

## Japan Rates Watch

# JSDA March OTC Bond Trading: Domestic investors sell, nonresidents buy the dip

Select Subject

## Key takeaways

- Germany's fiscal policy pivot heightened fiscal concerns about Japan in March
- City banks/life insurers sold superlong JGBs, nonresidents aggressively bought on dips
- Nonresidents, trust banks, regional banks could slow superlong JGB investment; chronic lack of superlong demand

## Chronic lack of superlong JGBs demand

The Japan Security Dealers Association (JSDA) published its March 2025 Trading Volume for OTC Bonds. City banks and life insurers sold superlong JGBs in March amid growing concerns about expansionary fiscal spending in Japan following Germany's fiscal policy pivot early in the month. In contrast, nonresident investors bought JGBs on weakness in March (see [Euro Area Watch: Germany: game changer 2025-03-04](#)).

Nonresidents, trust banks, and regional banks were the main buyers of JGBs in FY24. However, both direct and indirect JGB investment by regional banks could slow given the BoJ's policy normalization and the FSA's growing focus on JGB-backed repackaged loans, and public pension funds maintained their portfolio allocations for all asset classes for FY25 onward.

A supplementary budget during the current Diet session (through end-June) now looks less likely. However, there is a risk that Japan's budget deficit could widen, depending on the outcome of US-Japan negotiations on so-called reciprocal tariffs and how defense spending is apportioned. Nonresident investors appear to have sold to cut losses thus far in April, but flow data suggests they increased their JGB holdings in FY24. We therefore see the risk of a further move by nonresidents to cut losses depending on upcoming Japanese government fiscal policy, making the JGB curve unlikely to flatten in the near term.

21 April 2025

Rates Research  
Japan

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## City banks remain net sellers

City banks were net sellers of roughly ¥30bn in superlong/long/medium-term JGBs in March. They bought a net ¥490bn in medium-term and ¥80bn in long-term JGBs, but sold ¥600bn in superlong issues, suggesting city banks contributed to the steepening of the JGB curve in early March. However, on a fiscal-year basis they bought a net ¥2.2tn in FY24 (versus net sales of ¥2.9tn in FY23).

Deposit-taking corporations sold a net ¥4.2tn in foreign bonds in FY24, suggesting a gradual shift by Japanese banks from foreign bonds to JGBs over the full year. However, they have yet to ramp up buying amid the BoJ hiking cycle.

## Regional banks turned net sellers in March

Regional banks turned net sellers for the first time since September 2024 in March, unloading roughly ¥180bn in superlong/long/medium-term JGBs. They bought a net ¥82bn in superlong JGBs, but sold a net ¥180bn in long-term and ¥80bn in medium-term issues. However, on a fiscal year basis, net JGB buying by regional banks + shinkin banks rose from ¥4.4tn in FY23 to ¥10.8tn in FY24.

Japan's regional banks have used structured loans to indirectly invest in JGBs, but we expect their lending to SPCs to slow given the FSA's growing concerns about JGB-backed repackaged loans (for details on these structured loans, see [Japan Rates Watch: FAQ on JGB-backed repackaged loans 06 March 2025](#)).

## Trust banks' net JGB purchases slowing

Trust banks bought a net ¥760bn in superlong/long/medium-term JGBs in March. This was their seventh straight month of net buying, but the pace slowed from ¥2.1tn in January and ¥1.4tn in February. They bought a net ¥1.1tn in long-term JGBs in March, but sold ¥230bn in medium-term and ¥110bn in superlong issues. Trust banks bought a net ¥15tn in JGBs in FY24 (versus ¥19.2tn in FY23).

Japan's public pension funds have announced that they will maintain their 25% portfolio allocations for domestic bonds, domestic equities, foreign bonds, and foreign equities for FY25 onward. Thus, trust banks may have been net sellers of JGBs in April data following the domestic and overseas stock market selloff in early April. Our simulation, which does not factor in April flows due to a lack of data, suggests that Japanese pension funds are currently overweight JGBs, but may have already rebalanced their portfolios to some extent.

## Lifers sharply increased superlong JGB sales in March

Japanese lifers sold a net ¥650bn in superlong JGBs in March (versus ¥370bn in February). However, they increased both their buying, from ¥930bn in February to ¥1.8tn, and their selling, from ¥1.3tn to ¥2.5tn. The JGB curve bear-steepened from the start of March due to growing concerns about Japan's government finances following Germany's fiscal policy pivot, but we think some life insurers bought JGBs on weakness. Japanese lifers' cumulative net buying of superlong JGBs since April 2024 is just ¥1.2tn, slowing for a fourth straight year from the FY20 peak of ¥7.6tn (and ¥3.6tn in FY23).

