

Daiwa's View

Strong US jobs report and lack of depreciation in yen

- Likely to put flattening pressure on JGB yields

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Daiwa Securities Co. Ltd.

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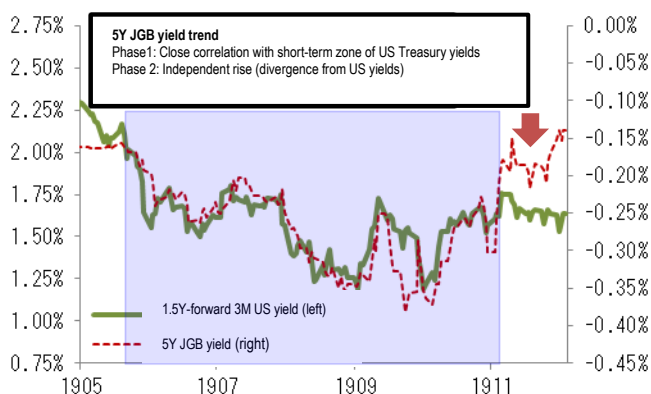
The content of the November US jobs report, released at the end of the week, is satisfactory both in terms of the headline and revisions to past data. While the number of employees is solid, the pace of wage hikes is moderate. This has confirmed the arrival of the Goldilocks market.

It is interesting that the yen was somewhat strong in the overnight currency market despite such strength in the jobs report and higher stock prices. This implies the emergence of an element that is different from ordinary risk-on mode, although only a single day's activity is not enough to allow us to come to a conclusion.

The interest rate differential between Japan and the US appears to be having an influence. As Fed chair Jerome Powell set high hurdles for a rate hike, even this strong jobs report is unlikely to increase expectations for rate hikes. In Japan, on the other hand, the theme of monetary policy review has been in progress below the surface, leading to a continued rise in intermediate/long-term yields. In fact, since May 2019 when speculations on rate cuts by the Fed increased, the 5-year JGB yield had posted a close correlation with the 1.5-year forward 3-month US yield. Since November, however, only JGB yields have been rising, while US yields have restored stability. This cannot be a coincidence.

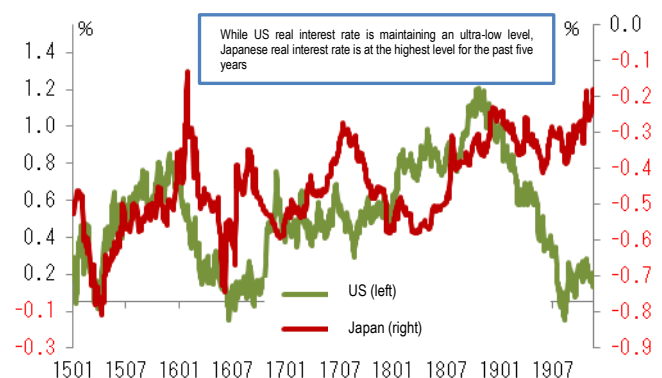
There is a possibility that this divergence of the direction of real interest rates in Japan and the US is preventing risk-on-driven yen depreciation. Usually, currency appreciation constrains the neutral interest rate via inflation expectations. Therefore, a rise in superlong yields, which are strongly influenced by the neutral interest rate, is expected to become difficult. The implication on JGB yields is thus "flattening."

Chart: 5Y JGB Yield and 1.5Y-forward 3M US Yield



Source: Bloomberg; compiled by Daiwa Securities.

Chart: Real Interest Rate in Japan and US (10Y gov't bond yield)



Source: Bloomberg; compiled by Daiwa Securities.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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- 2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Nippon Healthcare Investment Corporation (3308), Japan Rental Housing Investments (8986).
- 3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.
- 4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.
- 5) Daiwa Securities Group and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group is to acquire up to 5.01% of Credit Saison's total common shares outstanding (as of 31 Jul 2019), while Credit Saison is to purchase up to ¥2bn worth of Daiwa Securities Group's common stock.
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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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