

# Global Risk Watch Newsletter

## Global Financial Market is in a “lull” before facing a possible “super typhoon”, etc.

Global Risk Watch Vol.18  
29 September 2016

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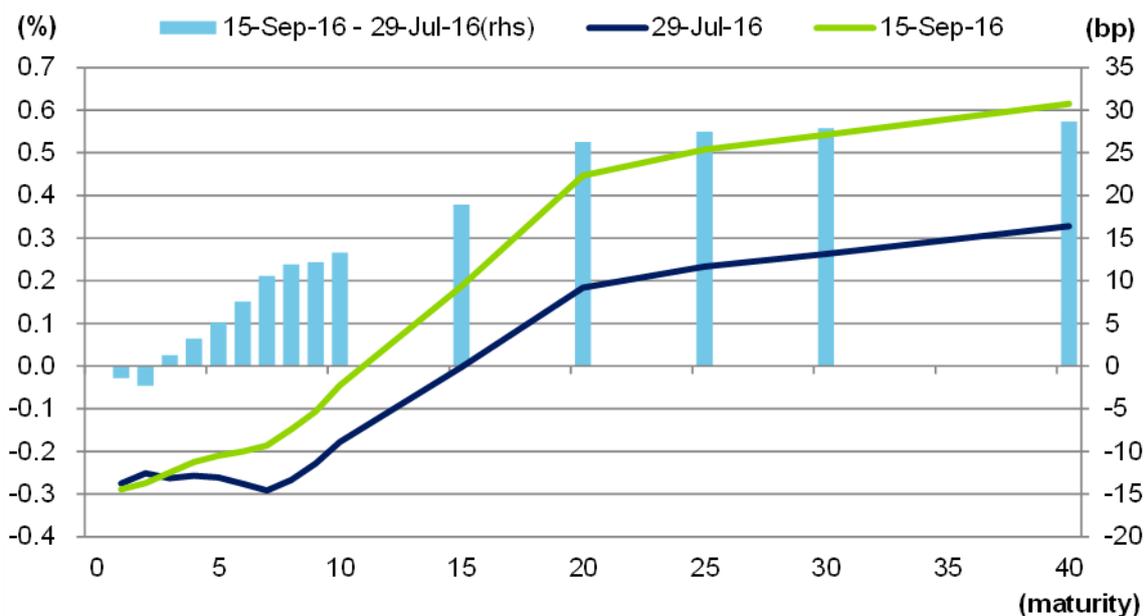
### 3.Highlight of Indicator for this Month

#### # Change in the Shape of the Yield Curve (Yasuhiro Sobue, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

As shown in the chart below, since the end of July, Japan’s yield curve has significantly “Bear Steepened” (rise in interest rate and steepening of yield curve). In the background of this is the Monetary Policy Meeting held on July 28th and 29th, in which Bank of Japan announced “Comprehensive Assessment” of economic activity, inflation and the effects of the policy under the “Quantitative and Qualitative Monetary Easing”· “Quantitative and Qualitative Monetary Easing with a Negative Interest Rate”. The bond market has responded with skepticism on the continuity of “Quantitative and Qualitative Monetary Easing with a Negative Interest Rate” which causes sharp drop in interest rate by July, and once again, the limitations of the monetary policy had been questioned. The rebound of interest rates since the end of July can be explained as a result of such reaction, and, in particular, the effect was greater on long-term maturity bonds where the interest rate drop was significant after the introduction of negative interest rate monetary policy.

In the Monetary Policy Meeting on September 20th and 21st, which the result of “Comprehensive Assessment” will be announced, majority of market participants view Bank of Japan will make some sort of changes on policy framework in addition to additional monetary easing measures. Major newspaper’s observation that have been confirmed as of September 16th, as this article is written, additional monetary easing such as additional negative interest rate and consideration of revision of maturity structure of “Outright Purchases of Japanese Government Bonds” has been reported, which had become a factor of steepening the yield curve. The “Bull Flattening” (drop in interest rate and flattening of yield curve) on the yield curve after the introduction of negative interest rate policy is thought to have greatly worsened the profitability on long-term investors, such as pension funds and life insurance, and financial institutions, as well as banks that make profit on the spread of short and long term interest rates. Recent media coverage suggest that Bank of Japan’s intentions to mitigate the adverse effects on financial institutions which roots in negative interest rate policy. The result of Monetary Policy Meeting on September 20th and 21st is also expected to affect the subsequent yield curve. The result shall be evident by the time this newsletter is published. Meanwhile, the market will have all eyes on this event.

Yield curves for Japanese government bonds



Source: Ministry of Finance Japan

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