

Daiwa's View

Fluctuations of overseas market and three-way meeting

- Are Gov't and BOJ sensitive to trends of international politics/financial market?

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Fluctuations of overseas market and three-way meeting

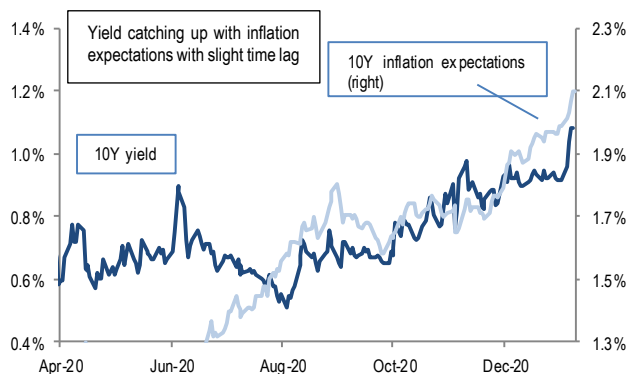
◆ Continued rise in US yields

Yesterday, US yields continued to rise. Although the rise in the nominal interest rate had been limited, the rate started to catch up with inflation expectations (10-year US breakeven inflation rate), which rose to 2.1% (left-hand chart below).

“Expectations for rate hikes” are burgeoning, which is one reason behind these fluctuations. The spread between the 3-year forward 3-month OIS and the effective federal funds rate widened to 0.42%, much wider than the 0.25%, and the spread between the 4-year forward 3-month OIS and the effective federal funds rate widened to 0.75% (right-hand chart below). These moves factor in the outlook that the Fed will likely increase its rate-hike stance early reflecting higher inflation expectations. For example, yesterday's market forecasts that the Fed's policy rate projection for end-2024 in its Summary of Economic Projections (to be disclosed at Sep 2021 FOMC meeting) will be “0.875%” (three rate hikes).

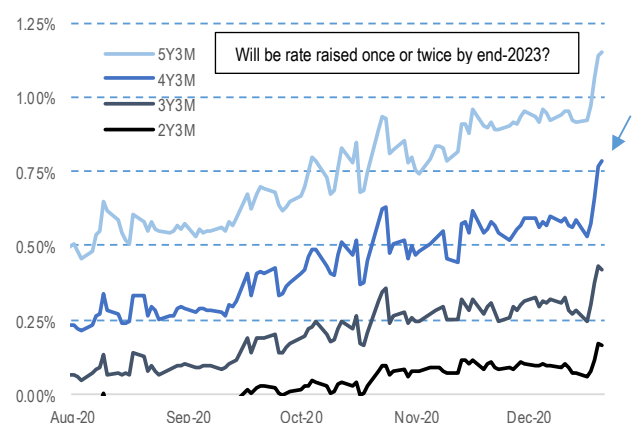
The direction of speculation on the rate-hike stance, like this, is consistent with the rise in inflation expectations. However, this move makes us wonder whether inflation in advanced nations will rise to such a level without pain. In any case, it is true that US yields have been easily affected by inflation expectations and speculation on the Fed's exit strategy. If this continues, we may see “developments in which the Fed is tested.”

10Y US Yield, Inflation expectations



Source: Bloomberg; compiled by Daiwa Securities.

Market Responses to Rate-hike Timing



Source: Bloomberg; compiled by Daiwa Securities.

◆ Three-way meeting

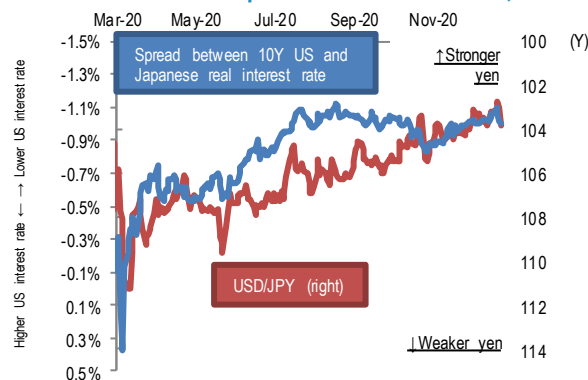
Yesterday, a three-way meeting was held by the government (Ministry of Finance, Financial Services Agency) and BOJ. Although this meeting itself is not held regularly, it is ordinary in the sense that it is held in the yen appreciation stage.

The fact that the meeting was held when the market started to move actively reflecting the outcome of the Georgia Senate runoff elections tells us that the government and BOJ are sensitive to the trends of the current international politics/financial market and foreign currency levels. This meeting was established by Prime Minister Yoshihide Suga when he served as Chief Cabinet Secretary of the Abe Cabinet in order to send a message to the market. In an interview at the time, Mr. Suga stated that “(the three-party meeting) is effective in the sense of sending an easy-to-understand message regarding what Japan is thinking,” leaving no room for misunderstanding.

Given the timing when the BOJ announced that it would hold an assessment meeting (immediately after Dec FOMC meeting) and that when the three-way meeting was held yesterday, we think a major concern of the government and BOJ is the change in the international politics/financial market due to the start of the Biden administration and the Fed's monetary easing.

In that sense, the fact of holding the three-way meeting yesterday is likely to enhance the accuracy of [our presumption](#) that the BOJ's March assessment meeting is unlikely to decide on policies that could trigger further appreciation of the yen. Of course, we do not say that measures to cope with the side effects at financial institutions are unimportant, but this is somewhat less urgent than the imminent “major issue” of fluctuation of the international financial market. We guess that the true state is that the authorities want to avoid destabilization of the financial system due to the “major issue.” If the government shows its stance of accepting a stronger yen, which may be seen as a result of a rise in the real interest rate, this would be another story. However, the government stance shown by the three-party meeting appears to be completely opposite to such generosity. The BOJ is unlikely to take any action that would impair a sense of unity with the government.

Spread Between US and Japanese Real Interest Rate, USD/JPY



Source: Bloomberg; compiled by Daiwa Securities.

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- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

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The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moody.com/pages/default_ja.aspx))

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[Fitch]

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The name of the Credit Rating Agencies group: Fitch Ratings ("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.
- 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), Daiwa Securities Living Investment Corporation (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 Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- 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.

** The ratio of margin requirements etc. to the amount of the transaction 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

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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