

APOLLO

# Japanese demand for US Treasuries

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**Apollo Global Management**

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Unless otherwise noted, information as of January 2025.

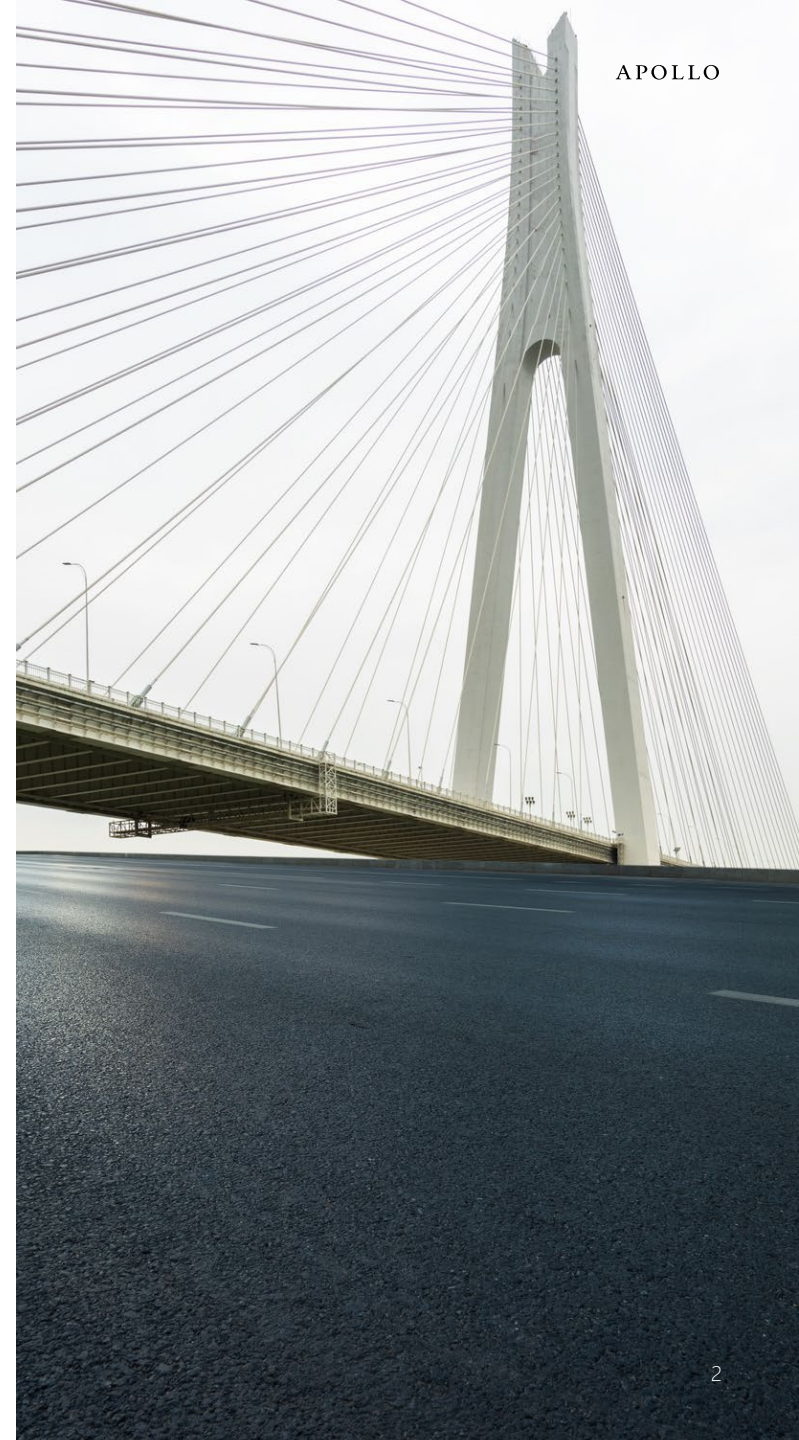
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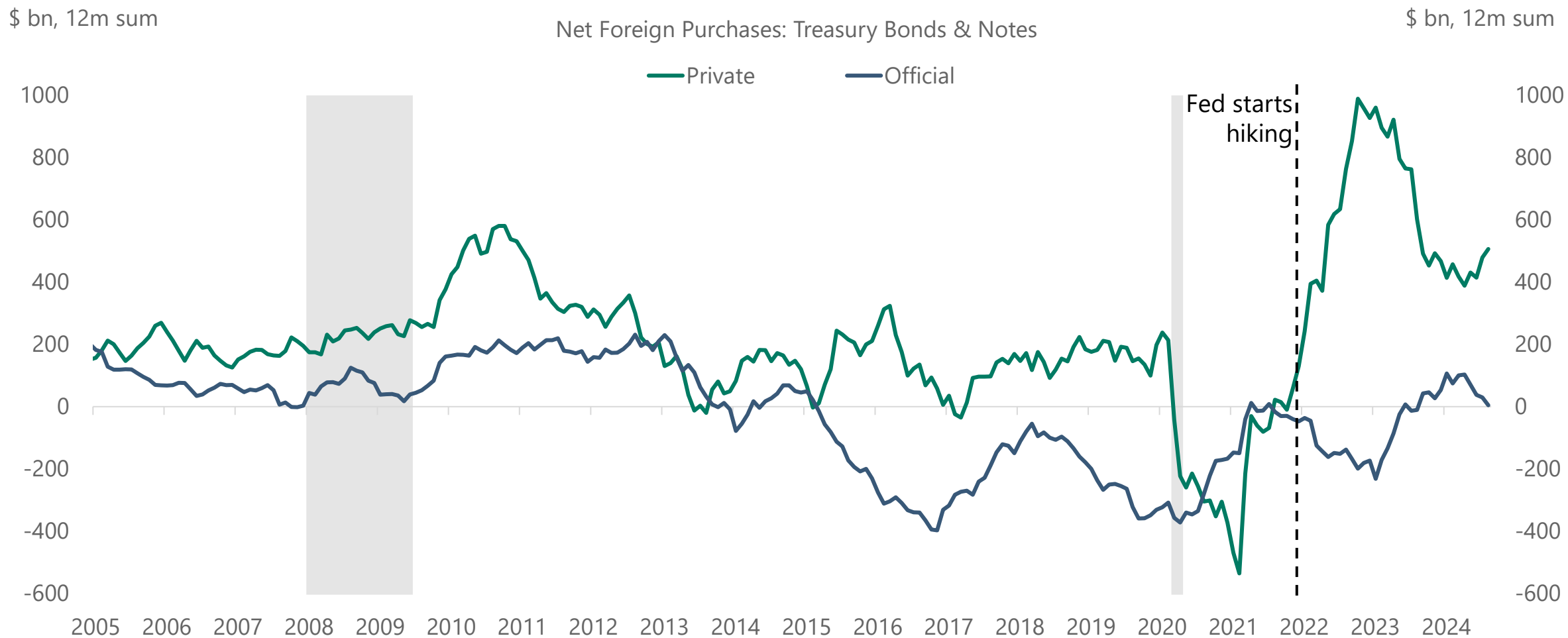
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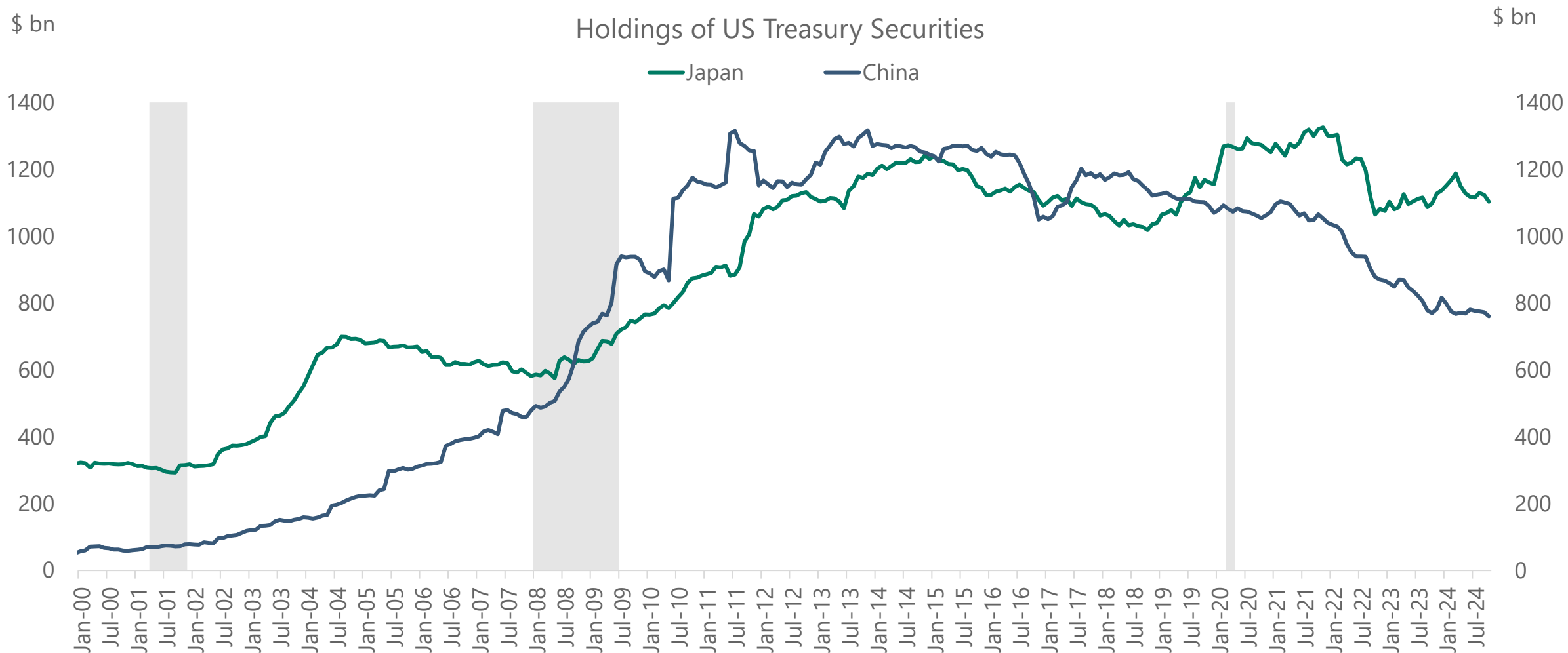
# Foreign purchases of Treasuries come mainly from the private sector



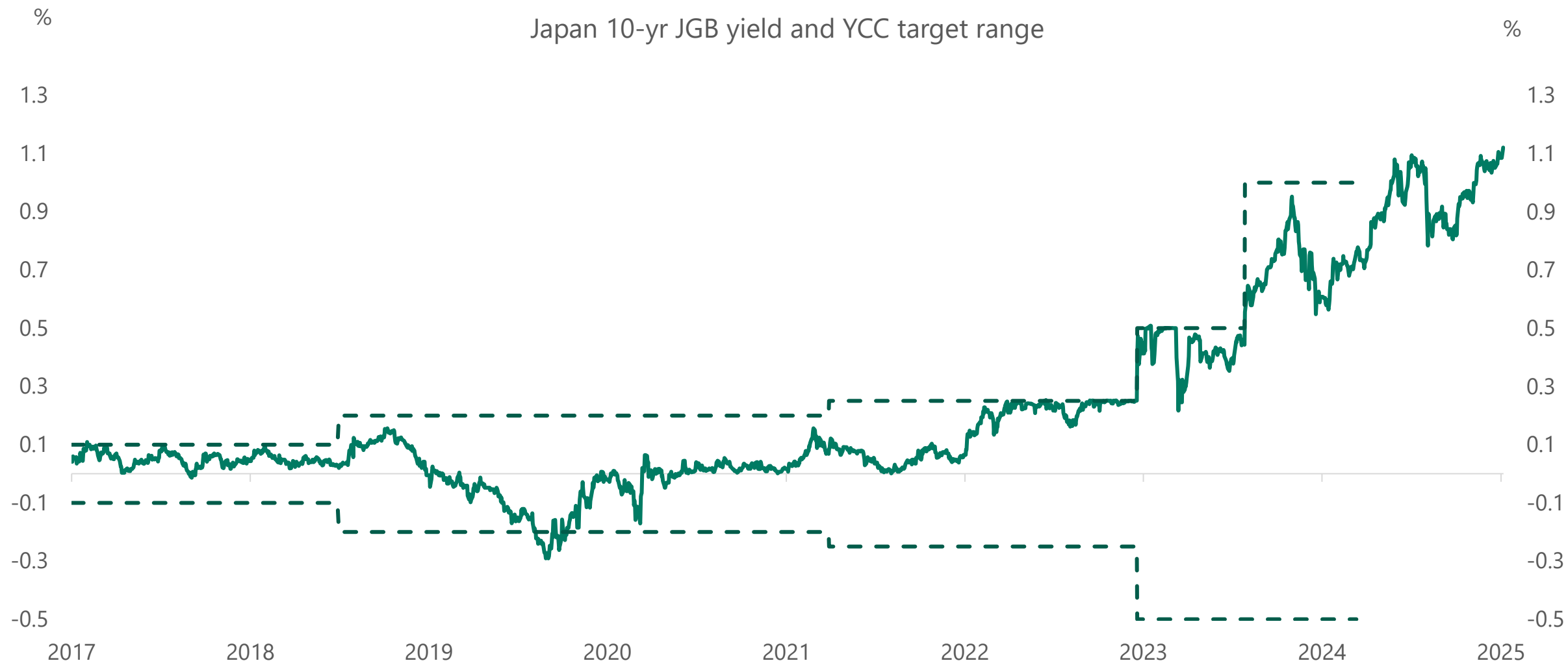
Source: Treasury, Haver Analytics, Apollo Chief Economist

