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Where yen go to die

Evan Lorenz writes:

On Monday, not a single yen of the benchmark 2-year, 5-year or 10-year Japanese government bonds traded. Even in yield-stunted Japan, investors found little reward in the respective negative 0.16%, negative 0.13% and positive 0.02% yields on offer. Instead, investors hunt for income abroad. Japan, a major creditor to the world, boasts a ¥328 trillion ($3 trillion) net international investment position, equivalent at year-end 2017 to 62% of Japanese GDP.

Until recently, Mrs. Watanabe chased higher yields in Turkey. From year-end 2016 through March 13, the net open interest in lira-yen contracts (i.e., long the lira, short the yen) rose to 398,384 from 139,132. Never mind that the Turkish central bank has more than doubled its intervention rate, to 16.5% from 8% since March 13. Net lira-yen contracts outstanding (i.e., long the lira, short the yen) have nonetheless plunged. In part owing to Japanese selling, the lira has fallen by 13% against the yen since mid-March.

While the Borsa Istanbul 100 Index has dropped by 9% in lire and 24% in dollars since the start of the year, the Turkish market is not as cheap as you might suspect. Until recently, foreign refugees from the consequences of quantitative easing and its hand-maiden, ultra-low interest rates, had propped up Turkish asset prices (see box to right for data on the growth of the Bank of Japan's balance sheet). Today, the Borsa Istanbul 100 Index is priced at 8.3 times trailing earnings. While cheaper than the five-year average of 10.5 times earnings, it's well above the five times at which the market traded in 2008. Then, too, earnings look a little peakish. In 2017, on the back of government-funded stimulus, nominal GDP climbed by 19% (double-digit inflation made its contribution) and earnings per share for the benchmark equity soared by 31%.

Never fear, Japanese savers will soon have a "high-yield" domestic option. On June 6, double-B-plus-rated SoftBank Group Corp. plans to issue ¥410 billion worth of six-year notes to individual investors (*Grant's*, Dec. 15, 2017). In the fiscal year ended March 31, SoftBank's consolidated net debt and adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 8% and 2%, respectively, boosting the company's net-debt-to-EBITDA multiple to 5.2 times from 4.9 times. The retail notes will, however, come to market without a claim on SoftBank's Japanese telecom unit, a division which generated 44% of EBITDA in fiscal 2018.

So, what yield can Japanese savers expect to garner from this increasingly leveraged issuer? Early price talk places the coupon between 1.25% and 1.85%. Capital punishment, indeed.

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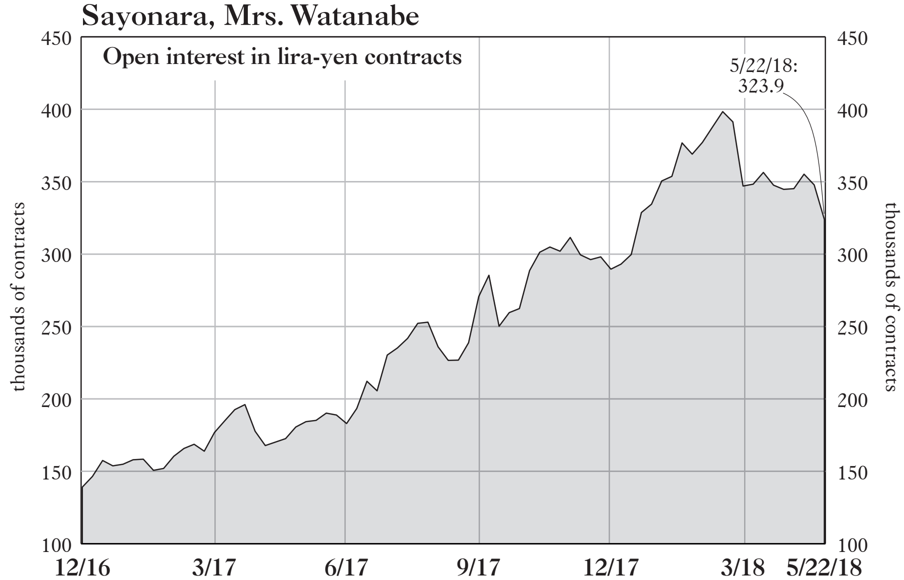
Sayonara, Mrs. Watanabe



source: The Bloomberg