1 Trends of JGB Market in FY2024

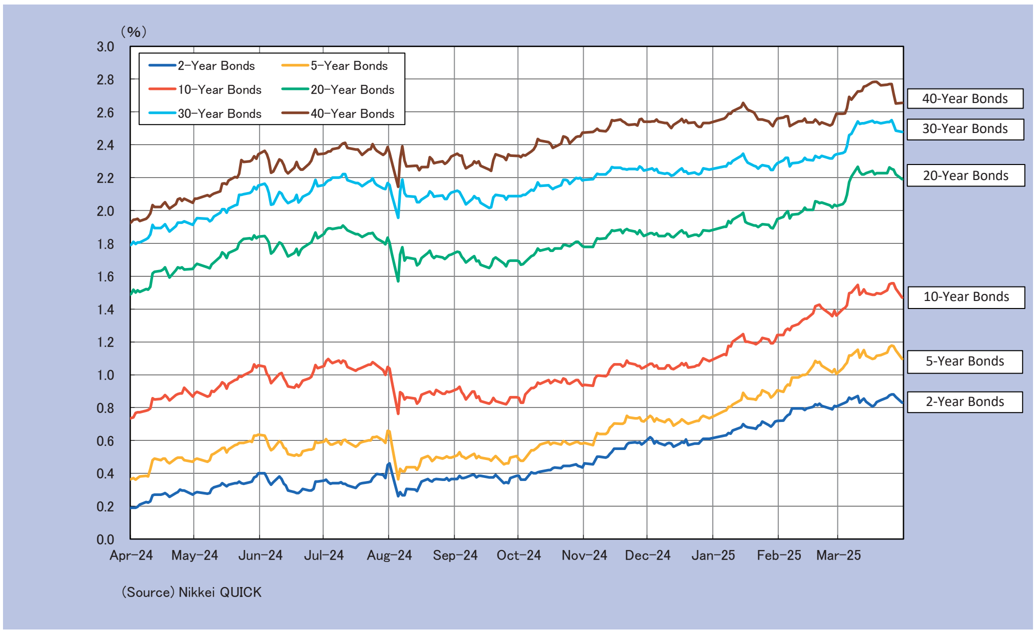
(1) Overview

In FY2024, JGB market saw an upward trend in interest rates amidst solid economic and price trends, alongside revisions to the BOJ's monetary policy.

In mid-March 2024, the BOJ decided to revise its monetary policy framework. The negative interest rate policy was lifted, and the policy interest rate target was set at around 0-0.1%. Additionally, yield curve control was abolished. However, since these changes in the BOJ's monetary policy framework had already been incorporated into the market to some extent, interest rates did not fluctuate significantly at the time of the policy announcement. Nonetheless, they trended upward through July.

In late July, the BOJ decided to raise the policy interest rate to around 0.25% and planned to reduce the long-term government bond purchases. In early August shortly thereafter, amidst global financial market turmoil, interest rates dropped significantly alongside historically low stock prices and a rapid appreciation of the yen.