However, they sold a net ¥1.9tn in foreign bonds in FY24 (versus ¥1.8tn in FY23), suggesting a gradual shift from foreign bonds to JGBs.

We note that Japanese lifers' end-March uncollateralized call market loans outstanding were ¥1.3tn, up 84% versus just prior to the BoJ's exit from NIRP. Japanese lifers are gradually returning to short-term fund transactions as BoJ rate hikes drive up short-term interest rates and unrealized losses on JGBs increase.

## Nonresident investors sharply increased JGB purchases

Nonresident investors' aggregate net JGB purchases (superlong/long/medium-term) jumped from ¥2.5tn in February to ¥6.0tn in March. They bought a net ¥2.2tn in superlong, ¥690bn in long-term, and ¥3.1tn in medium-term issues.



According to inward portfolio investment data, nonresident investors bought ¥1.7tn in JGBs in early March and ¥2.3tn in mid-March. We think they aggressively bought on weakness in response to the March spike in JGB yields.

Nonresidents bought a net ¥22tn in JGBs in FY24, up from ¥15tn in FY23. We think they took losses on flatteners in April, but see the risk that they could sell more JGBs depending on future Japanese government fiscal policy developments.



# March bond trading by investor type

**Exhibit 1: Net transactions of Japanese government bonds (¥100mn, purchase- sales)**  
**Net purchases = (+), Net sales = (-)**

Investor Type	Purchase - Sales (Net Purchase(+), Net Sale(-)); ¥100million					
	Total Govt bond	Interest-bearing Govt Bond	Long-term (Over 10 year)	Long-term	Medium-term	TB
City Banks & Long-Term Credit Banks	-7,234	-326	-6,009	801	4,882	-6,908
Regional Banks	-1,708	-1,803	821	-1,829	-795	95
Trust Bank	29,348	7,638	-1,108	11,022	-2,276	21,710
Fin.Insts. for Agr. & Forestry	-6,118	-6,219	-316	-6,111	208	101
2nd Regional	-383	-383	-490	-609	716	0
Shinkin Banks	3,693	3,535	-1,426	1,674	3,287	158
Other Fin.Insts.	1,074	486	-321	-598	1,405	588
Life & Non-Life Insurance Companies	-136	-4,765	-6,458	279	1,414	4,629
Investment Trusts	6,004	2,832	348	300	2,184	3,172
Mutual Aid Association of Govt.Offices	9	9	-16	25	0	0
Business Corporations	1,679	1,675	-44	854	865	4
Other Corporations	4,870	814	490	316	8	4,056
Nonresident investors	222,061	60,252	21,828	6,929	31,495	161,809
Individuals	62	62	21	5	36	0
Others	-238,355	-59,727	-16,331	-12,550	-30,846	-178,628
Bond Dealers	-74	-683	-494	64	-253	614
Total	14,792	3,397	-9,505	572	12,330	11,400

Source: JSDA, BofA Global Research

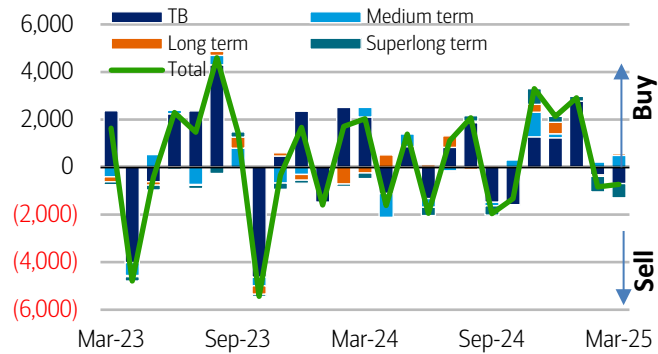
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# Bond trading by investor type

**Exhibit 2: Breakdown of JGB trading by city banks**

(Monthly, net purchase, ¥bn)

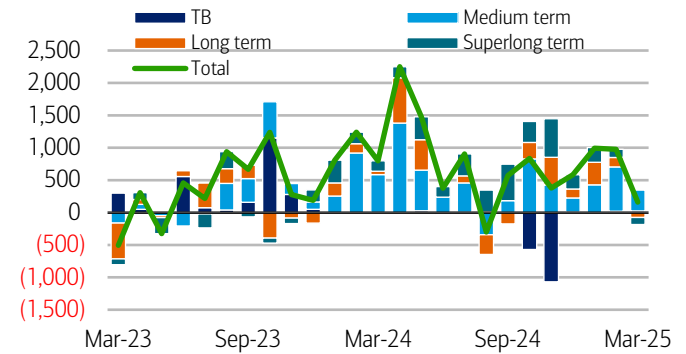


Source: JSDA, BofA Global Research

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**Exhibit 3: Breakdown of JGB trading by regional+shinkin banks**

