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# Macro Strategy Weekly

Global Markets Research
2 June 2025

Macro Strategy - Japan

## Is the groundwork in place for new highs in the US stock market?

Softness in China-related markets provides hints for economic outlook

*- The US and Japanese governments' efforts to avoid a repeat of the Truss shock reduced the risk of a spike in yields and positioned US equities for new highs.*

*- Governments moved first, which means central banks don't have to become as dovish.*

*- In December 2024, when US tech stocks reached a high, tariff concerns and economic anxiety were weak and the Chinese AI shock had not yet occurred.*

*- China-related markets are sluggish, global manufacturing is slowing down and prospects for the US-China summit are dim.*


Research Analysts

Strategy

**Naka Matsuzawa - NSC**
naka.matsuzawa@nomura.com
+81 3 6703 3864


### 1. The week that US stock market nears its peak

In the week of 2 June, we expect the main theme to be the inconsistency between the recovery in US stocks and the shift away from USD. The sub-themes will be room for upside in US tech stocks, the factors behind the softening in China-related markets, the stalemate in US-China talks and the meeting between Presidents Trump and Xi, the global manufacturing cycle, super-long bond supply/demand and the monetary policy outlook, and the reversal of JPY long positions. The factors to watch in the US are Fedspeak and the release of the ISM manufacturing and services PMI, and the jobs report. In Japan, the focus will be on BOJ speak (Governor Kazuo Ueda), the 10yr and 30yr auctions, and the release of wage data. In Europe, the ECB will meet, while in China, its manufacturing PMI will be released. Overall, this author expects that **share prices will be solid, bonds bear flatten, and USD will be solid while JPY is soft.**

#### Avoiding a repeat of the Truss shock

Last week, Japan's Ministry of Finance began making early moves to reduce issuance of super-long JGBs, and the US's Treasury Department also announced that it was preparing to relax regulations on banks' UST transactions this summer. **The Japanese government's serious efforts to prevent a repeat of the Truss shock reduced the risk of downward deviations not only in the bond market, but all markets**. This author had assumed that tensions in bond markets would escalate again and risk-off flows would pick up ahead of the BOJ meeting and FOMC in June, but at the very least, downside in these markets has narrowed. In the 26 May edition of *Macro Strategy Weekly* , this author said he thought all three major markets would be solid in the week of 26 May, representing the eye of the typhoon (i.e., the market would experience turmoil in the near future). However, the aforementioned government response and the solid earnings reports of tech companies (which eased concerns about a decline in investment demand) seem to have transformed the typhoon into a tropical cyclone. To the extent that the government moved first to stabilize long-term yields, **central banks gained room to dial down their dovishness**. We expect both the Fed and BOJ to adopt a somewhat hawkish tone in their communication vis-à-vis speeches and other opportunities.

Please note that the opinions given in this report are those of the author and do not necessarily align with Nomura's house view on the various markets.

*This is a direct translation of the original Japanese report issued on 30 May and reflects data as of that date.*

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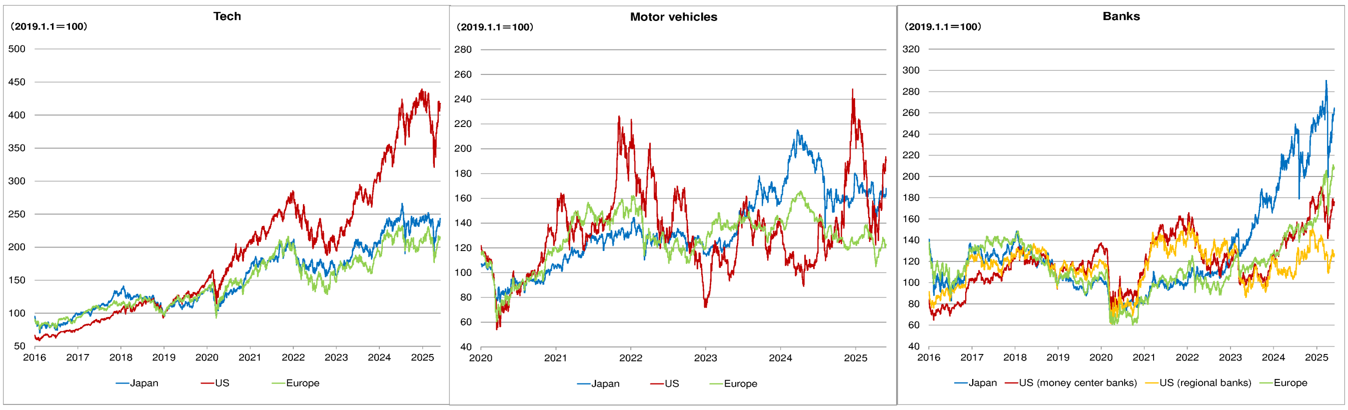
### Inconsistency between solid US stock market and soft USD and Chinese stock market