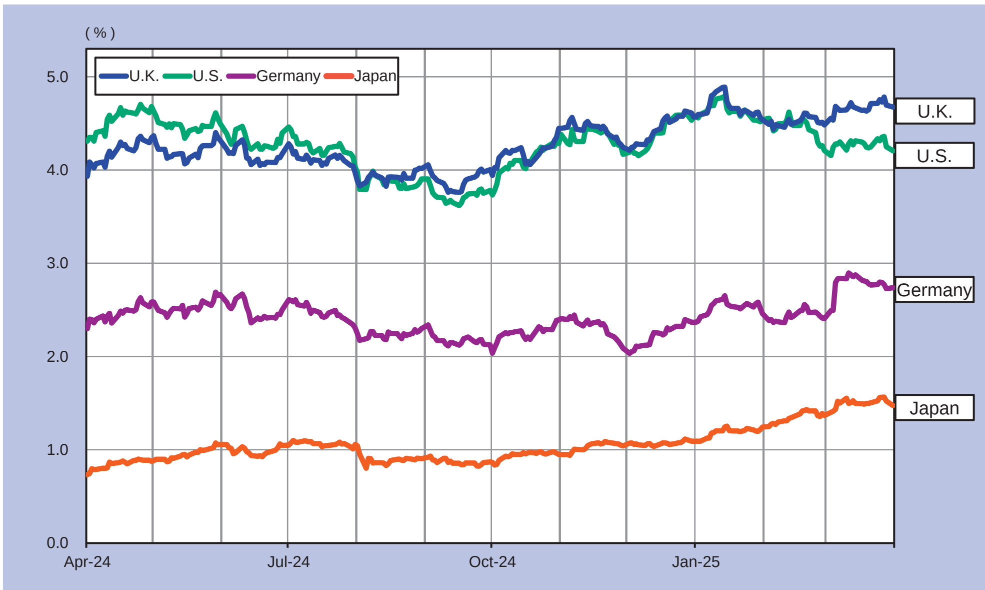
Fig. 1-1 JGB Yield Trends by Maturity



Approaching the end of the year, JGB yields exhibited an upward trend due to a rise in U.S. long-term interest rates amid political developments such as the U.S. presidential election, coupled with the steady economic and price trends in Japan.

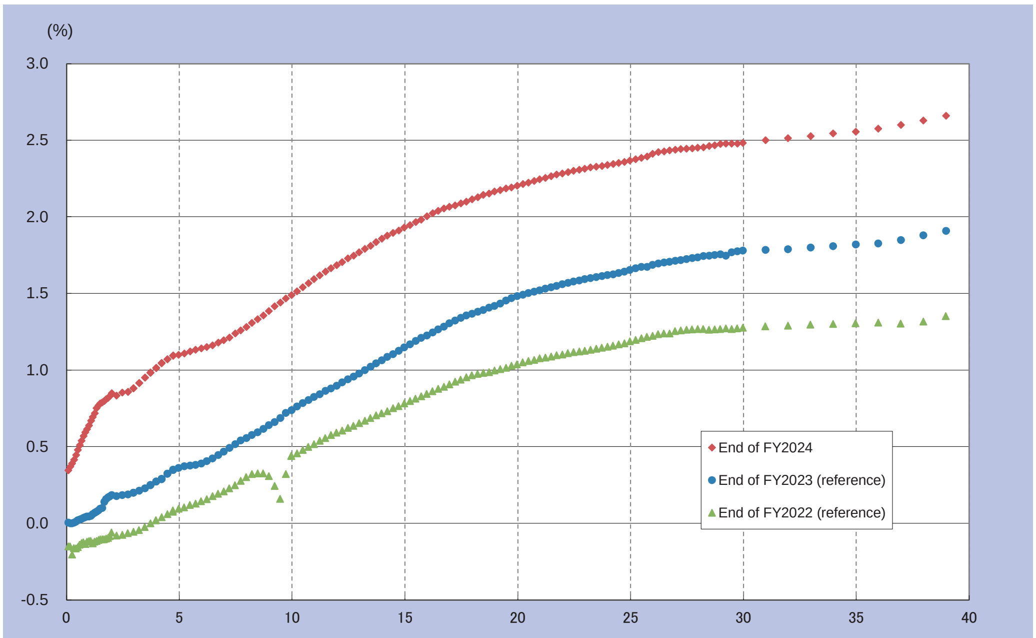
In late January of 2025, the BOJ decided to raise the policy interest rate to around 0.5%. Subsequently, the trend of rising interest rates intensified further, influenced by the anticipation of additional interest rate hikes in the market as well as the impact of increased European interest rates due to moves such as increased defense spending in Europe.

Fig. 1-2 Changes in 10-Year Government Bonds Yields



Note: Figures may not match other figures from different sources.
(Source) Bloomberg

Fig. 1-3 Changes in Yield Curve



(Source) Japan Bond Trading Co., Ltd.

