

Daiwa's View

Bond market not swayed by exit strategy

- Time needed before speculation on exit strategy leads to rise in yields

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Daiwa Securities Co. Ltd.

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- ◆ Implementation of exit strategy by Bank of Canada

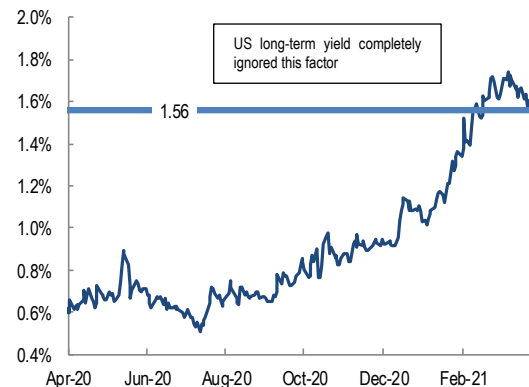
As was expected, the Bank of Canada yesterday [decided](#) to taper quantitative easing (C\$4bn/week → C\$3bn/week), becoming the first central bank in advanced nations to do so after the outbreak of the COVID-19 pandemic. In addition, it moved up the expected rate-hike timing from 2023 to the second half of 2022. In Canada, a beneficiary from the US economic recovery owing to its geographical proximity, concerns about a housing bubble are increasing (described as “signs of extrapolative expectations and speculative behavior”). The nation has become a frontrunner in the exit strategy.

Bank of Canada: Monetary Policy Report Press Conference Opening Statement (21 Apr 2021)

You won't be surprised to hear that we also spent some time discussing what is happening in the housing market. The pandemic has led to some unique circumstances. With so many households working and studying at home, we see many people wanting more living space. And interest rates have been unusually low, making borrowing more affordable. While the resulting house price increases are rooted in fundamentals, we are seeing some signs of extrapolative expectations and speculative behaviour.

Unexpectedly, the US long-term yield ignored this news (yield rose by 1-2bp at moment of release, but returned immediately). If this news happened in the situation where the term premium surged in a panicked manner as seen in Feb-Mar 2021, the US long-term yield would have approached 2%. However this kind of factor appears to have already been factored in by the yield uptrend in Feb-Mar 2021. Even though the long-term direction of “higher yields due to the Fed's exit strategy” is correct, [some time will be needed](#) before such a strategy is reflected in the yield level.

10Y US Treasury Yield



Source: Bloomberg; compiled by Daiwa Securities.

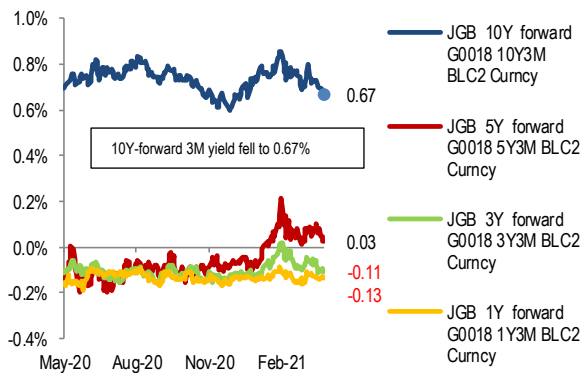
- ◆ Decline in risk premium that has risen due to caution about BOJ's assessment meeting?

It is highly possible that another state of emergency will be declared for Tokyo and Osaka. Amid this situation, the 10-year and 20-year JGB yields fell to 0.07% and 0.43%, respectively, in yesterday's JGB market. The rally over the past several days pushed down the 10-year forward 3-month yield to 0.67%, implying that short-term upside may be limited (left-hand chart below).

Meanwhile, the 10-year forward 10-year yield (0.76%) is around 7bp higher than the 30-year forward 10-year yield (0.69%). Historically, both tend to move at a close level. From this viewpoint, it may be appropriate to interpret that the rally over the past several days represents a partial decline of risk premium that has risen due to caution about the BOJ's assessment meeting, rather than further overvaluation. If so, 20-year JGB long positions may remain at a fair level or higher from the viewpoint of long-term carry return, although it is true that short-term upside has become limited.

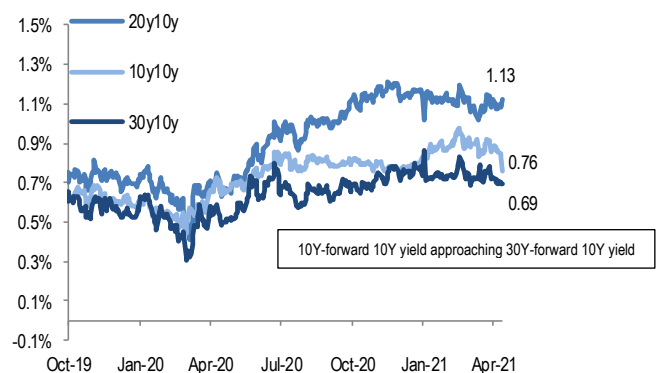
Accordingly, if we assume a dip in the market, buying superlong JGBs on dips would be effective. Meanwhile, if we assume that the JGB rally will continue over the short term, the long-term sector is likely to perform better than the superlong sector.

JGB Forward 3M Yields



Source: Bloomberg; compiled by Daiwa Securities.

JGB Forward 10Y Yields



Source: Bloomberg; compiled by Daiwa Securities.

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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")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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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))

Assumptions, Significance and Limitations of Credit Ratings

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[Fitch]

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Other Disclosures Concerning Individual Issues:

- 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).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

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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

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association