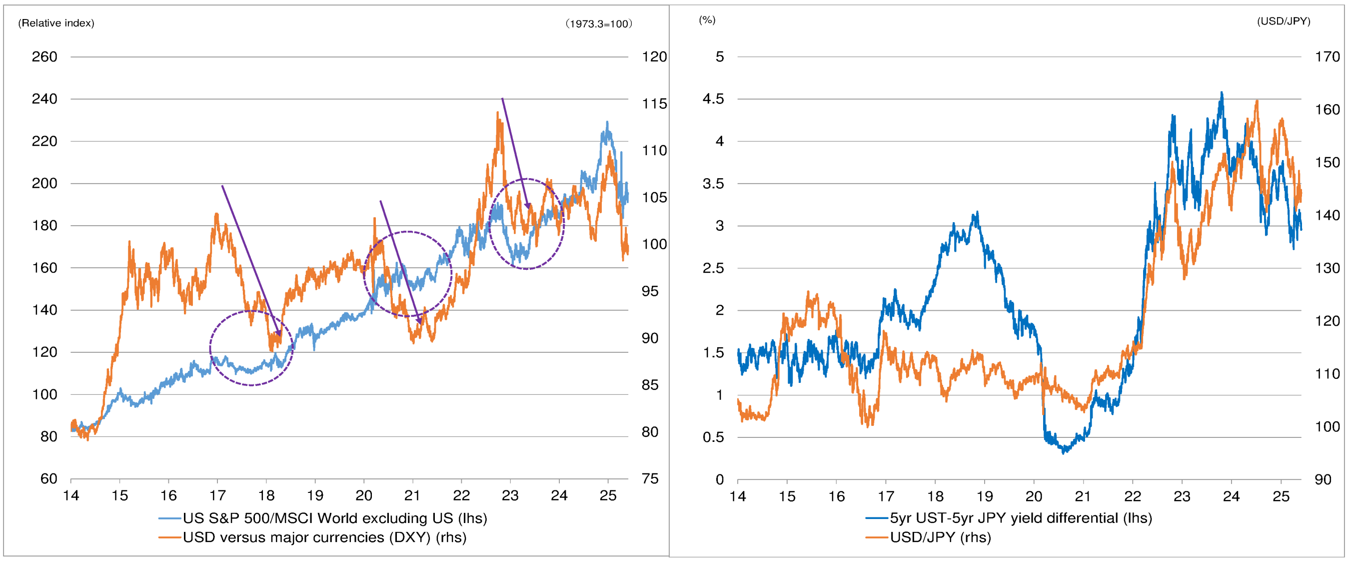
Supported by stable long-term yields and expectations for a recovery in capex, the US stock market is poised to reach a historical high, driven by the tech sector (Figure 1). **Some observers are even beginning to predict a return to US dominance**, and if this did begin, we think JPY, which has experienced a surge in speculative buying, would be the first to weaken. However, despite this, **USD's rebound has been weak**, and there are still no signs that the USD exodus is coming to an end (Figure 2). In fact, we are **somewhat skeptical that the groundwork has really been laid for new highs in US tech stocks**. Concerns over tariffs and the economy continue to smolder and will likely drag down share prices. When tech stocks hit their peak in late December, these concerns were significantly weaker than they are now and the Chinese AI shock had not yet hit either. While it is true that expectations for rate cuts have strengthened compared with this previous period, they are currently lagging behind. We are also concerned about the **stagnation in China-related markets, such as the Chinese and Hong Kong stock markets and the commodities markets. We suspect that the global economic (manufacturing) cycle may be entering a downturn**. This week's US economic indicators are unlikely to be poor in any dramatic way since they will be supported by the effect of the 12 May US-China agreement and last-minute demand. **If they do surprise on the downside, then it will show up in China's data first**. In addition, Treasury Secretary Scott Bessent has acknowledged that **talks with China have stalled and that a meeting between Trump and Xi is necessary to jump-start progress**. However, if the US holds trade talks with the primary goal of boxing China in, then **it is unlikely that the US will make proposals that China could accept at this point**, and China will likely continue to wait and see how the legal battle over US tariff policy plays out.