(Monthly, net purchase, ¥bn)

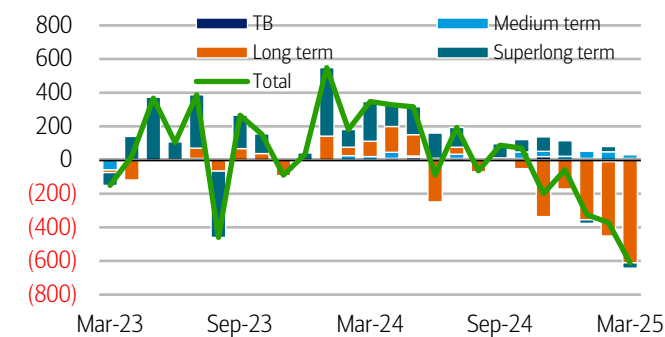


Source: JSDA, BofA Global Research

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**Exhibit 4: Breakdown of JGB trading by agricultural financials**

(Monthly, net purchase, ¥bn)

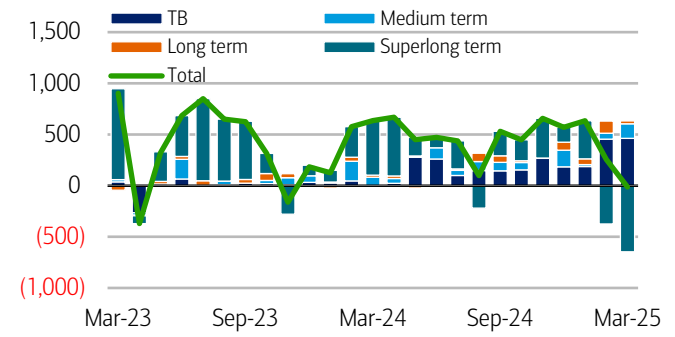


Source: JSDA, BofA Global Research

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**Exhibit 5: Breakdown of JGB trading by insurers**

(Monthly, net purchase, ¥bn)

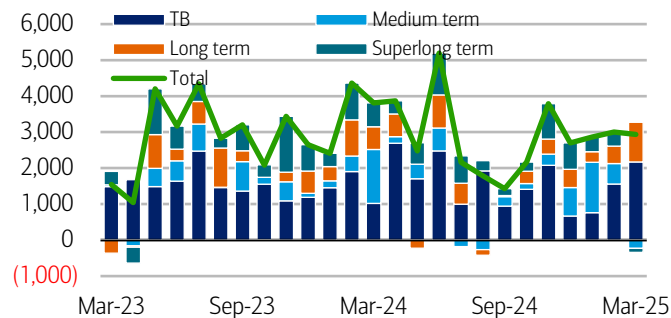


Source: JSDA, BofA Global Research

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**Exhibit 6: Breakdown of JGB trading by trust banks**

(Monthly, net purchase, ¥bn)

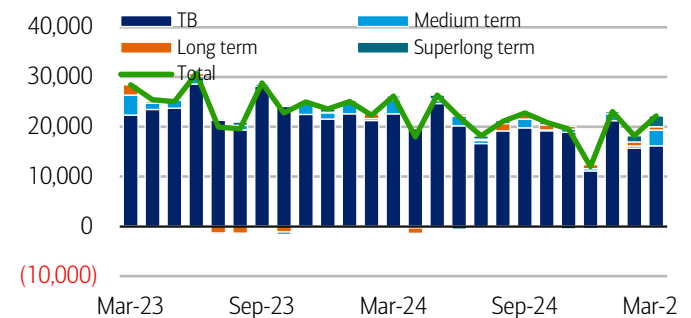


Source: JSDA, BofA Global Research

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**Exhibit 7: Breakdown of JGB trading by Nonresident investors**

(Monthly, net purchase, ¥bn)



