Daiwa's View

Recovery in correlation between US Treasury and JGB yields

- 10-year JGB yield level of 0.05% becoming more likely

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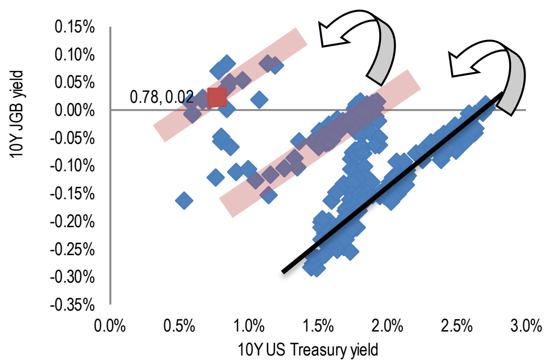
10-year JGB yield level of 0.05% becoming more likely

Amid the peaking-out of the liquidity crisis and volatility, risk asset prices are posting a V-shaped recovery. Yesterday, the DJIA finally rebounded to 23,433 for the first time since early March. The 10-year US Treasury yield rose to 0.77% overnight due to the unwinding of risk-off sentiment and concerns about an increase in bond issuance.

The noteworthy point is that the correlation between US Treasury and JGB yields appears to be normalizing. Since late last year, the 10-year US Treasury and JGB yields had consistently maintained beta of around 0.22%, although the intercept rose twice[1]. Recently, they appear to be converging to this relationship again (see chart below). We can say that the 10-year US Treasury and JGB yields are largely in line with the relationship of "10-year JGB yield = 0.22 X 10-year US Treasury yield –0.15% (+ other factors)."

The correlation at the level of beta of 0.20-0.25% is also shown in the BOJ's [Comprehensive Assessment: Developments in Economic Activity and Prices as well as Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE)] in 2016. Therefore, the empirical grounds are strong. Of course, as the 10-year JGB yield is influenced by factors other than the 10-year US Treasury yield, the above-mentioned formula with only one regression coefficient of the 10-year US yield is not completely held. However, this is likely to serve as one reference in thinking of near-term JGB yields. Based on the formula, we can estimate that a 1% rise in the 10-year US yield will translate into a 0.07% rise in the 10-year JGB yield. Given the existence of the error term as well, the 10-year JGB yield may rise to at least 0.05%.

Chart: 10-year US Treasury and JGB Yields



Source: Bloomberg; compiled by Daiwa Securities.

[1] One background factor is fact that BOJ deferred deepening negative interest rates, despite cut in Fed's policy rate.

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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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1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

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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 Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

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