Daiwa Securities

Daiwa's View

Life insurers' investment plans for FY25

➢ Signs of recovered appetite for investing in hedged sovereign bonds

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Japan's major life insurers have announced their FY25 investment plans (Chart 1). Their stance regarding investment in Japanese bonds is divided. Of the ten major firms, half intend to reduce their JGB holdings, including the biggest firm, which plans to do so for the first time in nine years. However, four firms intend to increase their JGB holdings. As many life insurers have made progress with significantly reducing the duration gap in response to new regulations (economic value-based solvency regulations), purchasing of JGBs to conform to regulations has played out. Furthermore, a common approach that has been adopted is to swap out low-yield JGBs.

Chart 1: Life Insurers' Investment Plans for FY25

	Japanese bonds	Foreign bonds		FY25 market outlook*				
		Hedged	Unhedged	10yr JGB yield (%)	Superlong JGB yields (%)		10yr US yield (%)	USD/JPY rate (Y)
Nippon Life Insurance	Decrease	Increase	No change～increase	0.90~2.00 (1.40)			3.00~5.00 (3.80)	130~155 (140)
Dai-ichi Life Insurance	No change	No change	Decrease	1.00~2.00 (1.75)			2.50~5.50 (4.00)	120~160 (135)
Meiji Yasuda Life Insurance	Decrease	Increase	Increase	0.80~1.55 (1.30)			3.40~4.90 (4.00)	138~158 (145)
Sumitomo Life Insurance	Decrease	Increase	Depending on market trends	1.00~1.80 (1.50)			3.50~5.00 (4.25)	125~150 (140)
Japan Post Insurance	Decrease	Decrease～no change	Slight increase	1.00~2.00 (1.70)	20yr (2.40～2.50)		3.50~4.70 (4.00)	130~150 (138)
Taiyo Life Insurance	Increase	Decrease		0.80~1.80 (1.40)	20yr 1.60~2.60 (2.00)	30yr 2.00~3.00 (2.30)	3.00~5.00 (4.00)	130~155 (135)
Taiju Life Insurance	Increase	No change	Increase	1.40~2.00 (1.70)		40yr 2.70~3.50 (3.10)	3.60~4.70 (4.00)	134~154 (144)
Fukoku Mutual Life Insurance	Increase	No change (no holdings)	No change	0.90~2.00 (1.70)	20yr 1.60~2.80 (2.40)		3.40~5.60 (4.60)	130~162 (145)
Daido Life Insurance	Increase	Decrease	Decrease	1.00~1.80 (1.50)		30yr 2.00~3.00 (2.70～2.80)	3.20~4.80 (4.00)	130~155 (138)
Asahi Mutual Life Insurance	Decrease	Increase (depending on market trends)		1.00~2.00 (1.60)		30yr 2.20~3.50 (3.00)	3.50~5.00 (3.80)	130~150 (135)

Source: Various media reports; compiled by Daiwa
**End-FY figures are shown in parentheses.*

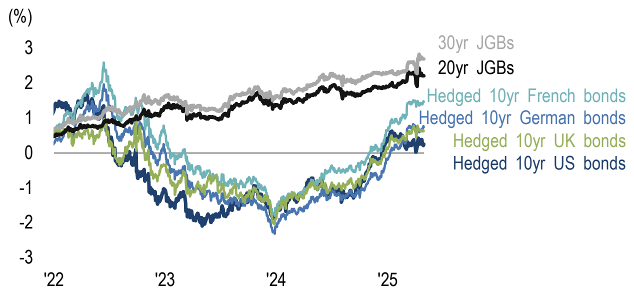
While life insurers feel current yield levels are attractive considering the assumed interest rate, which is the cost of debt, they seem to have adopted a cautious approach due to concerns about supply/demand conditions. Yields may face further upward pressure, but life insurers have apparently adopted the basic approach of "leveling" purchases with the aim of flexibly adjusting the pace in view of liquidity, depending on market trends.

More companies intend to increase investment in currency-hedged foreign bonds compared to what we saw in their previous 2H FY24 investment plans in October 2024. Hedging costs have improved substantially due to rate hikes by the BOJ and rate cuts by the ECB/Fed. With the yields of hedged foreign bonds no longer negative (Chart 2), life insurers' appetite for investing in hedged foreign bonds has been recovering. And, as before, life insurers seem to continue to have an appetite for investing in products, such as US corporate bonds, that can provide positive spreads, even after paying hedging costs.

While corporate investment in currency-unhedged foreign bonds varies from company to company, we get the impression that life insurers have become more cautious than before, as shown by the increasing number of companies indicating that they are reducing investment in such bonds. The average range for the assumed USD/JPY rate among ten firms is Y130-Y155, with Y140 forecast for the end of the term, which is largely unchanged from the previous figures (Y131-155, Y140). The current exchange rate is around Y140, equivalent to the term-end forecast. Therefore, it will be interesting to see if life insurers gradually buy at that level. However, while many companies anticipate the yen appreciating to Y130, (and some to the Y120 level), we think it unlikely that aggressive purchasing will substantially boost the USD/JPY rate.

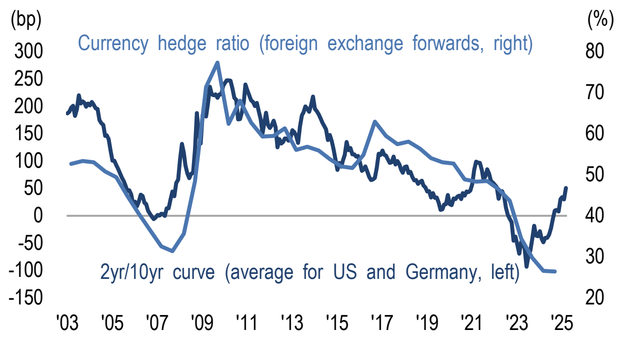
Foreign bond investment by life insurers is extremely important when forecasting medium- to long-term supply/demand conditions with the yen, so we should take note of the increasing appetite for hedged foreign bonds in the latest investment plans. The hedge ratio at major Japanese life insurers has fallen to a historically low level (Chart 3). If companies were to move to raise their hedge ratios, that would prompt a corresponding demand to purchase the yen, creating widening pressure on a short-term currency basis. With some life insurers stating that they have already raised their hedge ratios, this trend may have already materialized due to the appreciation of the yen since the beginning of the year. Steepening of the foreign bond yield curve suggests that life insurers will raise their hedge ratios, so we should pay close attention to how things develop going forward.

Chart 2: JGB and Hedged Foreign Bond Yields



Source: Bloomberg; compiled by Daiwa.

Chart 3: Currency Hedge Ratios at Major Life Insurers



Source: Earning results materials at major life insurers, Bloomberg; compiled by Daiwa.

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