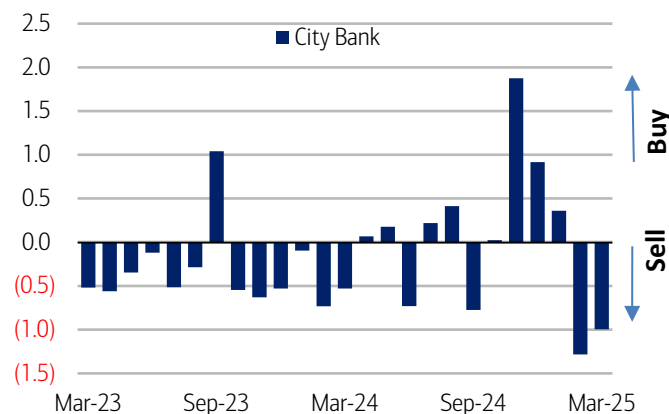
Source: JSDA, BofA Global Research

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# Bond trading in estimated DV01

## Exhibit 8: JGB trading in estimated DV01 (¥bn) by city banks

Assuming 3yr duration for medium-term, 7.5yr for long, 20yr for superlong

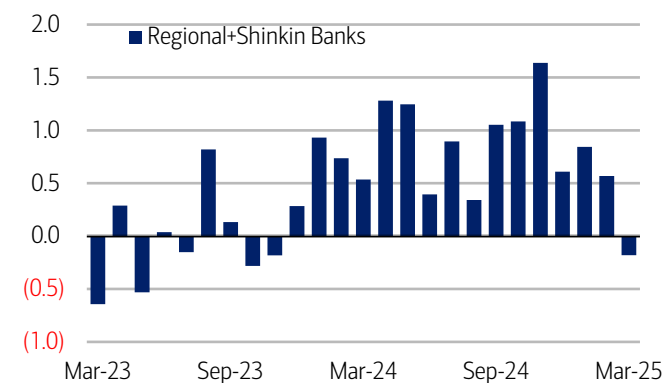


Source: JSDA, BofA Global Research

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## Exhibit 9: JGB trading in estimated DV01 (¥bn) by regional and shinkin banks

Assuming 3yr duration for medium-term, 7.5yr for long, 20yr for superlong

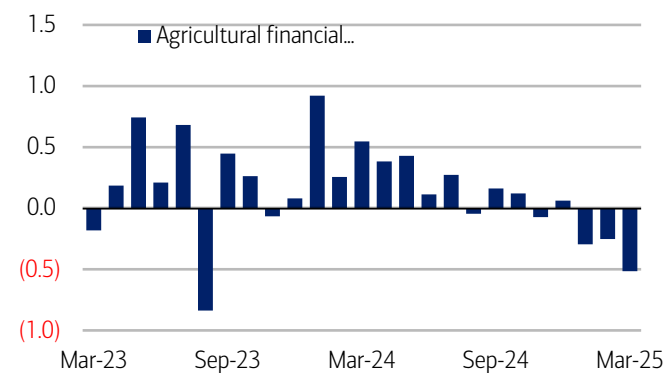


Source: JSDA, BofA Global Research

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## Exhibit 10: JGB trading in estimated DV01 (¥bn) by agricultural financials

Assuming 3yr duration for medium-term, 7.5yr for long, 20yr for superlong

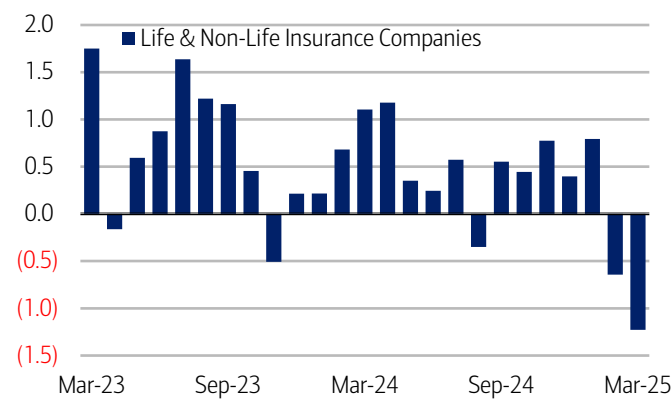


Source: JSDA, BofA Global Research

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## Exhibit 11: JGB trading in estimated DV01 (¥bn) by insurers

Assuming 3yr duration for medium-term, 7.5yr for long, 20yr for superlong

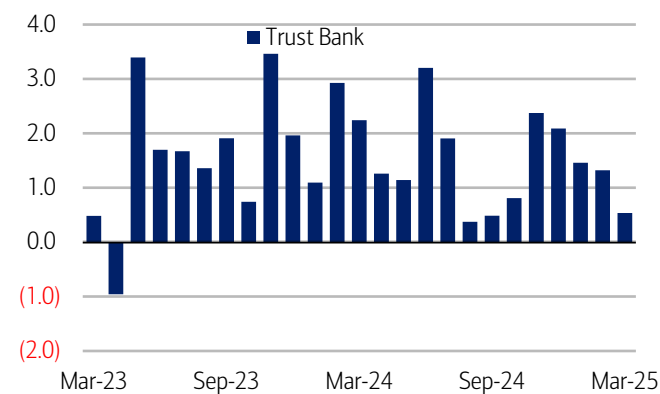


Source: JSDA, BofA Global Research

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## Exhibit 12: JGB trading in estimated DV01 (¥bn) by trust banks