# Overview

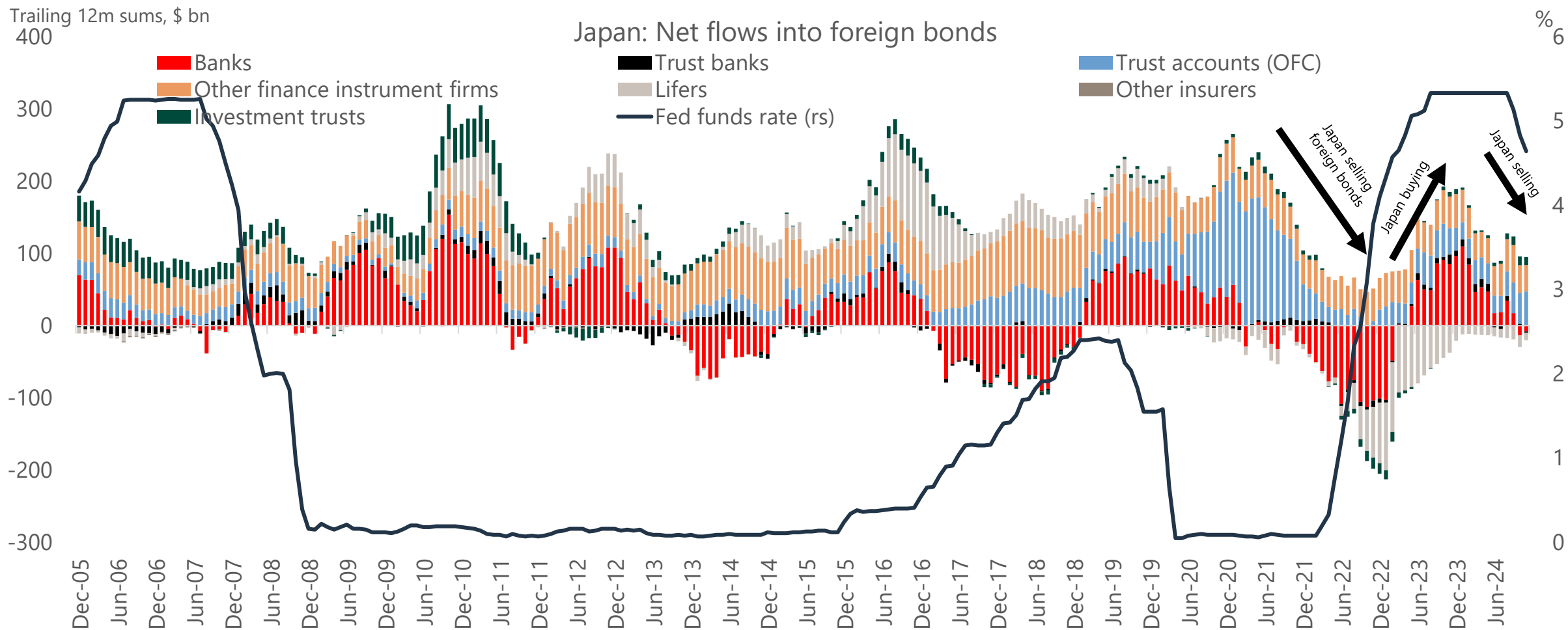
Japan owns \$1.1 trillion in US Treasuries. China owns \$760 billion.



# Japanese 10-year yield moving higher

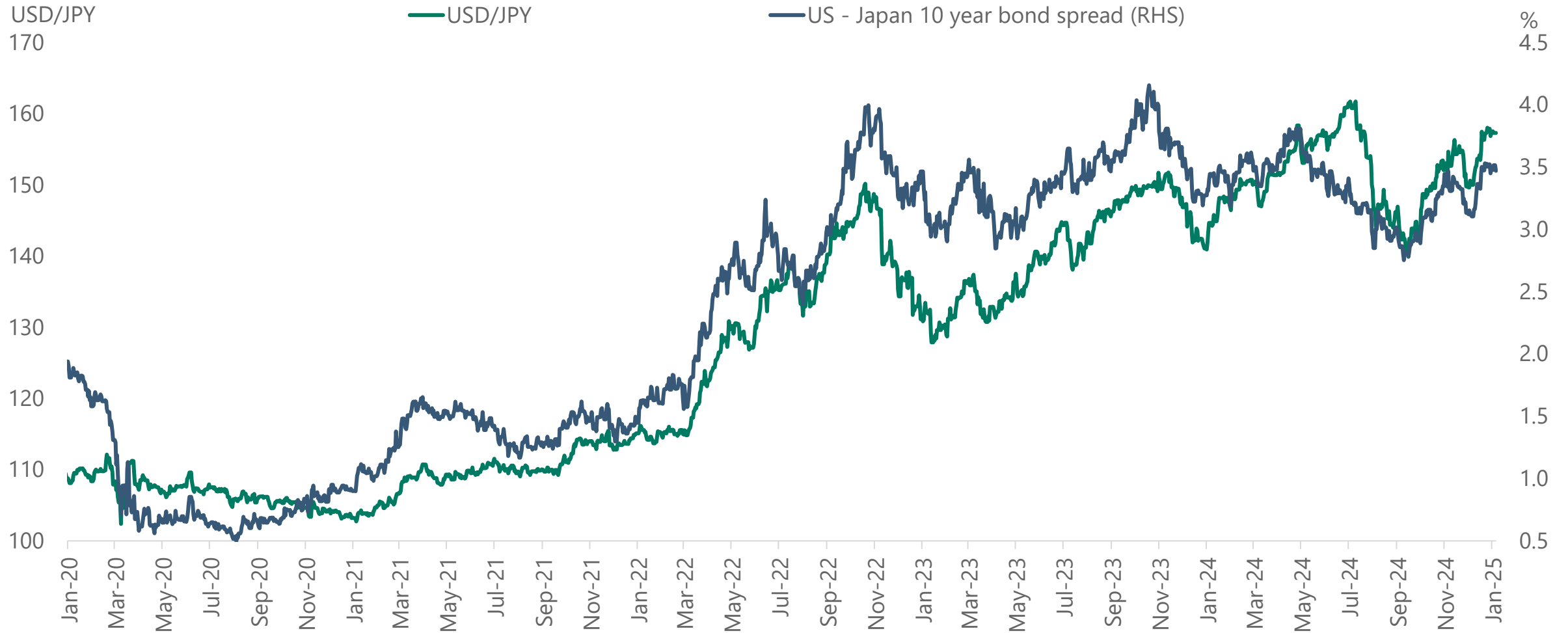


# Japan: Net flows into foreign bonds are sensitive to interest rates



Source: Bloomberg, Apollo Chief Economist

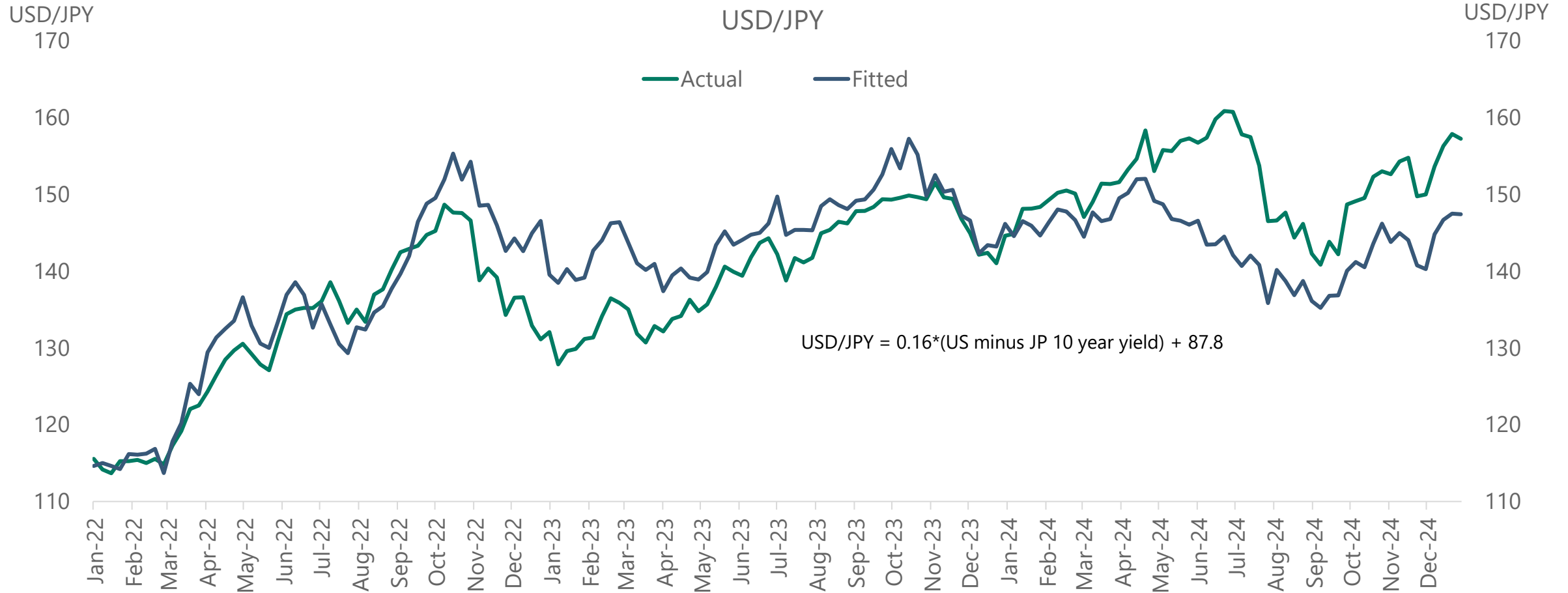
# When US 10-year interest rates move up the yen depreciates



Source: Bloomberg, Apollo Chief Economist

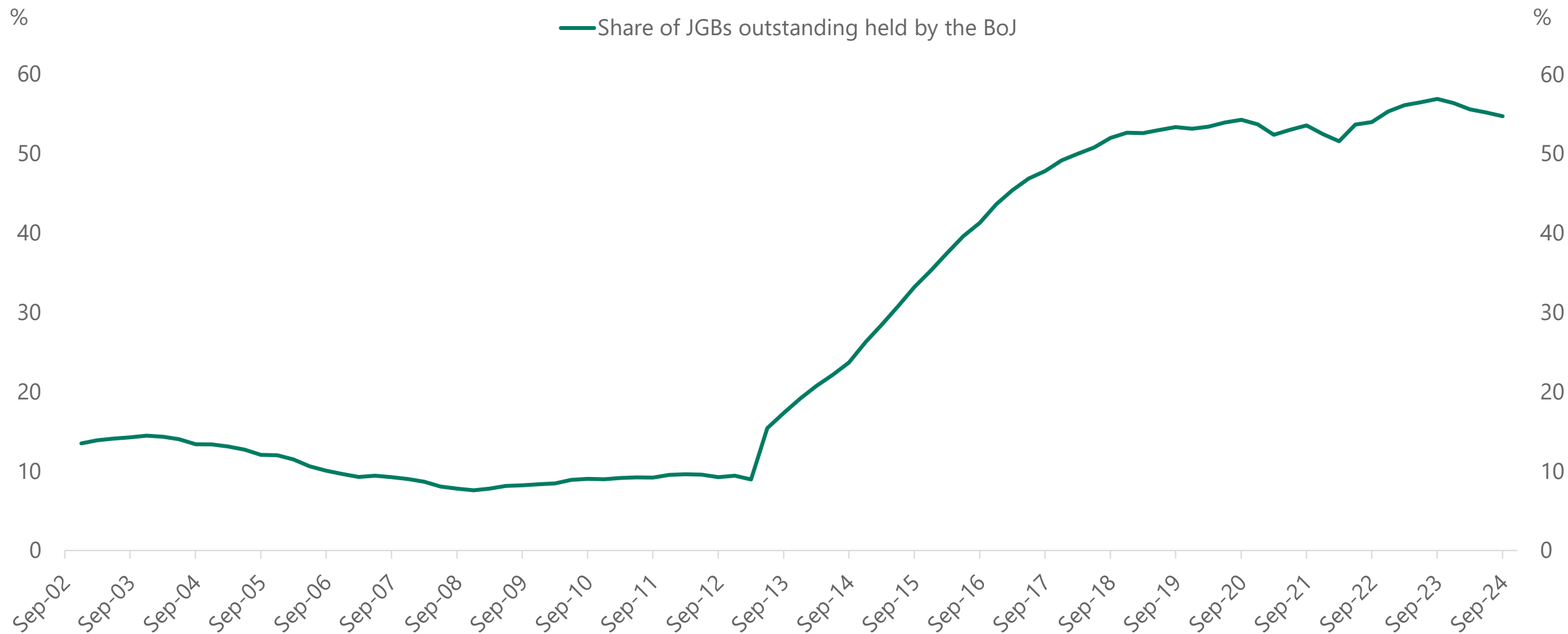


# USD/JPY has appreciated 10 points less than predicted by US/JP interest rate differentials



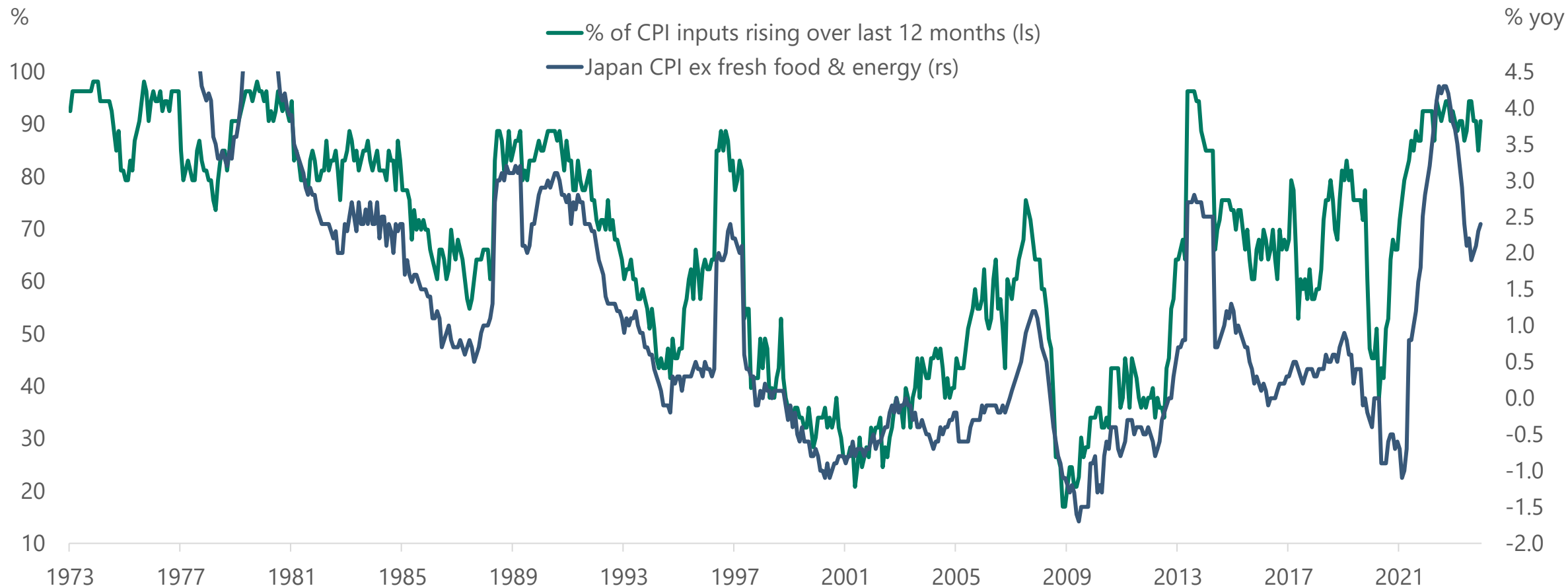
Source: Bloomberg, Apollo Chief Economist

