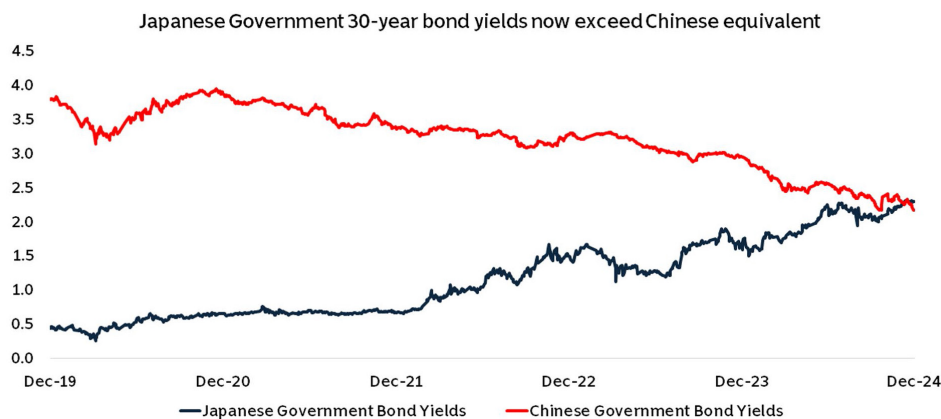


Land of the rising bond yields

Charles Thomson, Portfolio Manager

Chart of the Week



Sources: Bloomberg Finance L.P., December 2024.

What this chart shows

This chart shows the evolution over the past five years of 30-year Japanese Government Bond yields and corresponding 30-year Chinese Government Bond yields. During 2020, Chinese 30-year government debt traded at a yield-to-maturity of nearly 4%, which means CNY 1,000 invested over thirty years would be worth CNY 3,243 after compounding returns. Alternatively, investing JPY 1,000 at a 30-year rate of 0.5% would result in a value of JPY 1,161 over the same period. In percentage terms this means that a CNY investor in long bonds would have locked in a 224% return versus a 16% for a corresponding JPY long bond investor. This situation has now dramatically reversed now that Japanese yields are higher than corresponding Chinese securities.

Why this is important

After decades of zero interest rate policy by the Bank of Japan, we finally saw rate increases in 2024, taking the BoJ unsecured overnight call rate to 0.25%. Yield curve control, which effectively capped the upper bound of Japanese bond yields has also been amended to allow higher rates. Meanwhile, with ongoing macroeconomic challenges in China, interest rates have been lowered, and bond yields have also declined. This divergent policy may have far reaching implications for investors and valuation models for other asset classes. Over time, higher interest rates may provide support for the Japanese yen and reduce speculative funding strategies based on borrowing JPY. The implications for global markets are far reaching.



Global Matters Weekly

09 December 2024

For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

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