Assuming 3yr duration for medium-term, 7.5yr for long, 20yr for superlong

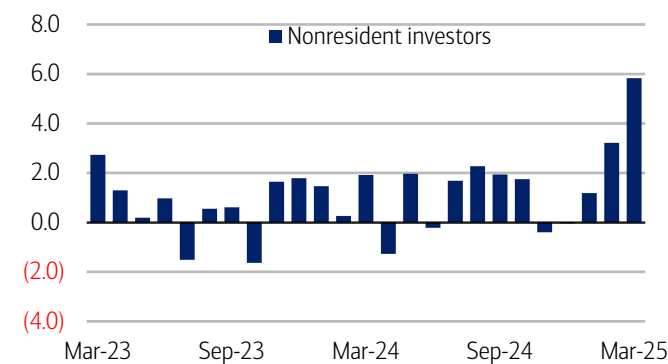


Source: JSDA, BofA Global Research

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## Exhibit 13: JGB trading in estimated DV01 (¥bn) by Nonresident investors

Assuming 3yr duration for medium-term, 7.5yr for long, 20yr for superlong



Source: JSDA, BofA Global Research

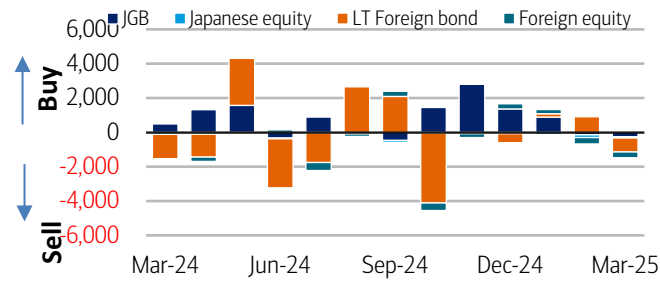
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# Japanese investor asset allocation

**Exhibit 14: Net investment by city banks**

(Monthly, net, ¥bn)

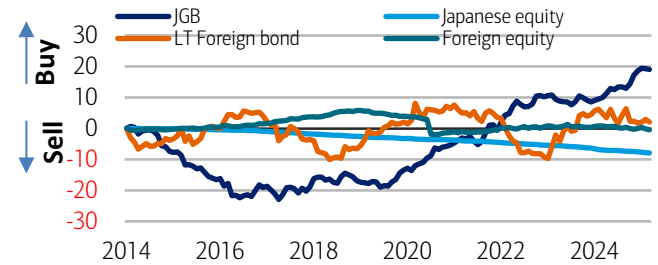


Source: JSDA, JPX, BofA Global Research

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**Exhibit 15: Asset allocation by city banks**

(Cumulative net purchase since Jan-2014, ¥tn)

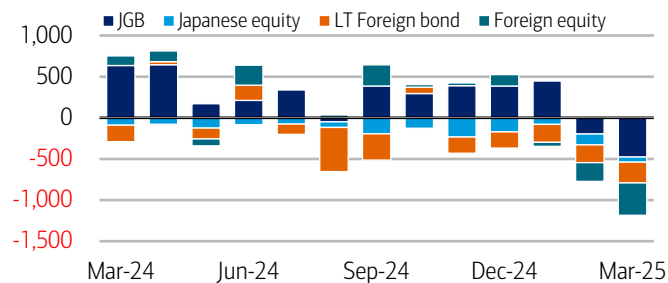


Source: JSDA, JPX, BofA Global Research

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**Exhibit 16: Net investment by life and non-life insurance companies**

(Monthly, net, ¥bn)

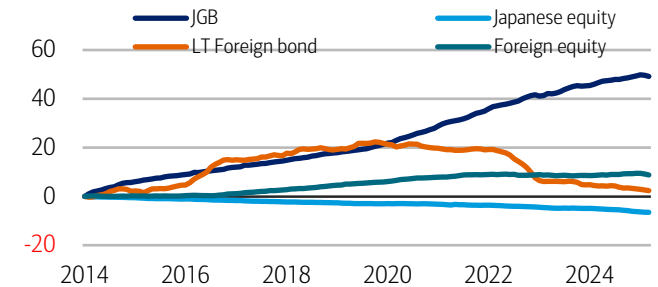


Source: JSDA, JPX, BofA Global Research

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**Exhibit 17: Asset allocation by life and non-life insurance companies**

