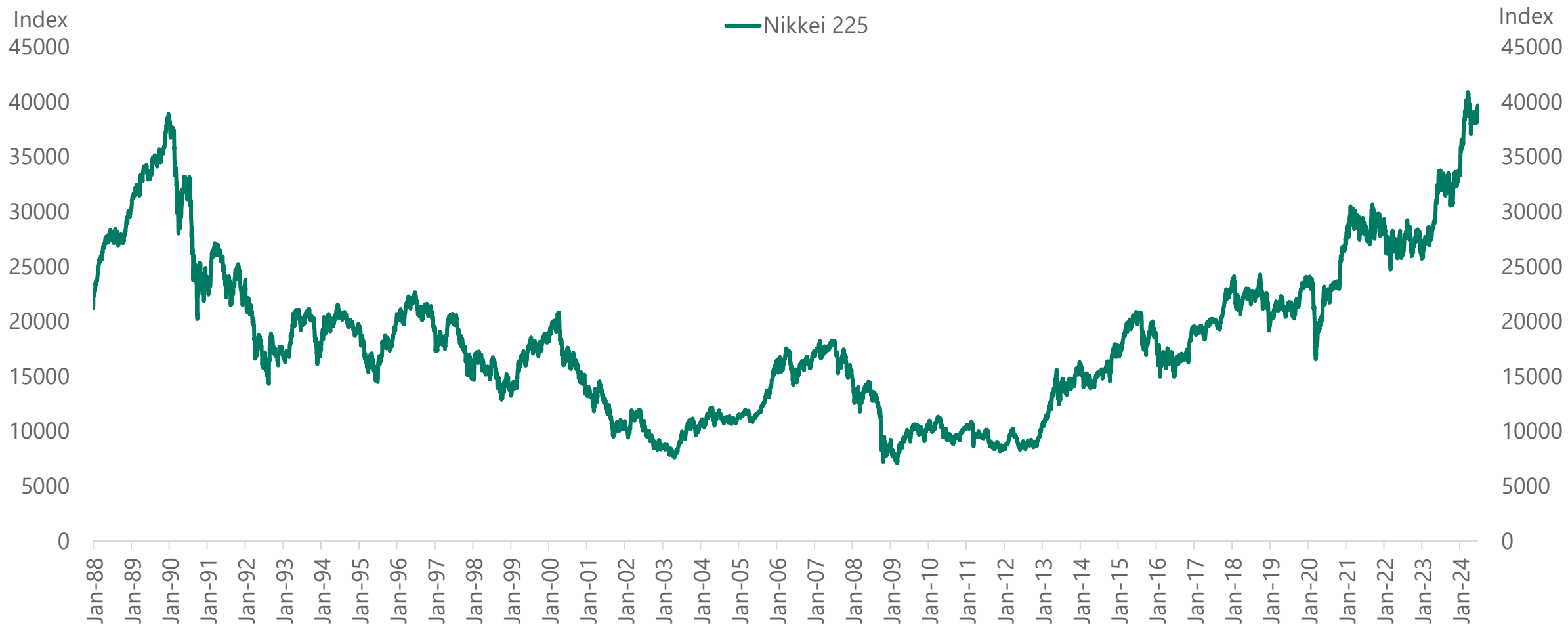
Source: MoF, Bloomberg, Apollo Chief Economist

# Japan: Medium size corporate's ordinary profits highest since 2000



Source: MoF, Bloomberg, Apollo Chief Economist

# Nikkei 25 index has increased to levels last seen in 1989



Source: 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.