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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

“Winners” and “Losers” in the New Trump Presidency, etc.

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《index》

1. # “Winners” and “Losers” in the New Trump Presidency (Tsuyoshi Oyama)
 2. # Financial Regulation Policy of the Trump Regime (Yuri Nakano)
 3. # Long-term Interest Rate Control (Toshikazu Kumagai)
 4. Seminars, Conference & Publications
- =====

3. Highlight of Indicator for this Month

Long-term Interest Rate Control (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

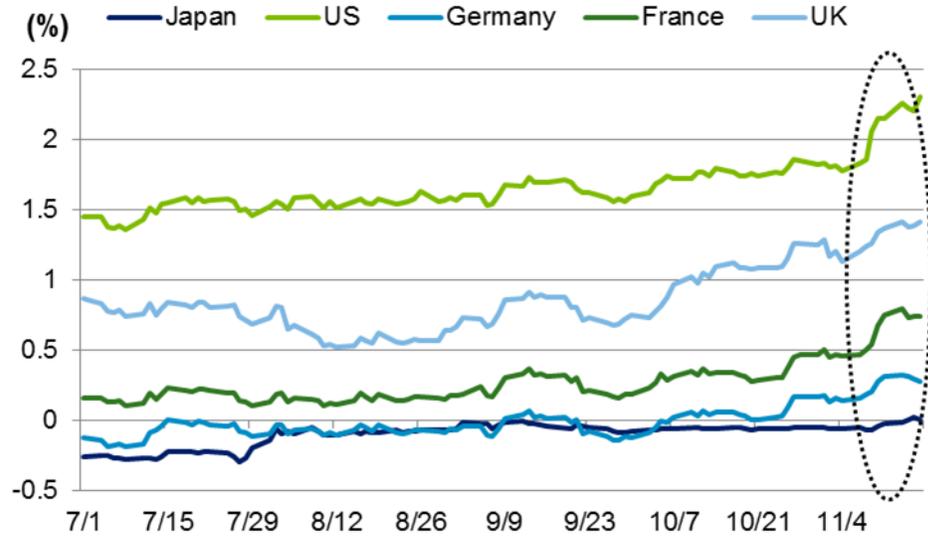
On November 17, the Bank of Japan offered to buy bonds at a pre-agreed price, this operation that became the first after it was introduced. This operation to purchase unlimited bonds with a yield designated by the Bank of Japan (BOJ) in order to control the long-term interest and inflation rates hoping to meet their target level. This time, the specified yield is high, so the actual bid moved to zero, but the long-term interest rate declined from the previous day, therefore, it appears that there was a certain readjustment effect.

Long-term interest rates have risen globally following the results of the US presidential election. While the policies of Mr. Trump, who is the President-elect, is still uncertain, the long-term interest rate in the US has risen on the speculation of fiscal expansion from the remarks Mr Trump made during the election campaign period. Each country, including Japan, has been affected by this news also (Chart 1). As a result, the fact that long-term interest rates have emerged into the positive numbers has become a hot topic in Japan.

In order to see the characteristics of the rise in interest rates, we can compare the yield curves of Japan and the US before the election with the yield curves after the election. We see the Japanese and US curves steepening, however, with the curve of Japan seeing an upward trend at the between two to five year points, where at 10 years point yields have been pressed down in comparison (Chart 2). From these movements, we can see the market is affected by the newly introduced BOJ guidance to some extent (but only limited to around the 10-year yield point). Nevertheless, if the long-term interest rates continue to rise, control of long-term interest rates could be seen as

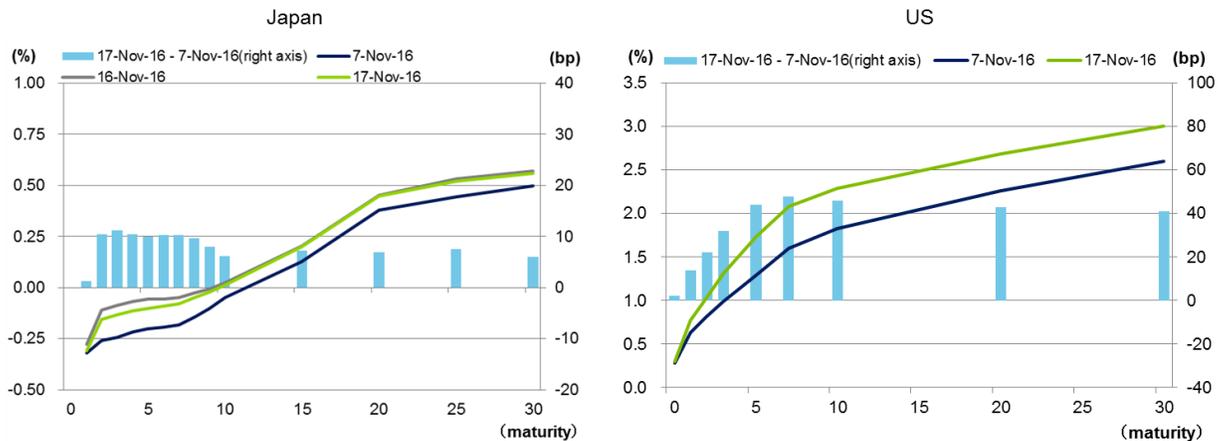
close to fiscal financing by some market participants. On one hand, BOJ has changed its conventional stance that “long-term interest rate cannot be controlled”. However, it must be observe carefully whether it is effective to actually able to control the long-term interest rate.

Chart1 : Long term government bond yield



Source : Bloomberg

Chart2 : Changes in Yield curves of Japan and the US



Source :

「Ministry of Finance Japan」 http://www.mof.go.jp/jgbs/reference/interest_rate/index.htm

「U.S. Department of the Treasury」 <https://www.treasury.gov/resource-center/data-chart-center/Pages/index.aspx>

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