(Cumulative net purchase since Jan-2014, ¥tn)

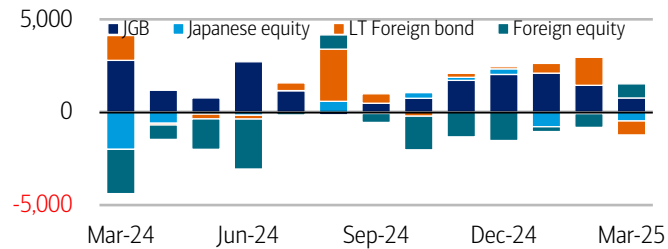


Source: JSDA, JPX, BofA Global Research

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**Exhibit 18: Net investment by trust banks**

(Monthly, net, ¥bn)

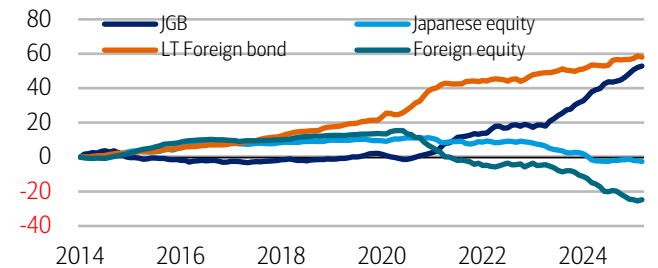


Source: JSDA, JPX, BofA Global Research

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**Exhibit 19: Asset allocation by trust banks**

(Cumulative net purchase since Jan-2014, ¥tn)

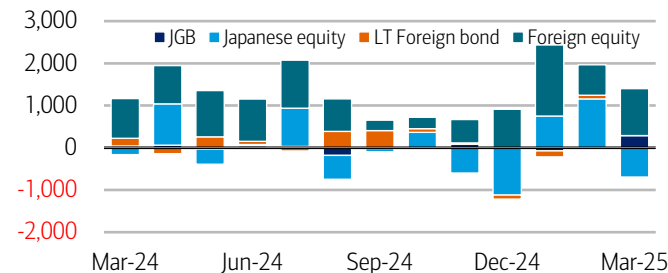


Source: JSDA, JPX, BofA Global Research

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**Exhibit 20: Net investment by Investment trusts and Individuals**

(Monthly, net, ¥bn)

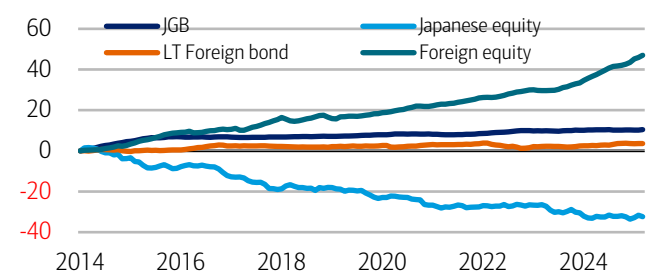


Source: JSDA, JPX, BofA Global Research

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**Exhibit 21: Asset allocation by Investment trusts and Individuals**

(Cumulative net purchase since Jan-2014, ¥tn)



Source: JSDA, JPX, BofA Global Research

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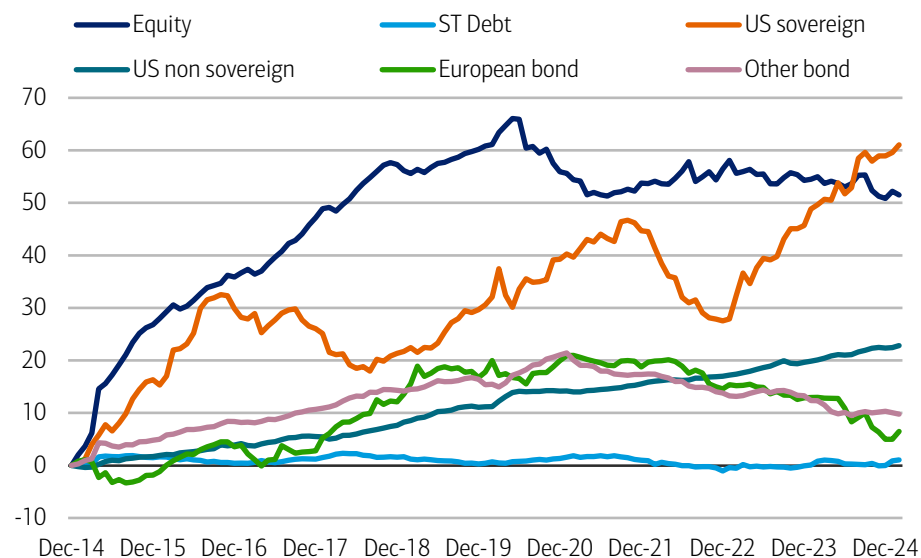