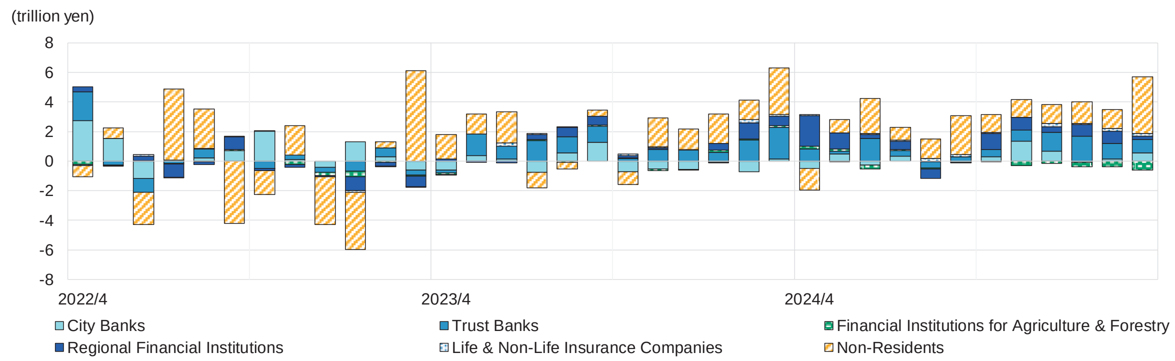
(2) Investor Trends

In FY2024, looking at investment trends in JGBs by investor category, a wide range of investors, including foreign investors, pension funds, city banks, and regional financial institutions, were net buyers of medium- to long-term government bonds (2-Year Bonds, 5-Year Bonds, and 10-Year Bonds (☞)). Following the BOJ's decision to revise its monetary policy framework in March 2024, foreign investors and city banks were net sellers in April. However, other domestic investors were net buyers in response. From May to July, the BOJ decided by the end of July to raise the policy interest rate to approximately 0.25% and to

☞5-Year Bonds include Japan Climate Transition Bonds, and 10-Year Bonds include Japan Climate Transition Bonds and Inflation-Indexed Bonds.

implement a plan to reduce its government bond purchasing. However, with expectations that the policy interest rate would be maintained, both foreign and domestic investors overall continued to be net buyers. In August, in response to global market fluctuations triggered by concerns over a slowdown in the U.S. economy, regional financial institutions were net sellers. Meanwhile, pension funds are presumed to have been sellers of JGBs as they bought domestic stocks and foreign assets to adjust the allocation ratios of their asset classes. This adjustment was prompted by declining stock prices and a stronger yen, leading to a decrease in the valuation of stocks and foreign assets. From September to December, as expectations for interest rate hikes increased and interest rates rose gradually, domestic and foreign investors are thought to have favored the high interest rate levels and consequently made net purchases. In January, amidst a surge in reports related to U.S. tariffs and rising U.S. interest rates driven by increasing inflation expectations, domestic interest rates also rose in tandem. Consequently, the BOJ raised the policy interest rate to approximately 0.5%. City banks were net sellers, while other investment entities were net buyers. From February to March, in response to continued reporting on U.S. tariffs, U.S. interest rates declined, whereas expectations for price and wage hikes led to increased expectations for interest rate hikes in Japan, resulting in a modest increase in domestic interest rates. As a result, both foreign and domestic investors (excluding Financial Institutions for Agriculture & Forestry) were net buyers.

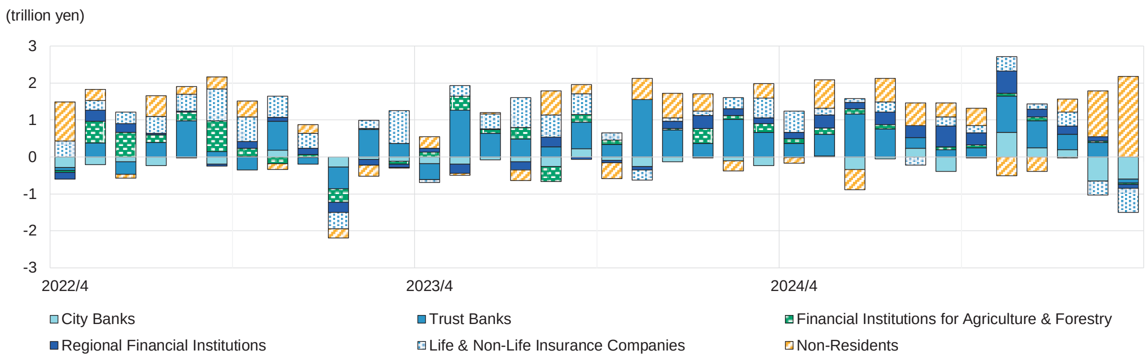
Fig. 1-4 Net Buying/Selling of Medium-to-Long-Term JGBs by Investor Category