# The BoJ owns 55% of Japanese government bonds outstanding

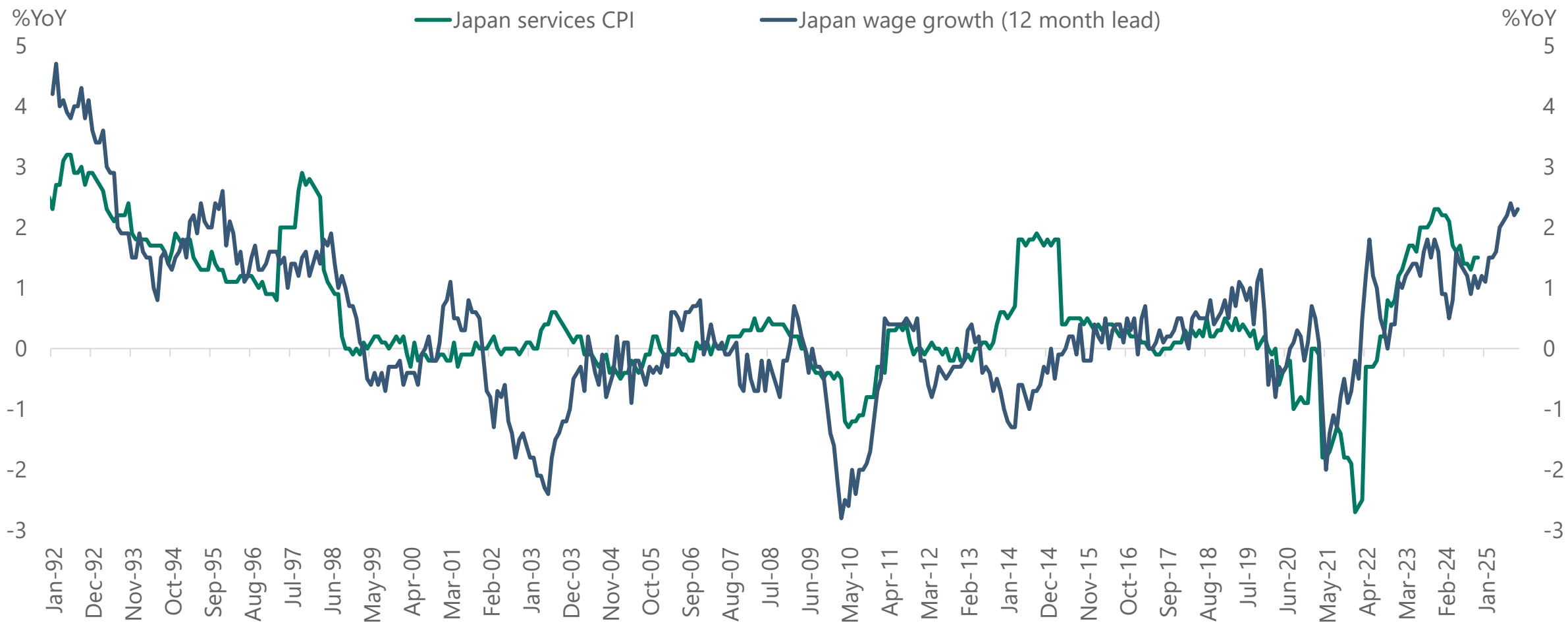


# Macro background

# Japanese inflation still high

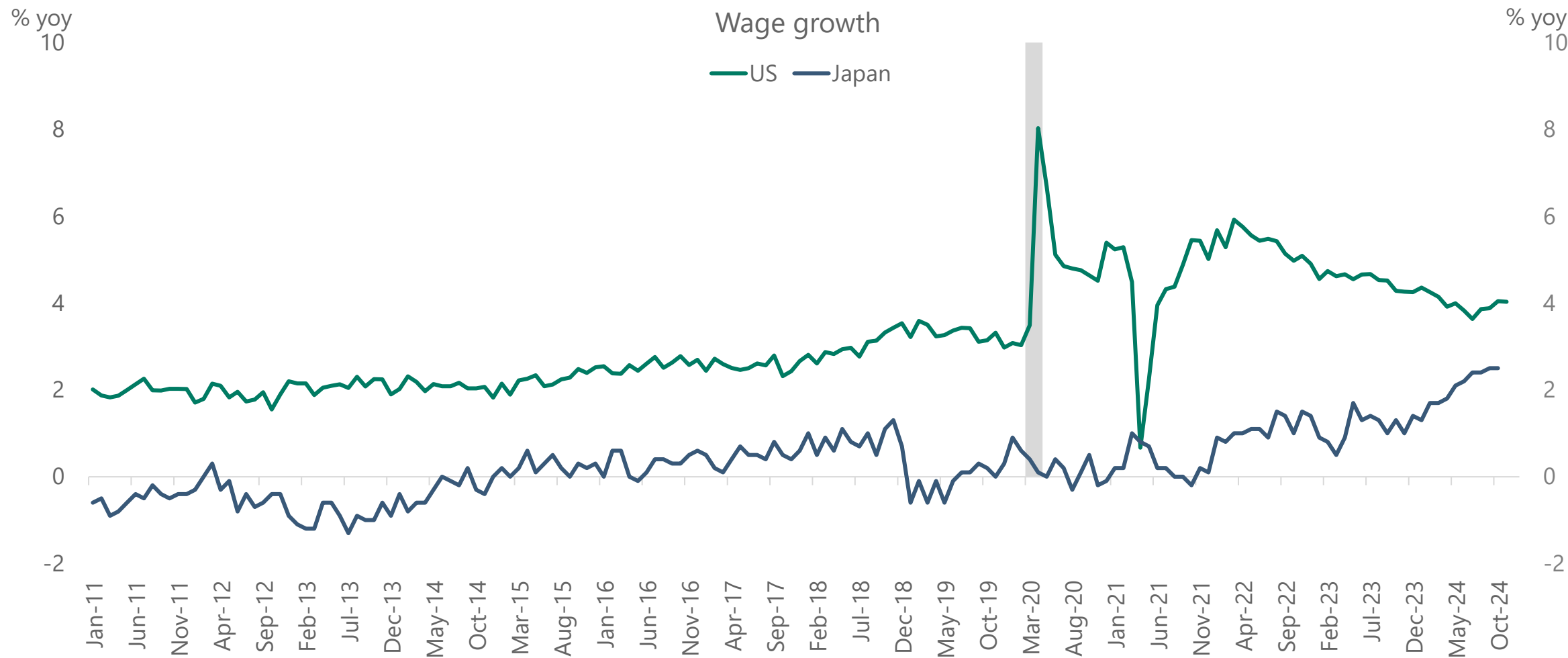


# Japan wage growth indicating continued strength in services inflation



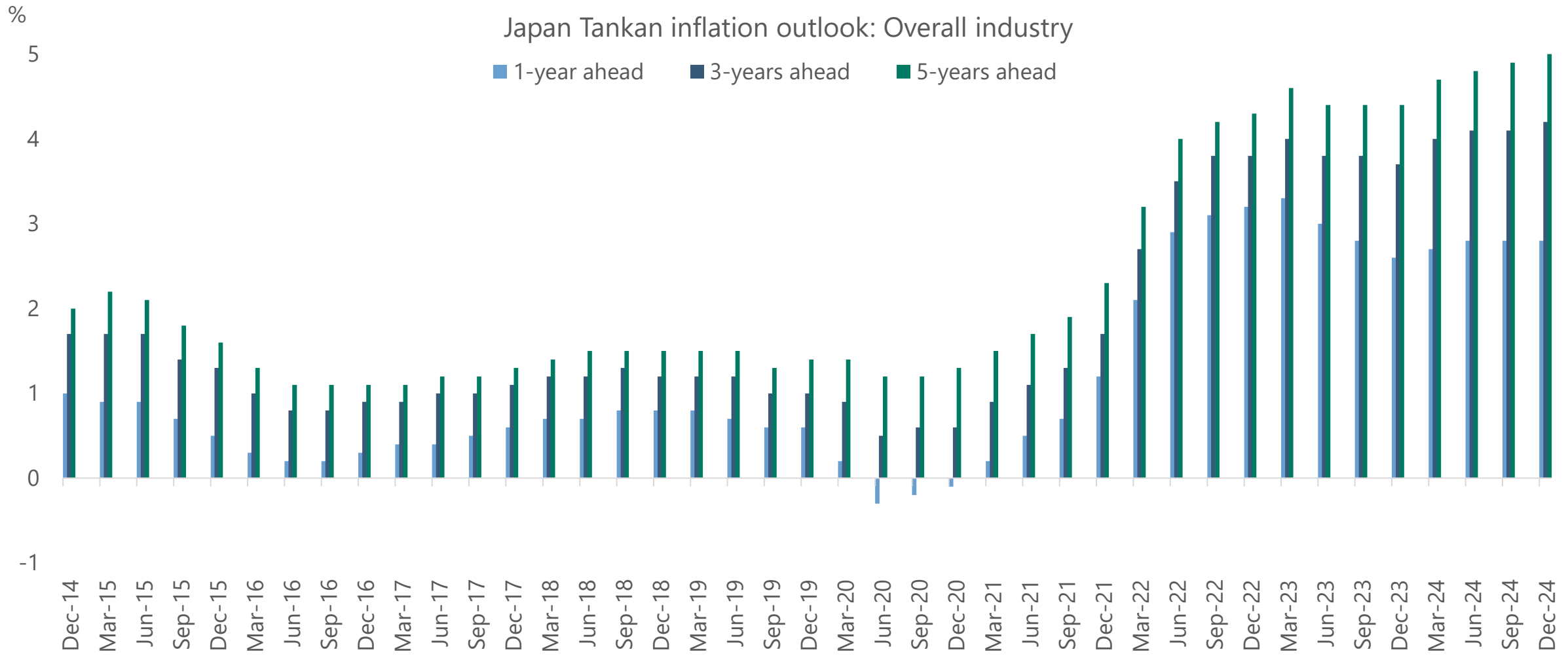
Source: Bloomberg, Apollo Chief Economist

# Wage growth in Japan at 30-year highs



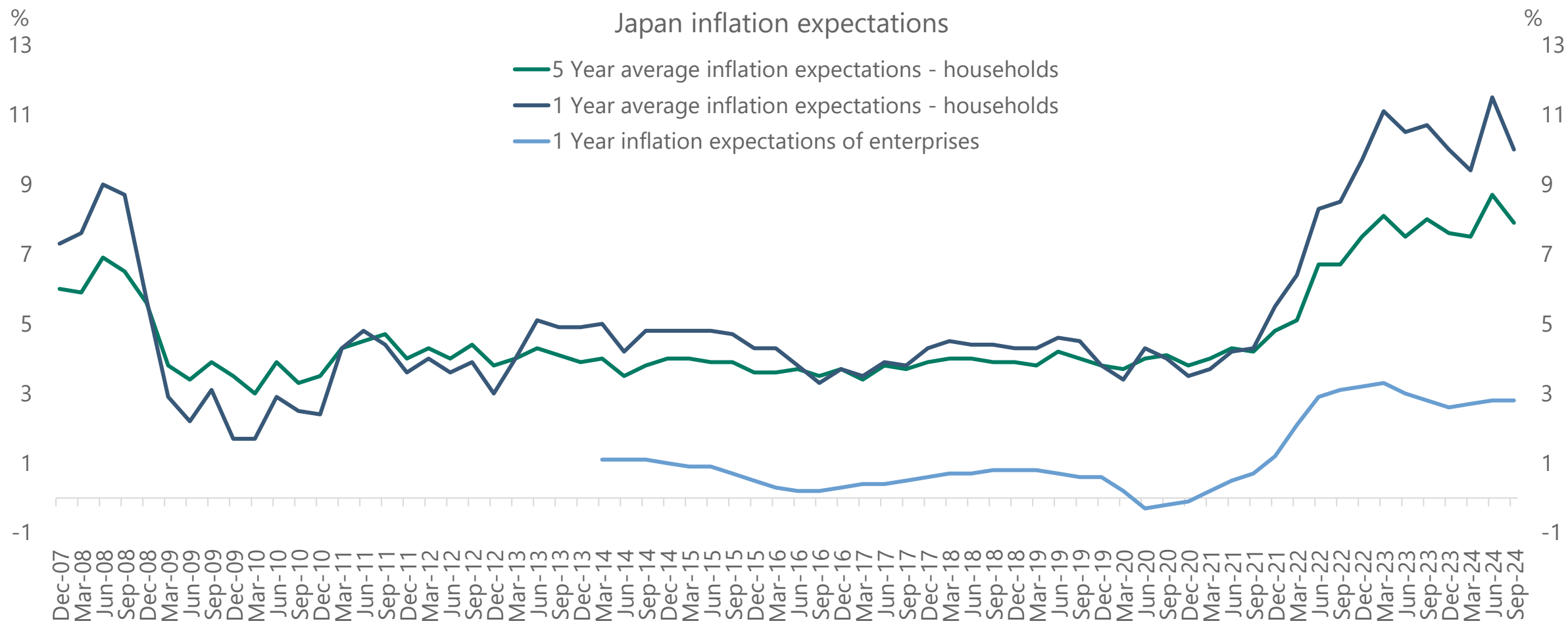
Source: Bureau of Labor Statistics, Haver Analytics, Ministry of Health, Labor and Welfare Japan, Bloomberg, Apollo Chief Economist.