## Appendix

# Outward investment by Japanese investors

**Exhibit 22: Japan's cumulative foreign security investment (¥tn)**

Since 2015



Source: MoF, BofA Global Research, Haver

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**Exhibit 23: Japan's foreign bond investment by geography (¥bn)**

Monthly

	Total	US Sov	US non-sov	ex-US	CAD	AUD+ NZD	UK	DE	France	Spain	Italy	Other Europe	Other
Mar-24	407	1,045	330	(968)	36	(198)	(45)	12	(96)	123	(106)	(22)	(672)
Apr-24	(1,068)	(191)	439	(1,316)	83	(234)	(75)	27	314	(157)	(12)	(151)	(1,112)
May-24	3,087	3,314	224	(451)	39	(198)	(98)	31	(163)	36	14	154	(266)
Jun-24	(3,774)	(2,101)	(83)	(1,590)	95	269	32	(1,225)	(101)	1	(23)	(545)	(92)
Jul-24	(1,900)	1,180	88	(3,167)	50	84	81	(27)	(1,469)	(199)	(42)	(915)	(730)
Aug-24	7,464	5,589	514	1,360	208	56	381	346	(107)	145	3	74	253
Sep-24	2,528	1,146	313	1,069	(43)	(26)	158	831	(499)	82	238	19	309
Oct-24	(4,238)	(1,679)	393	(2,951)	(138)	(118)	2	(864)	(1,118)	(218)	(412)	(97)	11
Nov-24	368	988	156	(776)	(133)	(142)	79	276	(1,030)	(9)	253	(496)	427
Dec-24	(1,326)	14	(122)	(1,218)	10	195	26	(548)	(234)	(115)	(537)	43	(58)
Jan-25	449	636	96	(283)	(90)	(67)	(51)	158	(270)	(87)	17	223	(117)
Feb-25	3,100	1,467	384	1,250	(174)	(130)	(65)	535	618	21	430	(31)	47
Past Year	5,097	11,406	2,731	(9,040)	(58)	(508)	427	(447)	(4,155)	(377)	(176)	(1,746)	(2,000)

Source: MoF, BofA Global Research, Haver

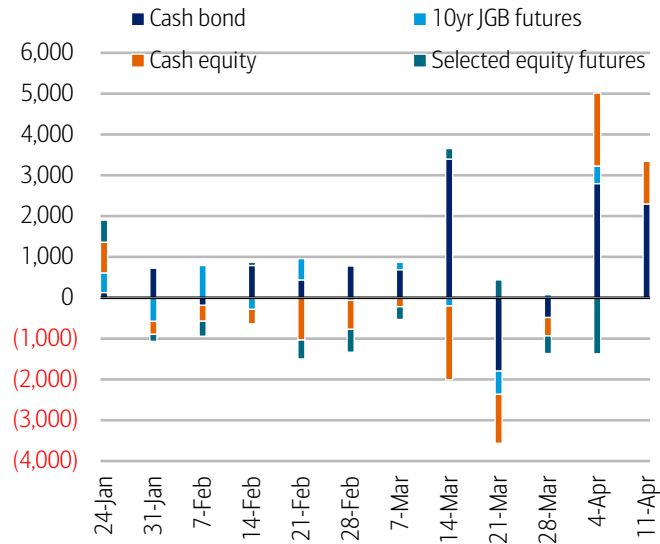
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# Nonresident investors investment into Japan