Note: Medium-to-long-term JGBs are 2-Year, 5-Year and 10-Year JGBs. Investors' direct purchases through auctions are excluded. Trust Banks' trading covers their proprietary trading as well as transactions on behalf of pension funds, etc. "Regional Financial Institutions" includes Shinkin Banks.
(Source) Japan Securities Dealers Association

Next, ultra-long-term government bonds (20-Year Bonds, 30-Year Bonds, and 40-Year Bonds) were bought by investors, including pension funds, foreign investors, life insurance companies, and regional financial institutions. In particular, pension funds are presumed to have sold domestic and foreign stocks in response to rising stock prices, while they were likely large net buyers of ultra-long-term government bonds as well as medium- to long-term government bonds. Additionally, life insurance companies, although having almost completed their purchases of ultra-long-term government bonds for the purpose of complying with the new Insurance Capital Standard, are believed to have continued to be net buyers by selling previously acquired low-coupon bonds and replacing them with high-coupon bonds in response to rising interest rates. Furthermore, in March 2025, as market expectations for the final level of the BOJ's interest rate hikes increased, life insurance companies, city banks, and pension funds significantly were net sellers of ultra-long-term government bonds, while foreign investors purchased noticeably more of these bonds than those domestic investors.

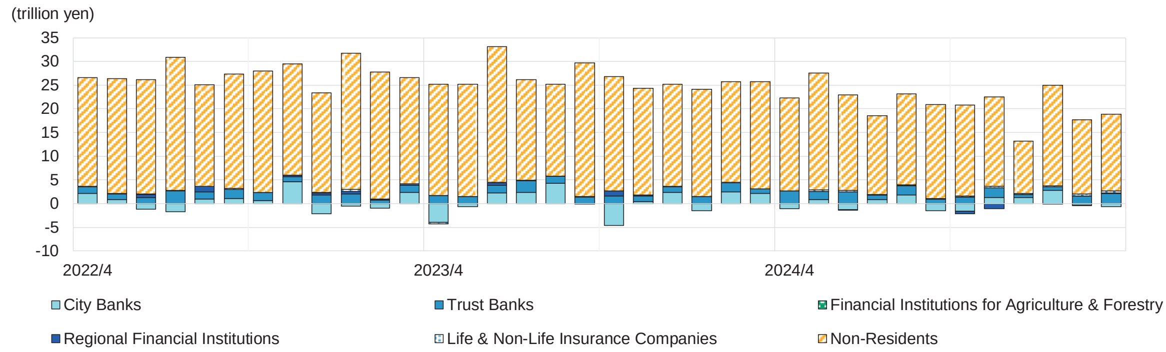
Fig. 1-5 Net Buying/Selling of Ultra-Long-Term JGBs by Investor Category



Note: Ultra-long-term JGBs are 20-Year, 30-Year and 40-Year JGBs. Investors' direct purchases through auctions are excluded. Trust Banks' trading covers their proprietary trading as well as transactions on behalf of pension funds, etc. "Regional Financial Institutions" includes Shinkin Banks.
(Source) Japan Securities Dealers Association

Foreign investors continued to be the largest buyers of short-term JGBs (Treasury Discount Bills). The high level of investment in short-term JGBs by foreign investors is mainly due to the continued availability of premiums to dollar providers in the currency basis swap market. Furthermore, following the lifting of the negative interest rate policy due to the changes in the monetary policy framework, the net purchase amounts by trust banks and life insurance companies increased.

Fig. 1-6 Net Buying/Selling of Short-Term JGBs by Investor Category



Note: Short-term JGBs are T-Bills. Investors' direct purchases through auctions are excluded. Trust Banks' trading covers their proprietary trading as well as transactions on behalf of pension funds, etc. "Regional Financial Institutions" includes Shinkin Banks.
(Source) Japan Securities Dealers Association