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



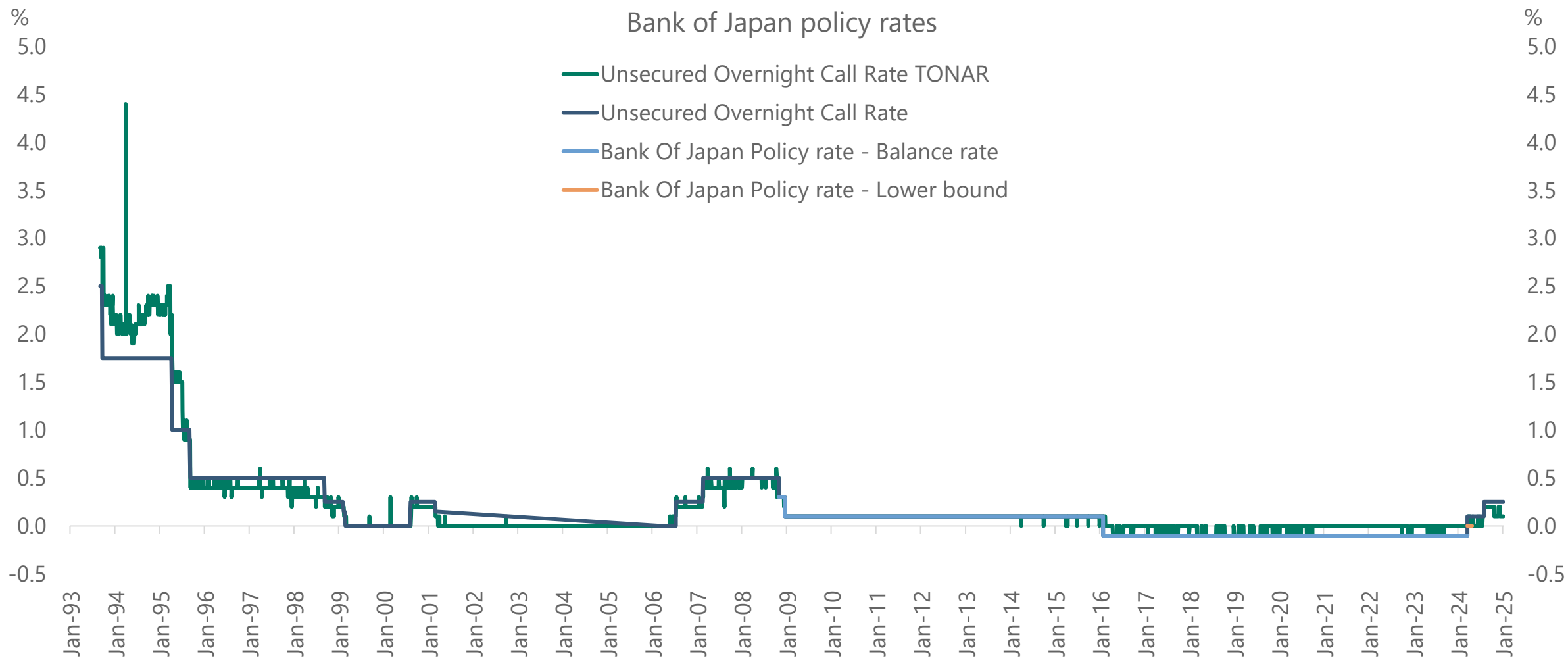
Source: Bloomberg, Apollo Chief Economist

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

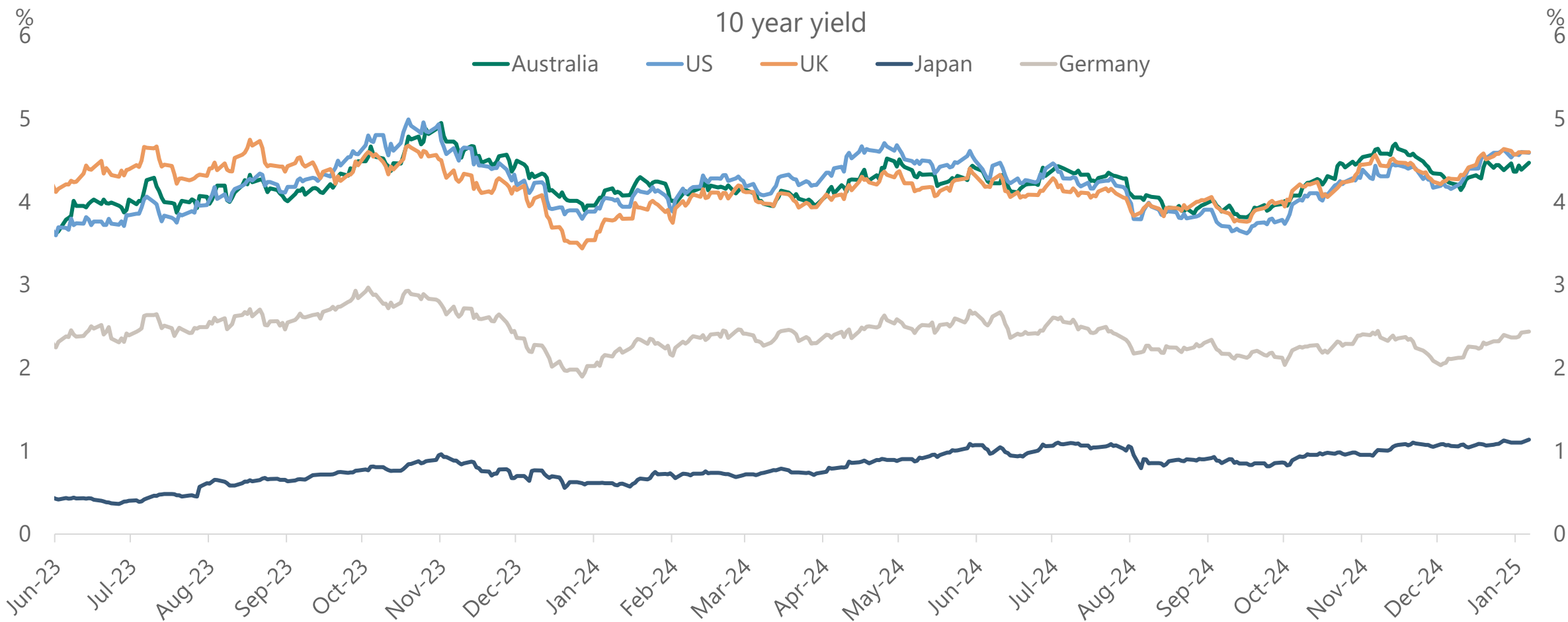




# Japan: Short-term interest rates have been essentially zero for 30 years

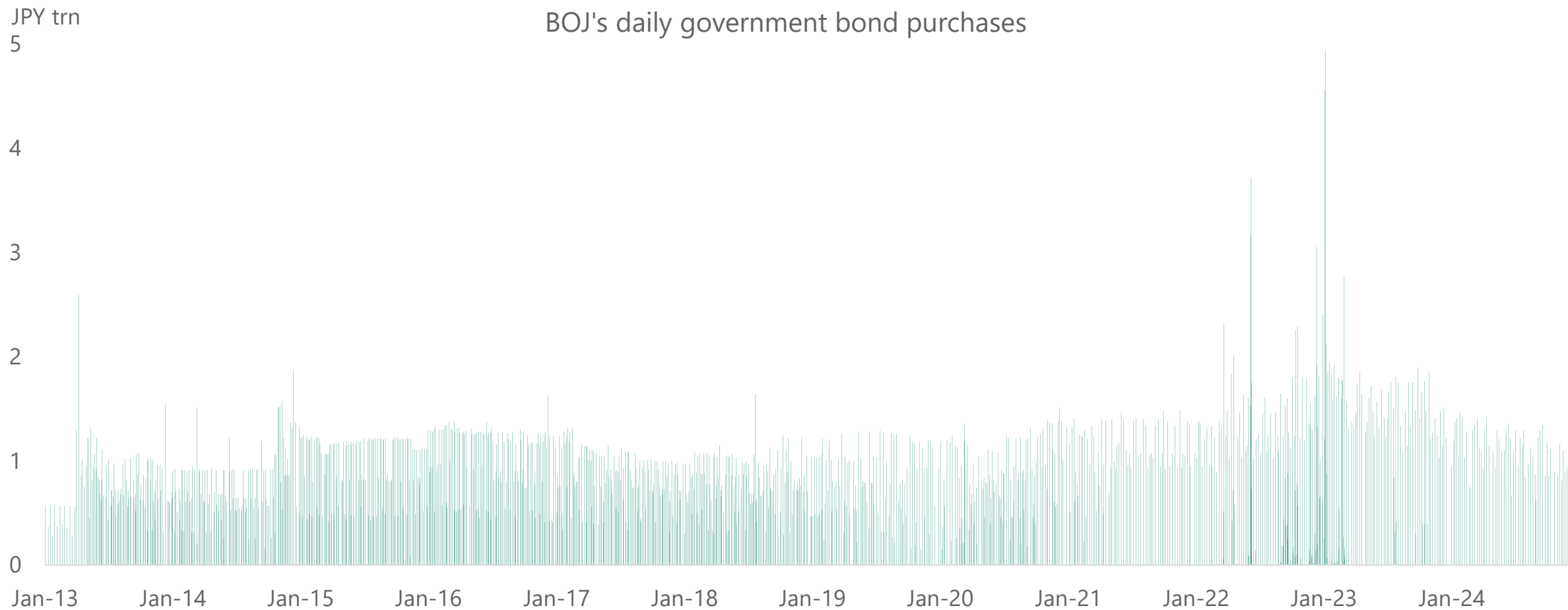


# Long-term term interest rates

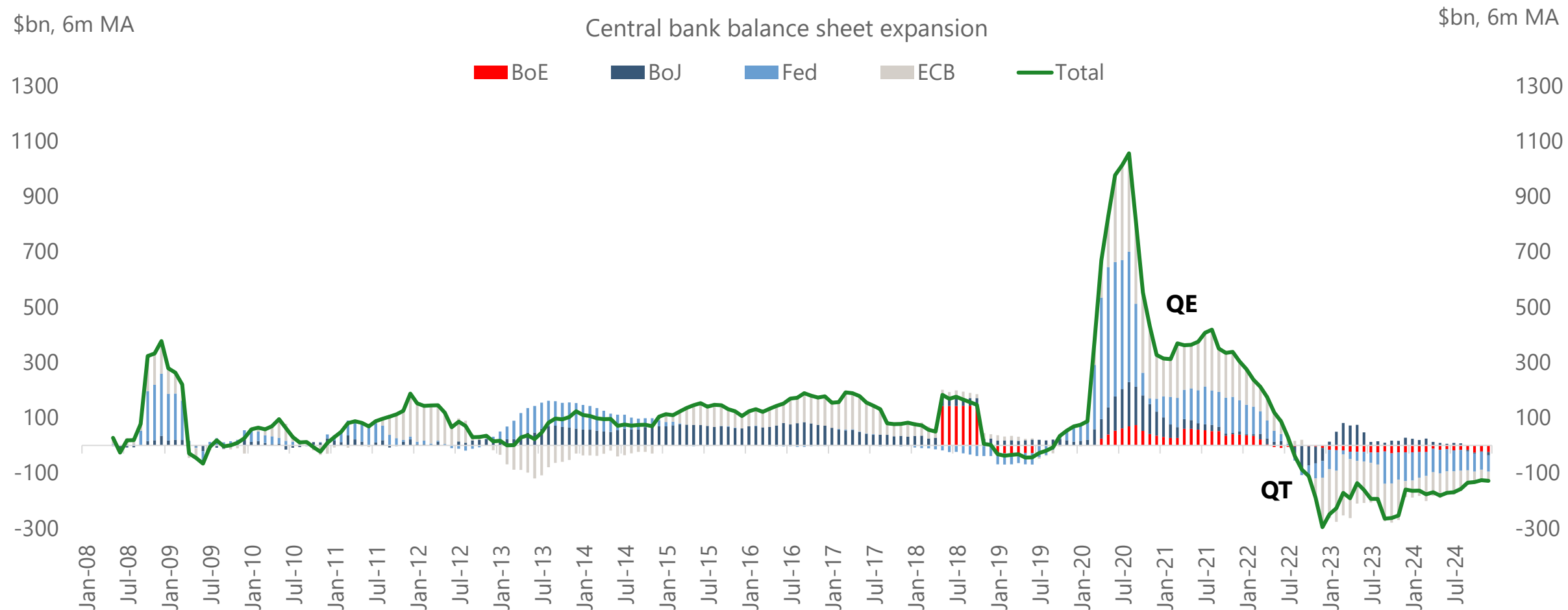


# BoJ JGB purchases and holdings

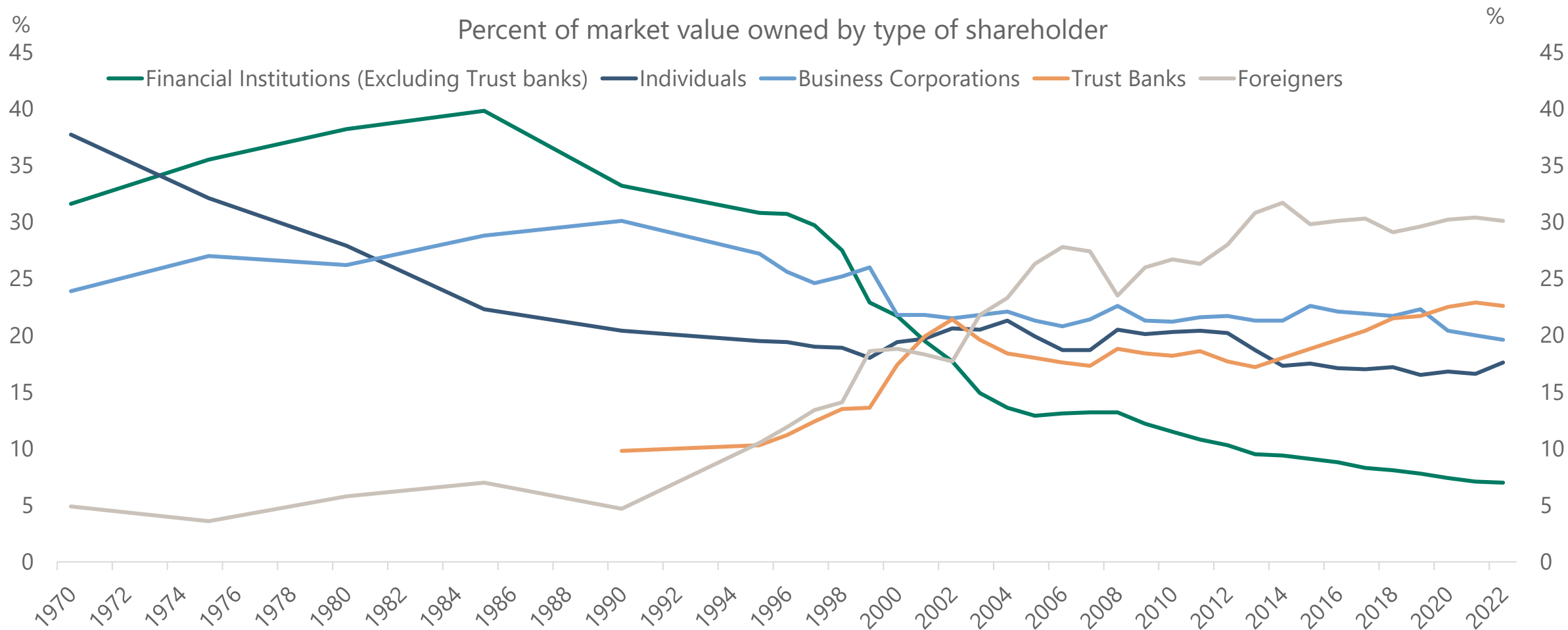
# BoJ: Steady buying of JGBs for more than a decade