**Exhibit 24: Nonresident investors weekly net investment into Japan (¥bn)**

MoF, JPX statistics

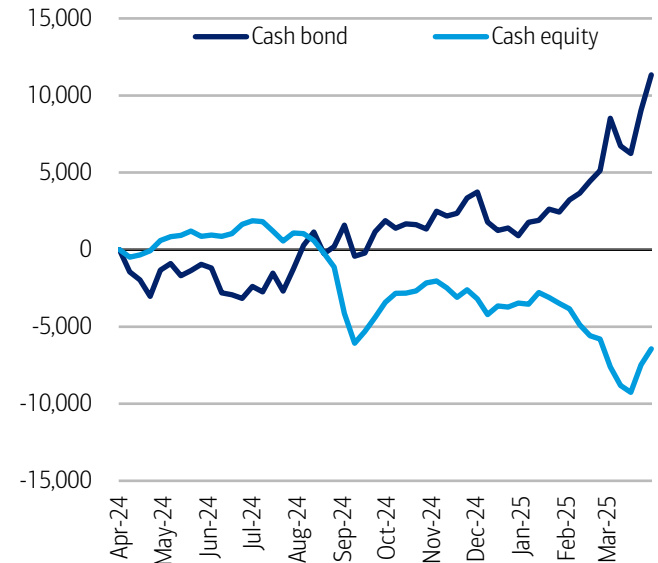


Source: MoF, JPX, BofA Global Research, Bloomberg

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**Exhibit 25: Nonresident investors 1-yr cumulative net investment into Japan (¥bn)**

MoF, JPX statistics



Source: MoF, JPX, BofA Global Research, Bloomberg

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**Exhibit 26: Net investment into Japanese bond market by investor region (¥bn)**

MoF statistics

¥bn	US			Europe			China			Asia ex-China			Other			Total		
	LT bond	ST bond	Net	LT bond	ST bond	Net	LT bond	ST bond	Net	LT bond	ST bond	Net	LT bond	ST bond	Net	LT bond	ST bond	Net
Mar-24	(608)	(1,685)	(2,293)	49	4,706	4,755	(558)	803	246	(820)	63	(758)	1,053	(1,985)	(932)	(884)	1,903	1,018
Apr-24	667	(1,716)	(1,049)	(1,068)	1,541	473	(587)	(3,012)	(3,599)	(726)	(3,482)	(4,208)	640	1,195	1,834	(1,075)	(5,475)	(6,550)
May-24	256	345	601	(1,215)	1,055	(160)	(11)	1,084	1,073	247	356	603	741	(2,139)	(1,397)	19	701	721
Jun-24	543	(264)	280	(1,575)	1,592	16	34	(1,148)	(1,113)	(145)	(692)	(837)	(765)	(2,920)	(3,684)	(1,908)	(3,431)	(5,339)
Jul-24	1,091	(2,440)	(1,349)	541	(3,846)	(3,305)	399	873	1,272	260	288	548	(48)	(3,844)	(3,892)	2,243	(8,968)	(6,725)
Aug-24	95	(1,538)	(1,443)	1,586	2,037	3,623	(193)	(160)	(353)	(269)	(911)	(1,180)	517	(1,744)	(1,226)	1,737	(2,316)	(579)
Sep-24	(267)	(2,633)	(2,900)	(276)	3,800	3,523	121	1,306	1,427	117	324	440	424	(4,446)	(4,021)	118	(1,650)	(1,531)
Oct-24	(644)	(776)	(1,420)	1,084	2,445	3,529	(88)	1,059	971	(43)	1,397	1,353	(11)	(1,733)	(1,745)	296	2,391	2,688
Nov-24	(52)	(1,012)	(1,064)	(43)	3,895	3,852	(10)	(1,158)	(1,169)	(43)	(2,393)	(2,436)	313	1,332	1,645	164	665	829
Dec-24	(76)	(603)	(678)	43	3,025	3,068	(535)	(2,977)	(3,512)	(681)	(3,795)	(4,476)	382	668	1,050	(868)	(3,681)	(4,549)
Jan-25	1,317	(559)	758	713	5,712	6,425	48	(256)	(208)	(424)	(473)	(896)	315	(710)	(396)	1,968	3,714	5,682
Feb-25	542	(643)	(101)	709	900	1,610	(539)	(231)	(769)	(461)	(694)	(1,155)	1,247	(896)	352	1,499	(1,562)	(63)
Past Year	2,863	(13,523)	(10,660)	547	26,862	27,410	(1,918)	(3,816)	(5,735)	(2,989)	(10,012)	(13,001)	4,808	(17,220)	(12,412)	3,311	(17,709)	(14,398)

Source: MoF, JPX, BofA Global Research

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I, Tomonobu Yamashita, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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BofA Global Research credit recommendations are assigned using a three-month time horizon:

**Overweight:** Spreads and/or excess returns are likely to outperform the relevant and comparable market over the next three months.

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**Underweight:** Spreads and/or excess returns are likely to underperform the relevant and comparable market over the next three months.

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**Neutral:** No purchase or sale of CDS is recommended.

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