# G4 central bank balance sheets



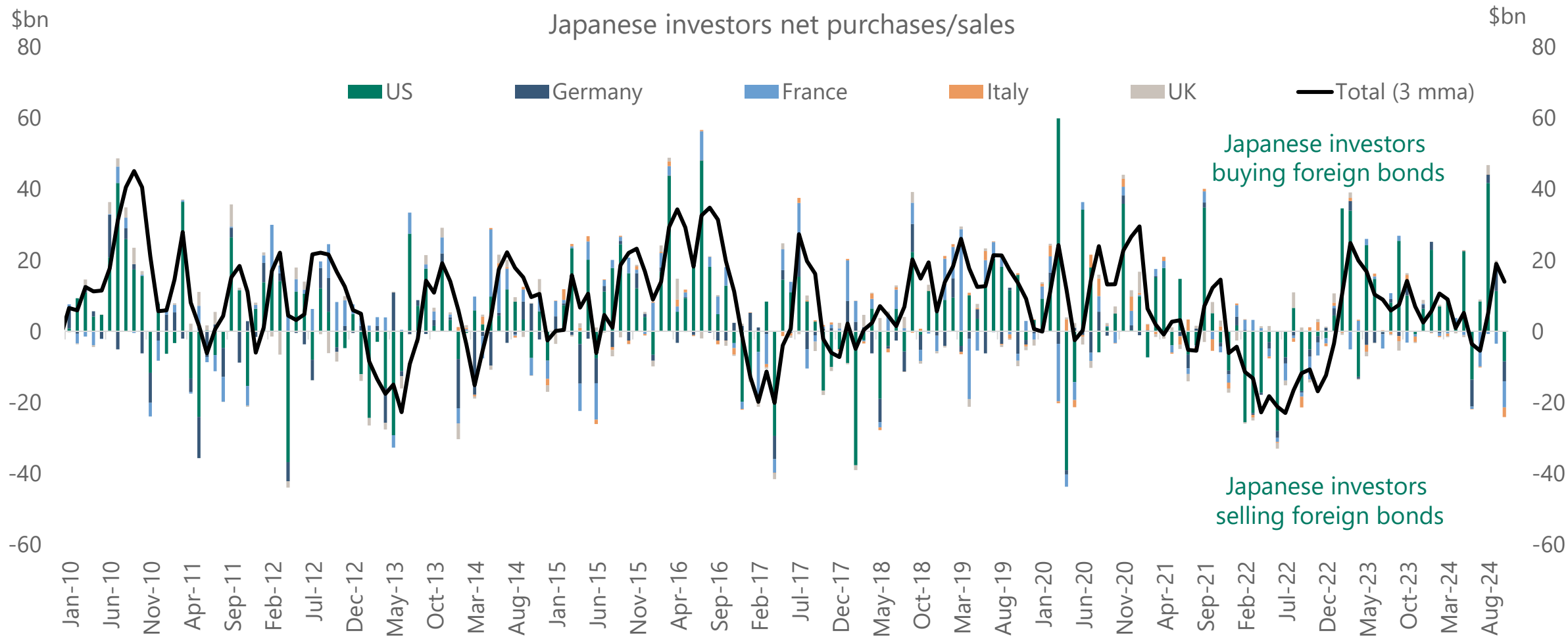
# Foreign holdings of Japanese stocks rising



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

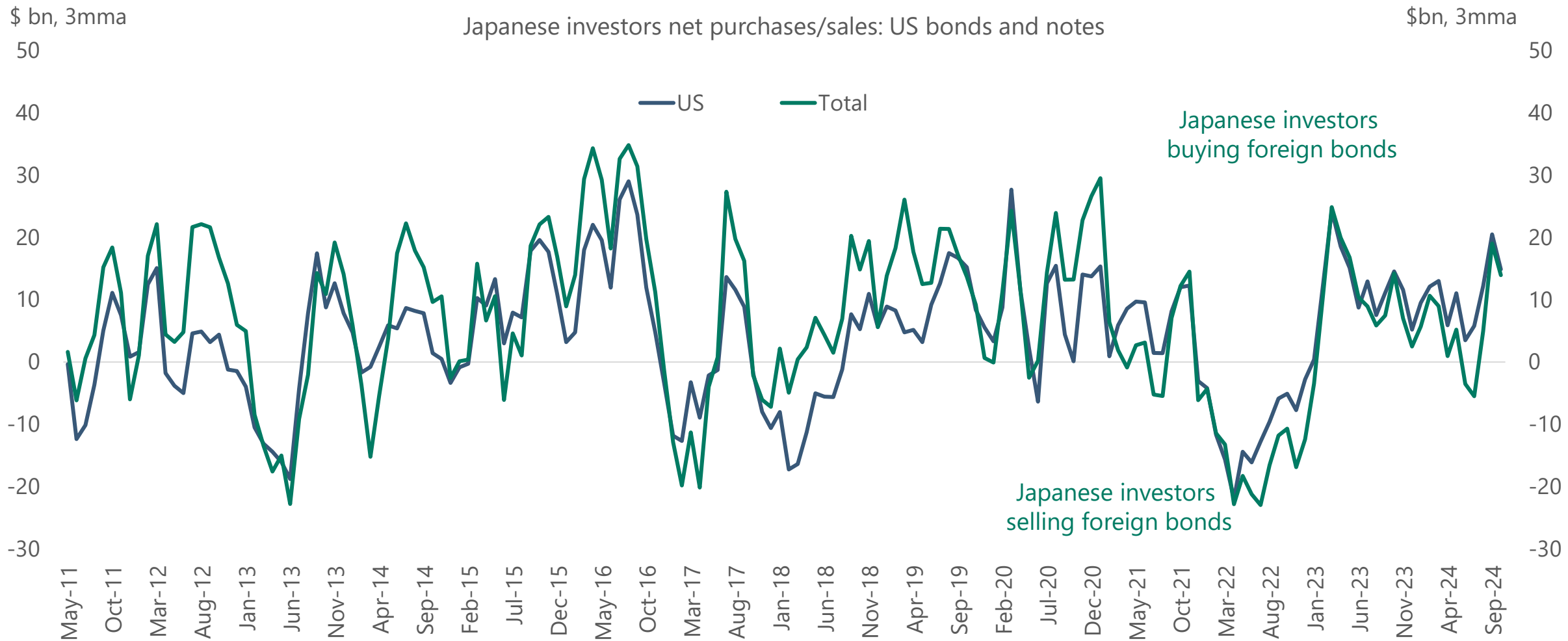
# Japanese net purchases of foreign bonds



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

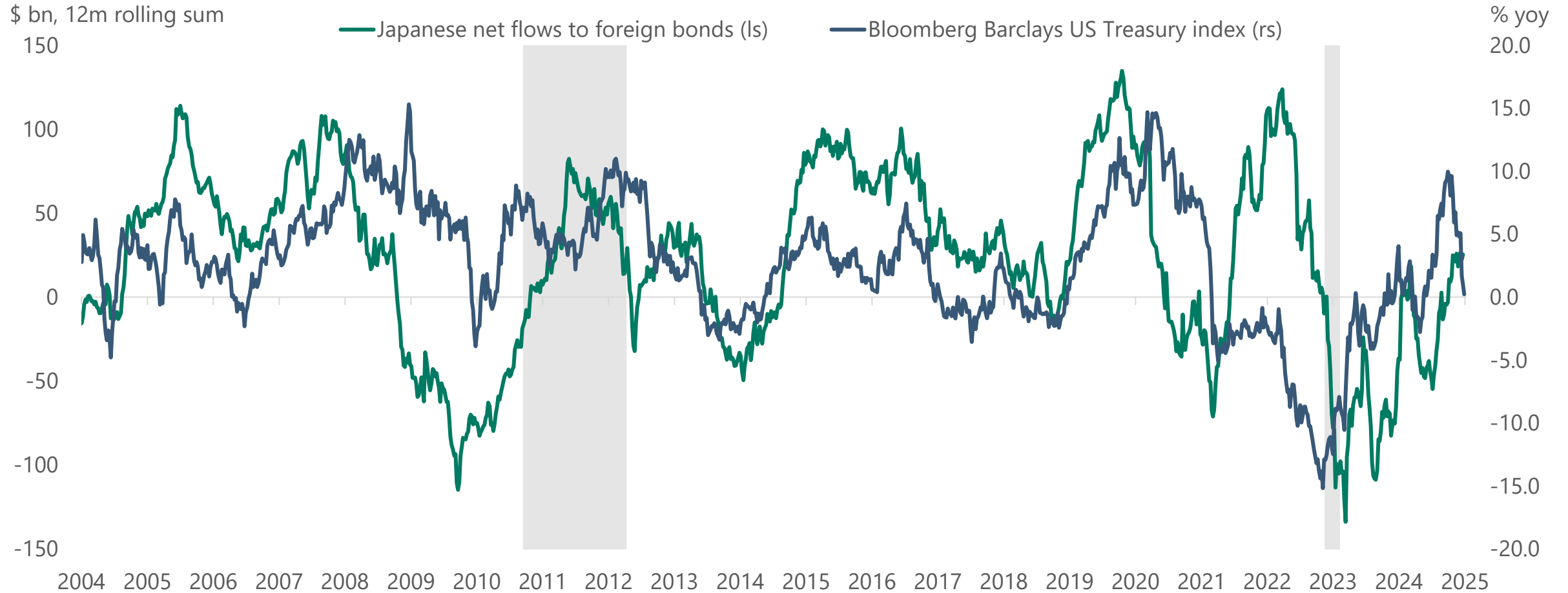


# Japanese investors net purchases of US Treasuries

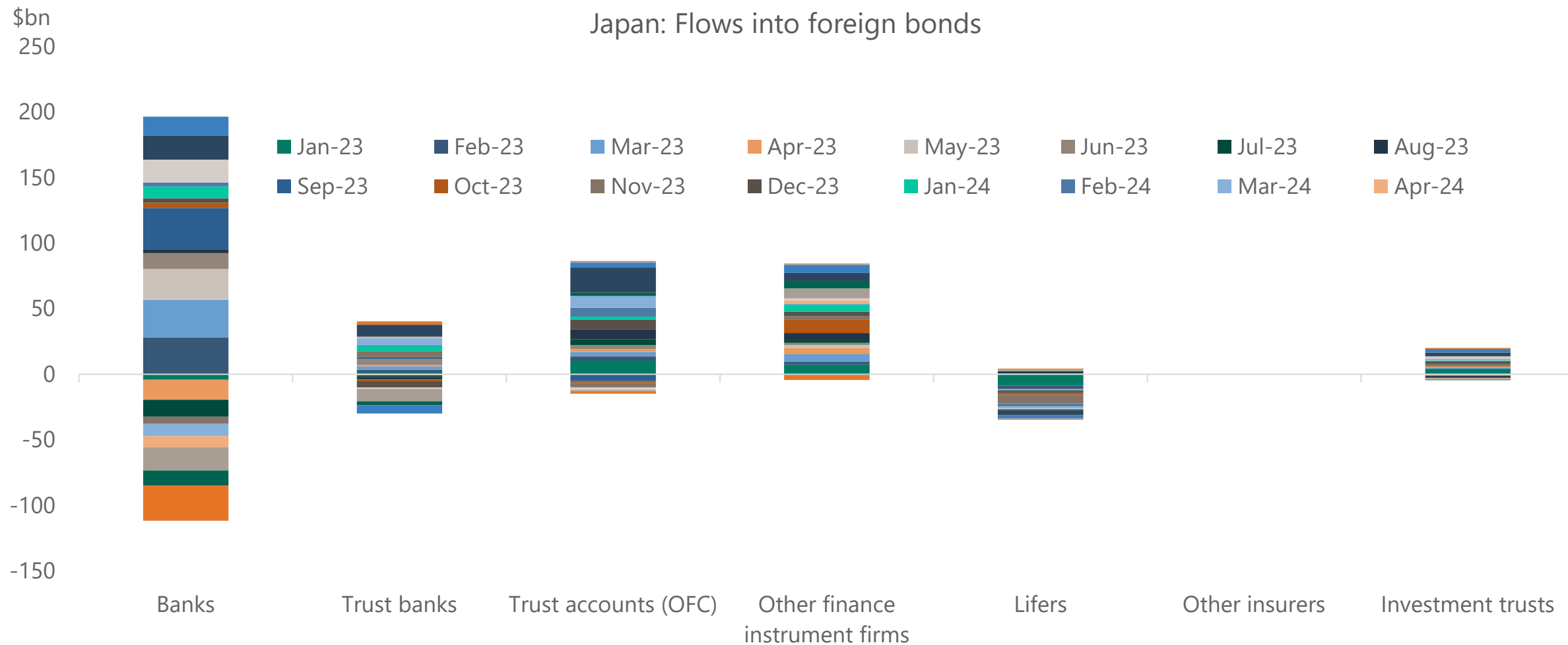


Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

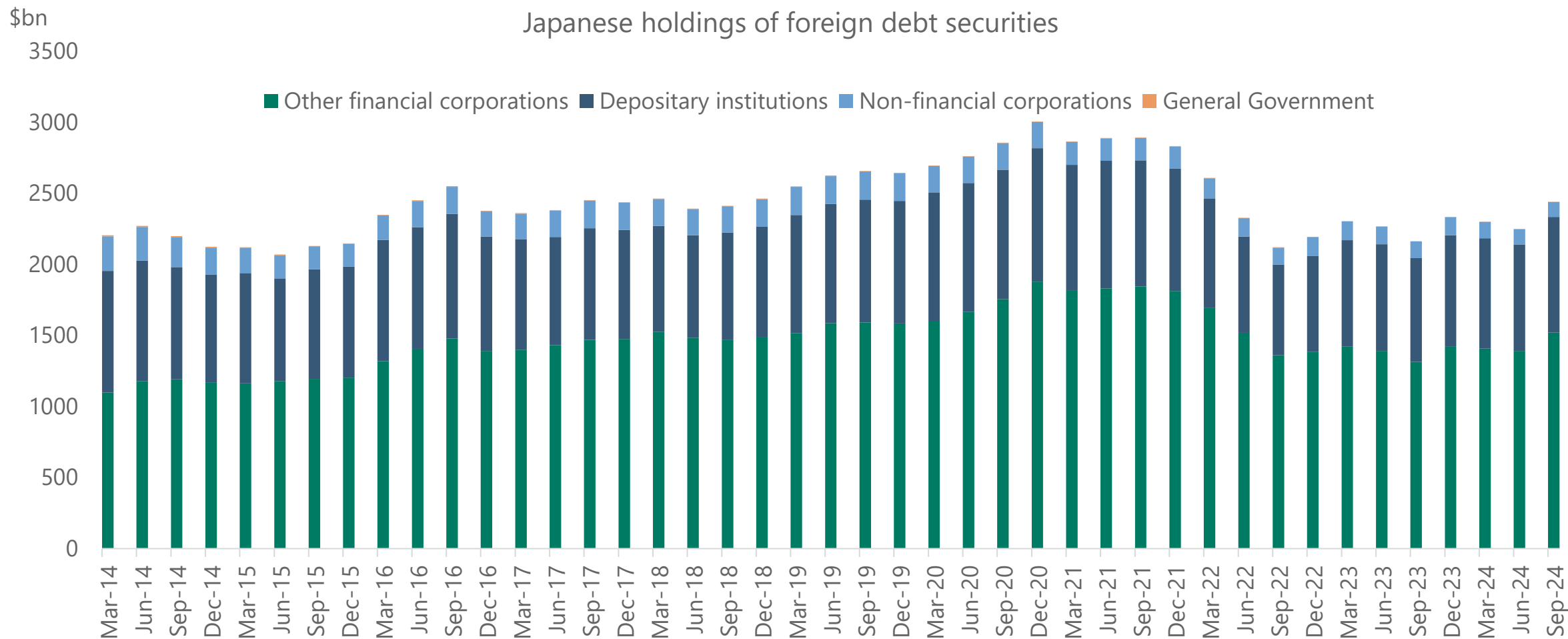
Initially, when US rates went up, Japanese investors started selling US fixed income. But more recently, Japanese investors have been coming back



# Japan: Banks continue to buy foreign bonds

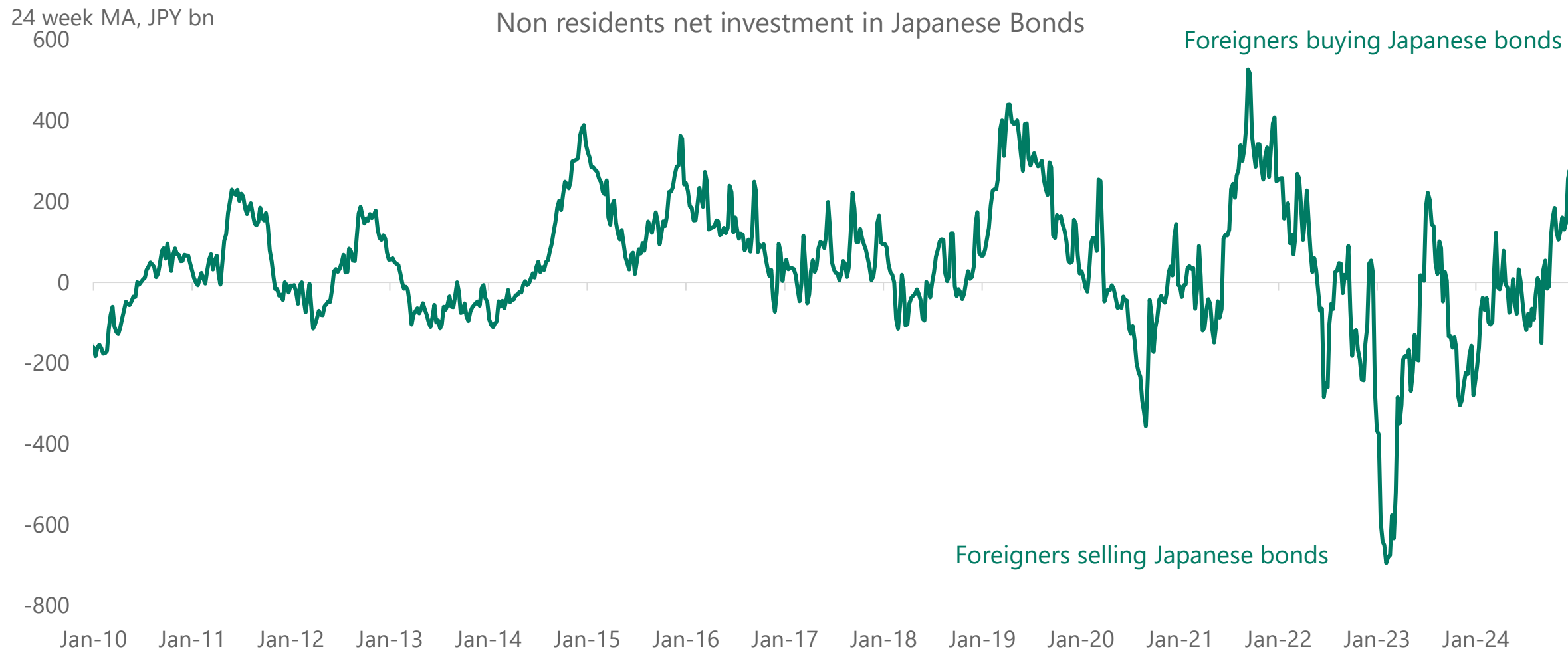


# Japanese banks and real money investors are key holders of foreign debt securities



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

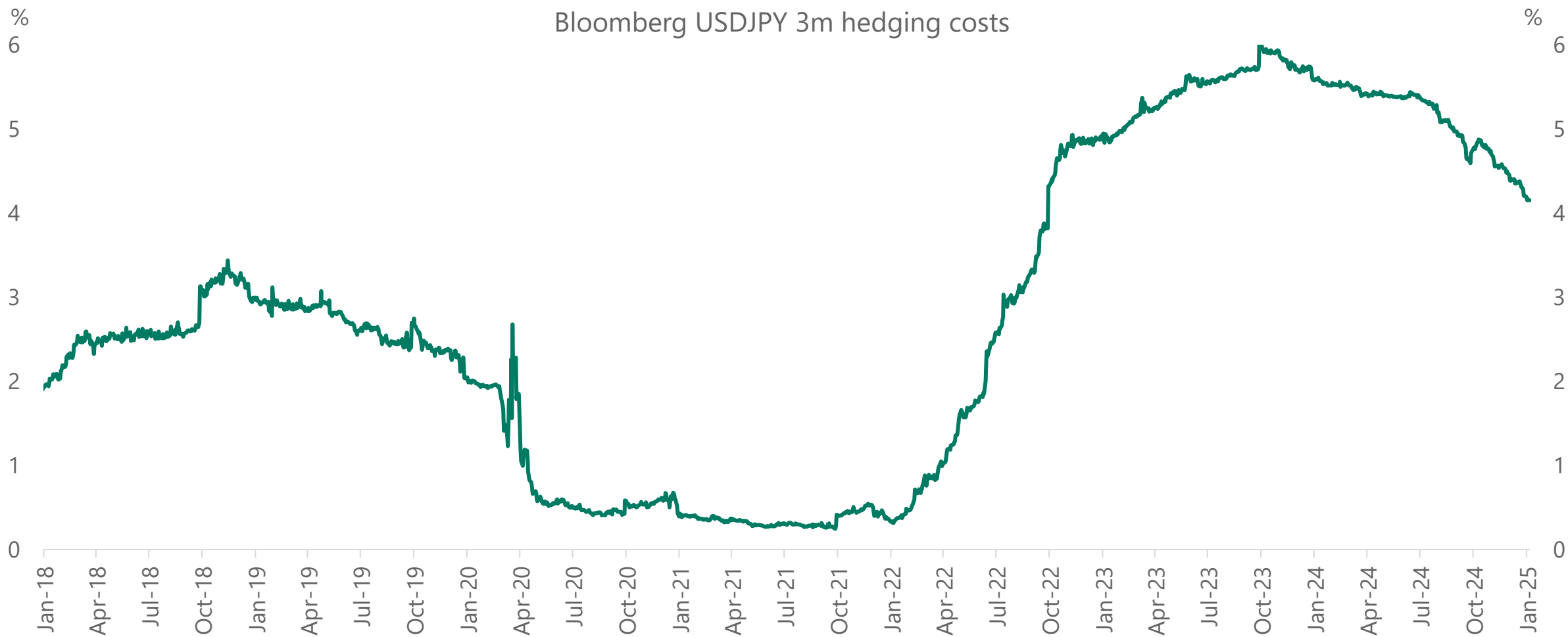
# Foreign net purchases of Japanese bonds



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

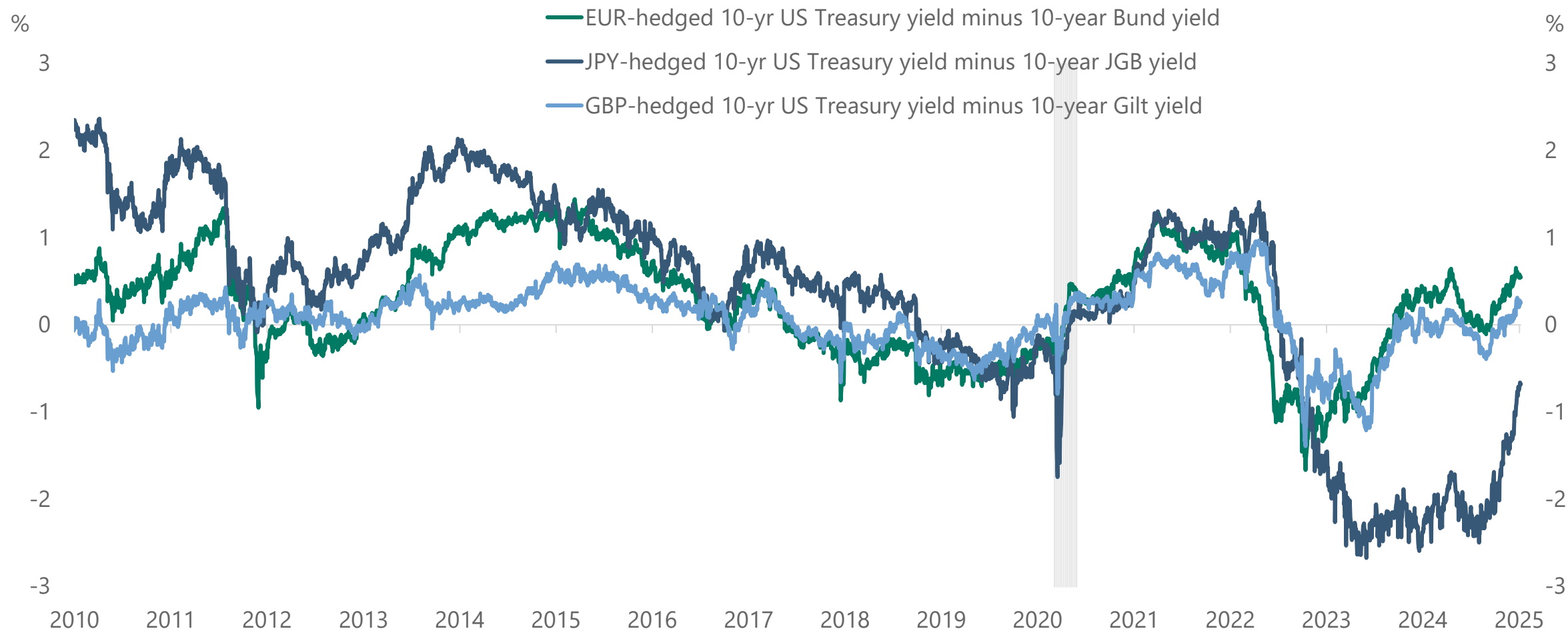
# Hedging costs

# Dollar-hedging costs are very high for Japanese investors



Source: Bloomberg, Apollo Chief Economist

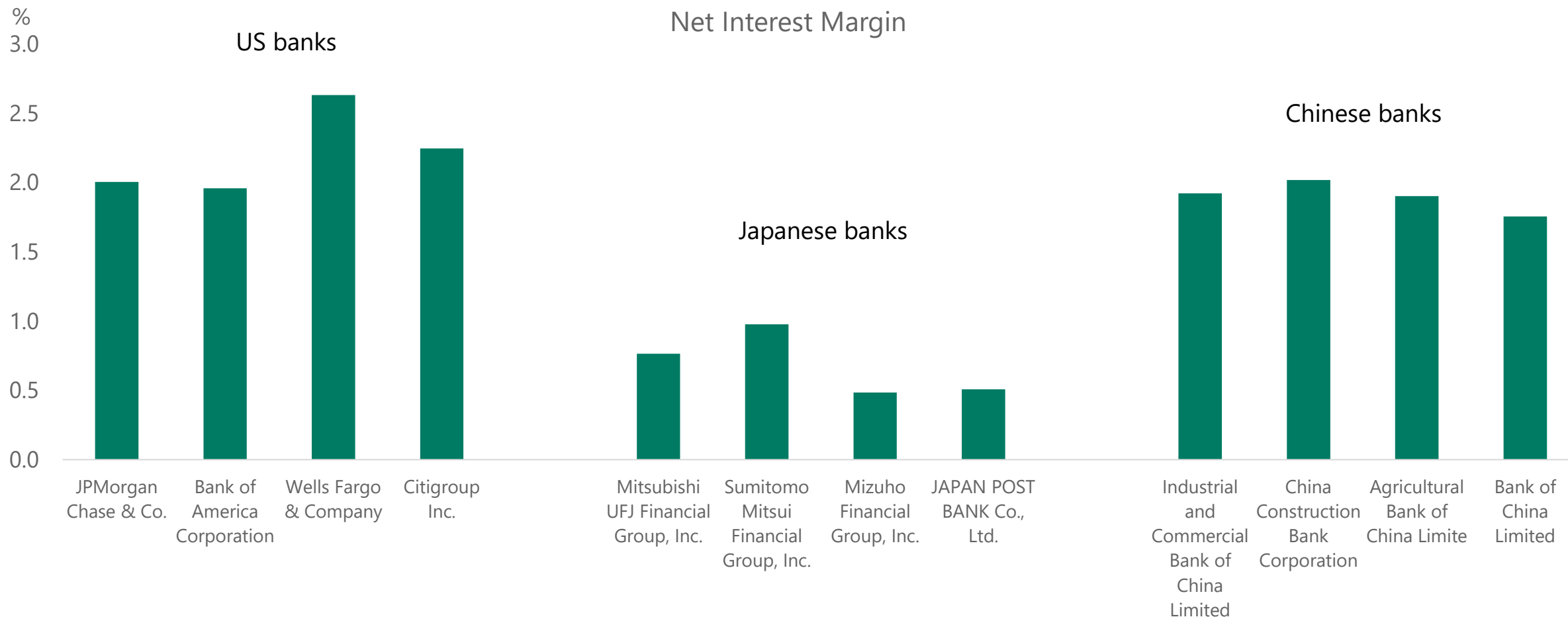
# Negative returns from holding JPY-hedged Treasury yields





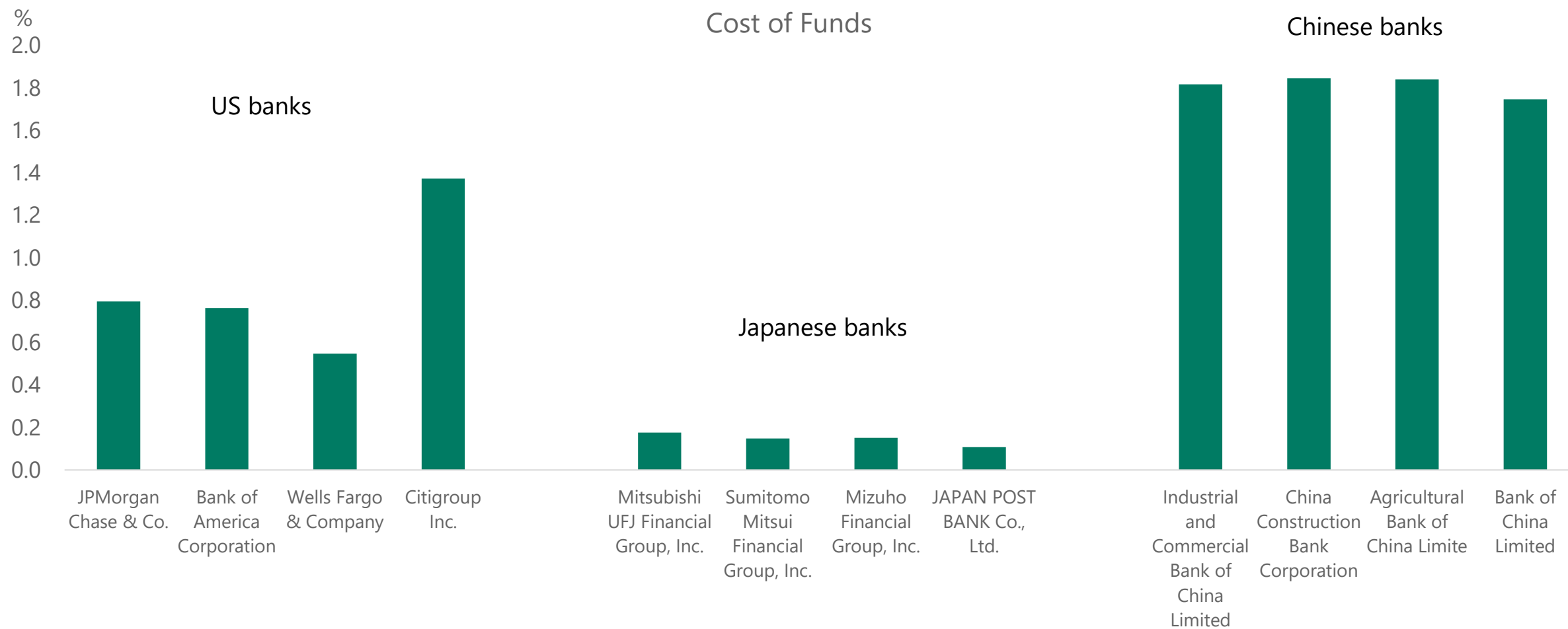
# Japanese banks

# NIM for banks: US, Japan, and China



Source: S&P, Apollo Chief Economist

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

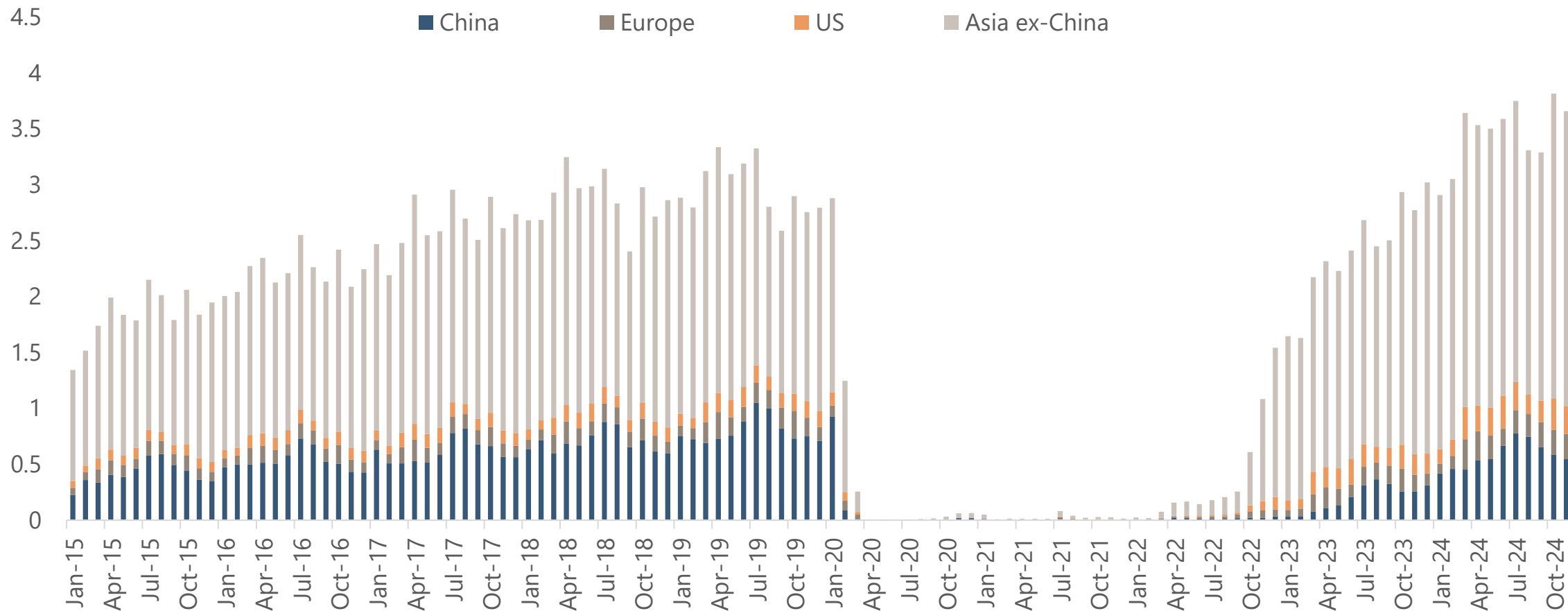


# Other indicators for Japan

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

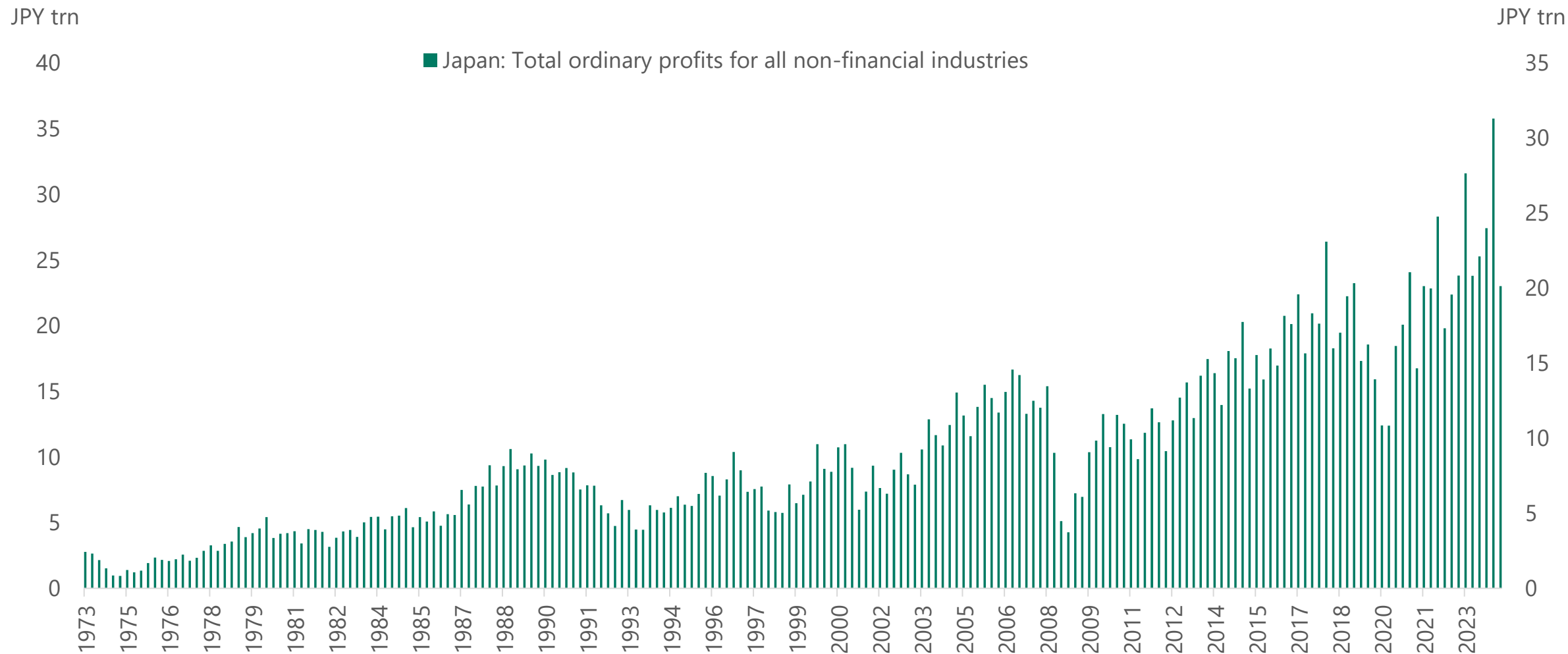
Persons (million)

Number of inbound visitors



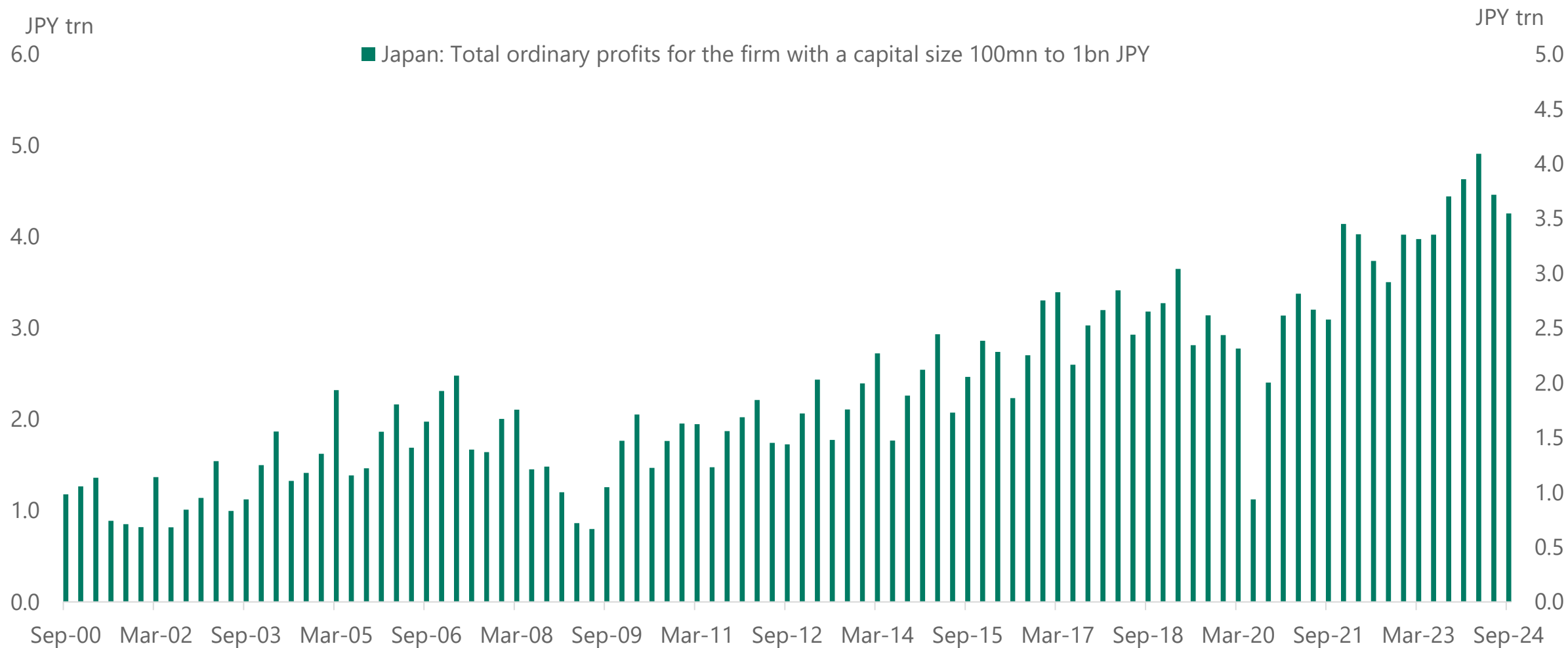
Source: Japan National Tourism Organization, Bloomberg, Apollo Chief Economist

# Japan: Corporate ordinary profits for all industries is rising



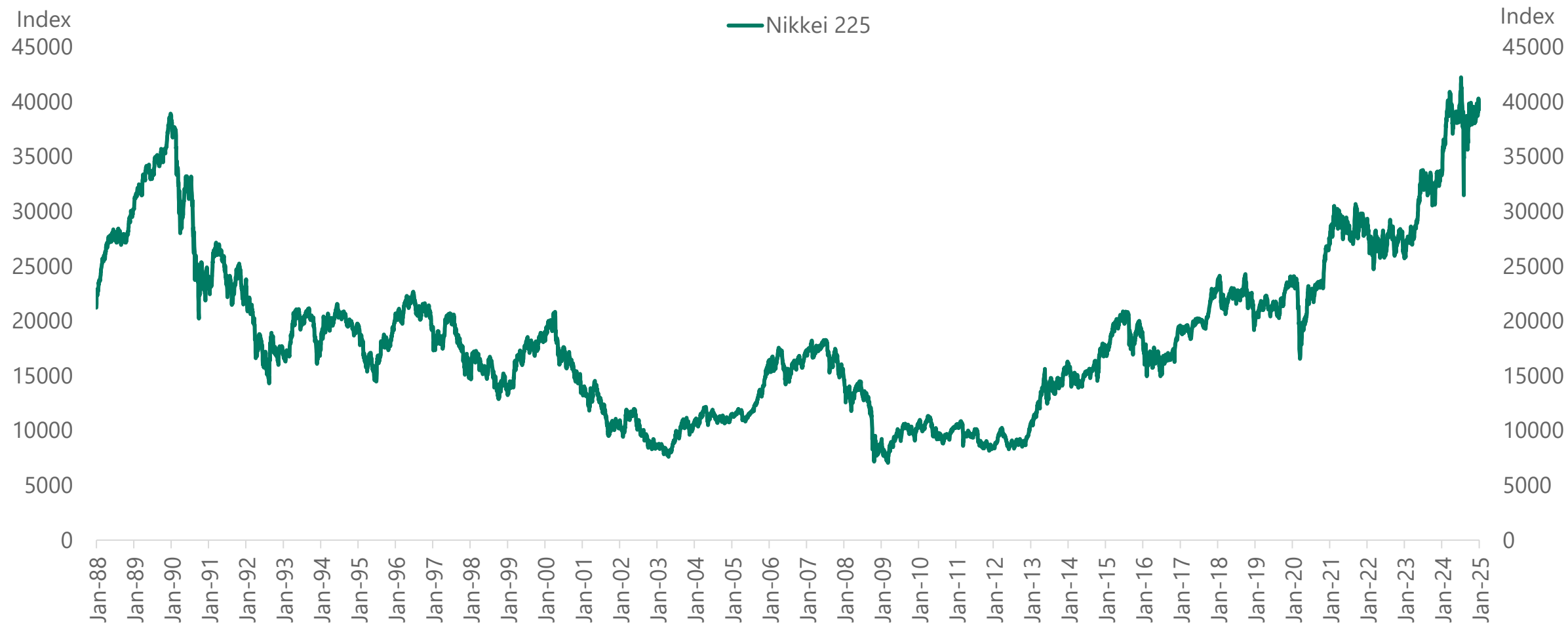
Source: MoF, Bloomberg, Apollo Chief Economist

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



Source: MoF, Bloomberg, Apollo Chief Economist

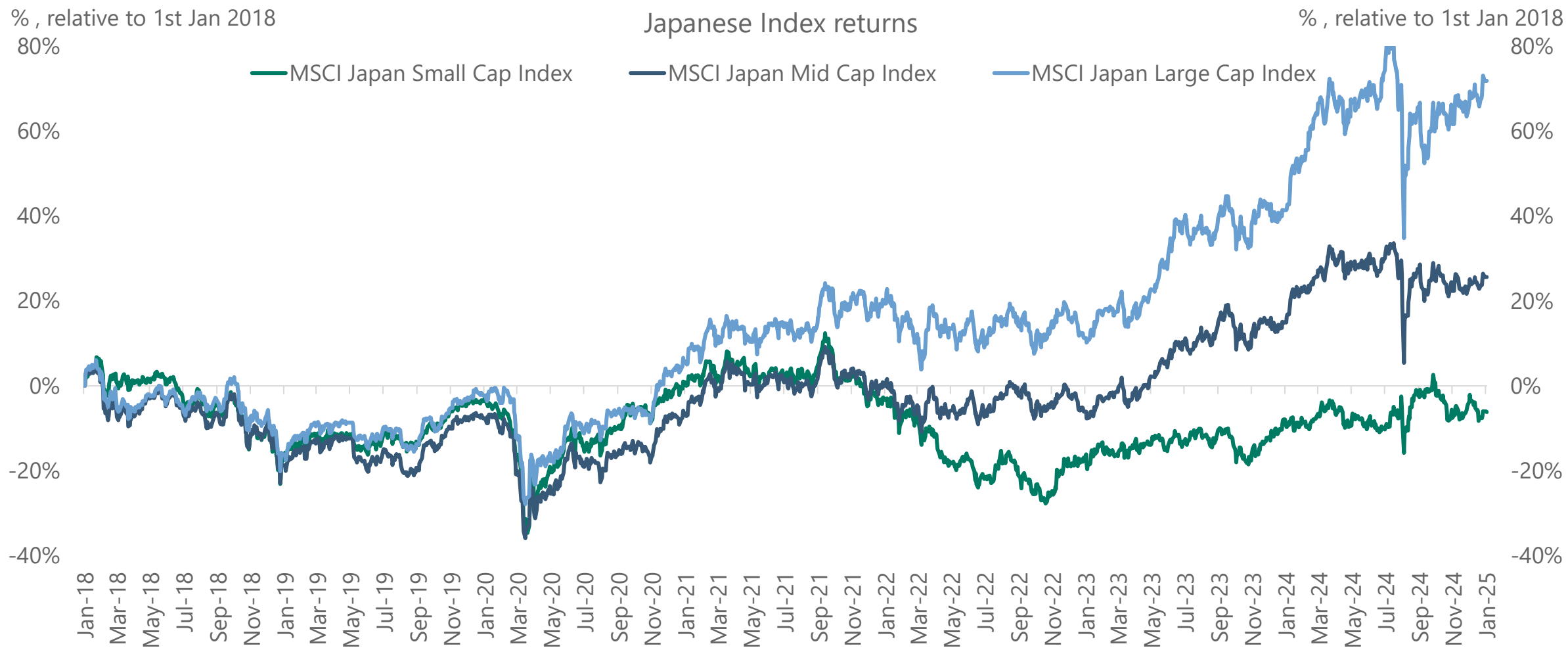
# Nikkei 25 index has increased to levels last seen in 1989



Source: Bloomberg, Apollo Chief Economist.

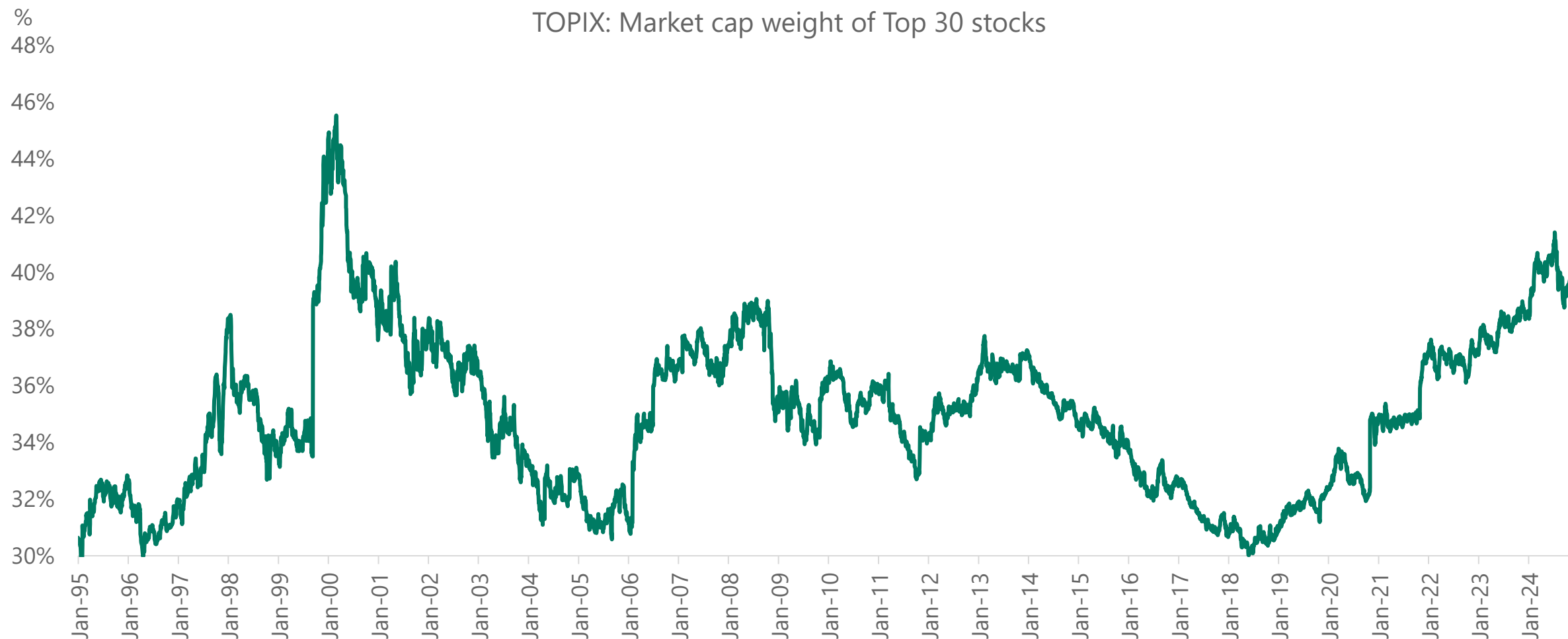


# Large cap stocks outperforming in Japan



Source: Bloomberg, Apollo Chief Economist

# Concentration is a big issue in the Japanese stock market

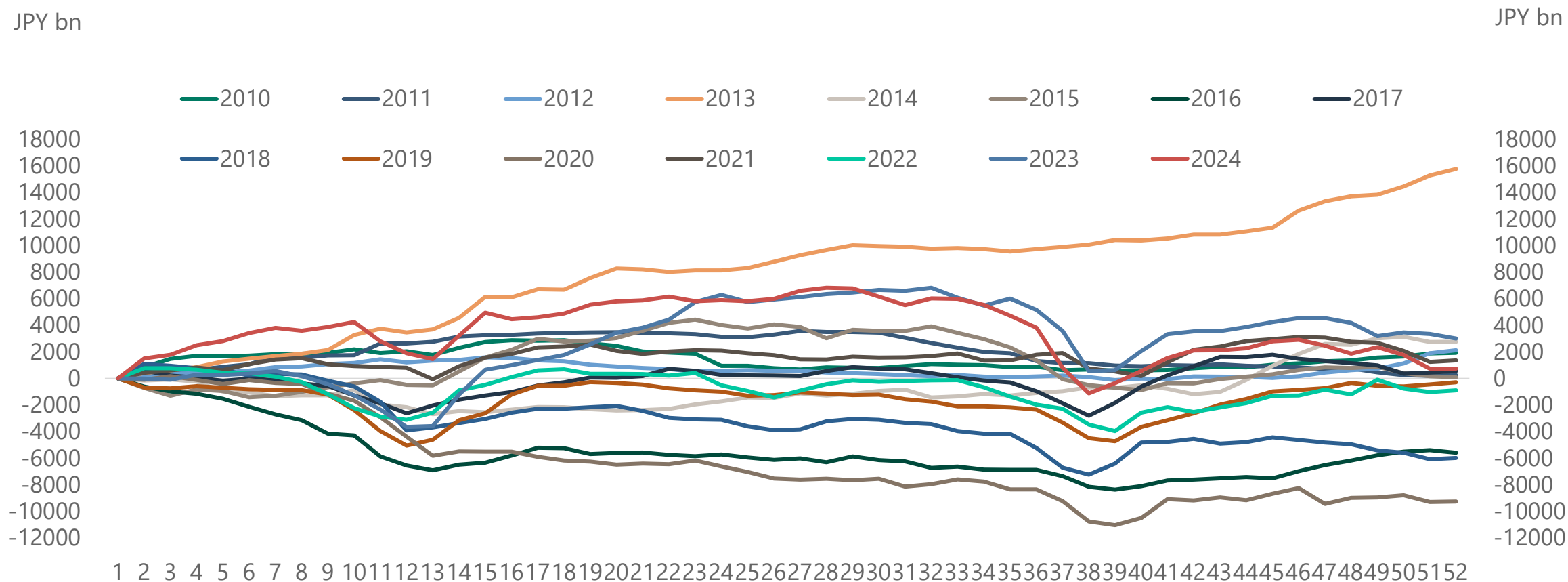


# Shareholder proposals have increased in Japan



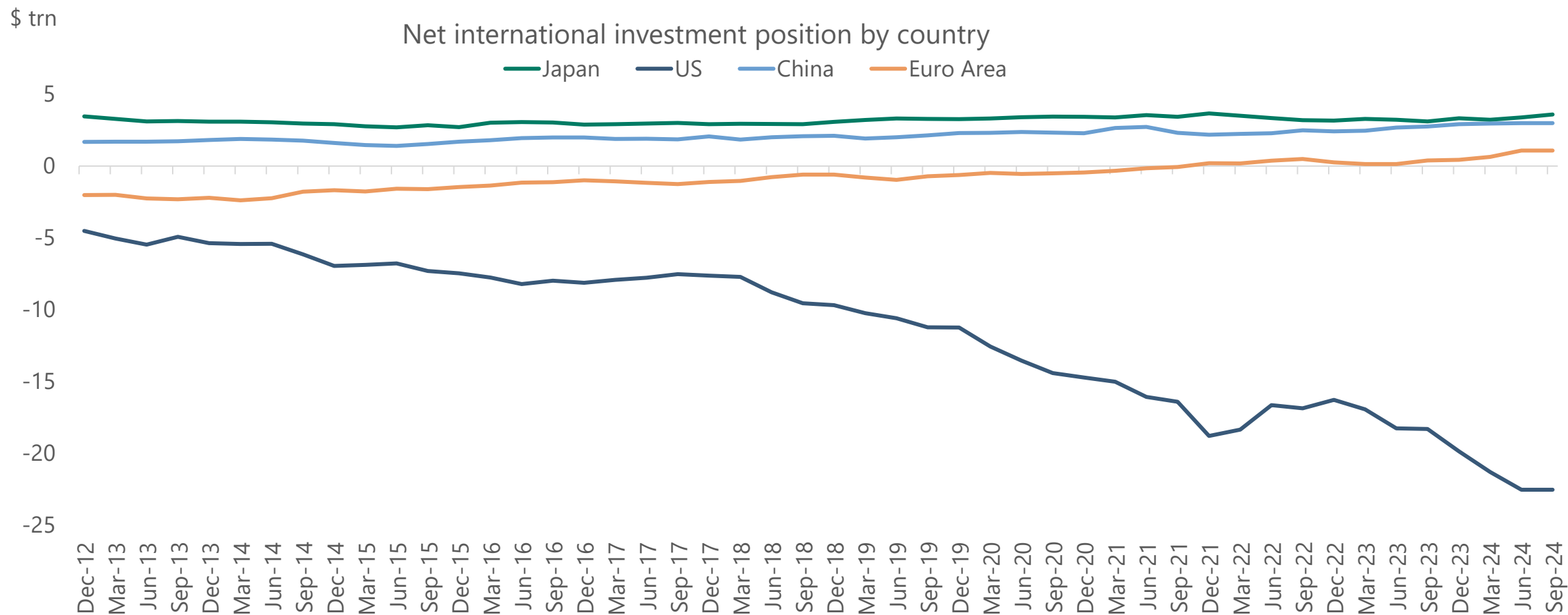
Source: Bloomberg, Apollo Chief Economist. Note: Shareholder proposals include Approve Name Change, Approve Statutory Auditor, Business Operations, Charter/Bylaw Amendment, Climate Change Risk, Decrease Authorized Stock, Director Compensation, Discharge Directors, Dividend/Profit Distribution, Elect 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

# Cumulative net purchases of Japanese stocks by foreigners



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

# Japan has the largest positive NIIP in the world



Source: The IMF, Bloomberg, Apollo Chief Economist (Data as of Q3 2024)



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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.