**Fig. 1: Sector-specific share prices in major countries**




Note: Shows sector-specific stock indices in the US S&P 500, Europe STOXX 600, and Japan TOPIX.
Source: Bloomberg, Nomura

**Fig. 2: Japanese and US relative share prices, Japanese and US yield differential and exchange rates**




Source: Bloomberg, Nomura

## Lessons from markets last week

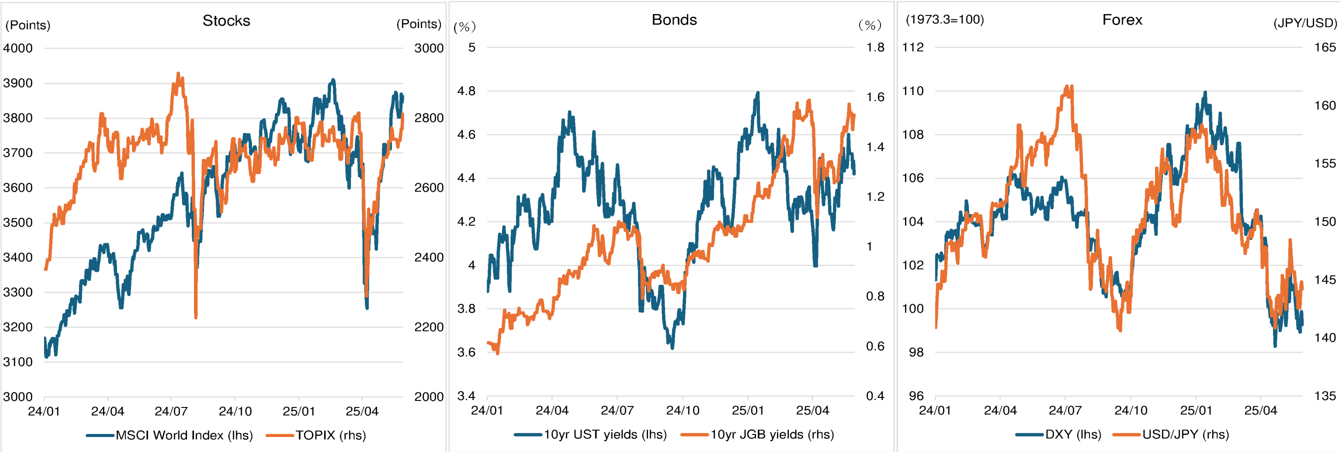
### Prior forecasts: Bonds will stop falling and stocks and USD will be solid as we enter the eye of the typhoon

In the previous edition of *Macro Strategy Weekly*, we wrote that the main theme for last week (week of 26 May) would be the downside resilience of share prices and that sub-themes were likely to include market volatility, bond vigilantes and the policy response, a US-Japan trade deal, and the Ishiba administration's support ratings. Given this, we made the following predictions: "Yields will remain volatile this week but with little room for upside, while share prices and USD will be relatively solid. However, this is almost the opposite of the market outlook for the next one to two months, and we see this period as the calm before the storm or the eye of the typhoon."

### Overall: Concerns over a Japanese version of the Truss shock subside and three markets are all stable

In fact, bonds were more solid than expected (yields fell) and the stock market and USD were also firm (Figure 3). Volatility indices also fell for all three markets. This was fueled by expectations that Japan's MoF would revise its JGB issuance plans. In addition, strong earnings reports from US tech companies and a ruling that some US tariffs are illegal spurred risk-on sentiment and strengthened USD. There were also factors working in the opposite direction. In the bond market, Japan's 40yr JGB auction was disappointing and the FOMC minutes expressed concern over the risk of prolonged inflation, taking a hawkish tone. Nevertheless, the decline in concerns over a Japanese version of a Truss shock seemed to have a greater impact. Meanwhile, a federal appeals court's decision to leave tariffs in place during the appeals process and a flare-up in economic concerns triggered by worsening US unemployment claims capped gains for equities and USD.

**Fig. 3: Trends in three key markets**




Source: Bloomberg

### Stock market: US led gains and tariff-related stocks dominated

Last week the US led gains, followed by Japan and Europe. In the US stock market, semiconductor, auto and capital goods sectors were strong performers. In addition to strong earnings reports from tech companies, a ruling that some tariffs are illegal seems to have encouraged some to expect the administration to soften its stance on tariffs. Japanese stocks were strong compared with global stocks in JPY terms, but were nearly unchanged in USD terms. The avoidance of a Japanese version of the Truss shock led to weaker JPY and stronger equities. The autos, steel and machinery sectors were strong, reflecting a sense that US tariff policy was softening.

### Bond market: Super-long bonds lead a decline in yields and monetary policy expectations vary by country

In the US and Europe, yield curves bull flattened, while in Japan the yield curve flattened in a twist. This was primarily driven by expectations that Japan's issuance of super-long JGBs would be reduced, so in all of these countries, super-longs drove a decline in yields and richened against swaps. However, in Japan this relative richness to swaps was limited and daily market fluctuations remain significant, which suggests that supply/demand is not yet stable. As the risk of a spike in super-long yields receded, trades premised on a BOJ rate hike also resumed in short and medium-term swaps. The probability of a rate hike this year rose to about 70%. In contrast, Fed rate cut expectations increased slightly on economic concerns in the US, with the market pricing in 51bp in rate cuts this year.

### FX: USD/JPY and cross JPY pairs showed weak rebound momentum despite risk-on sentiment

Although JPY weakened and USD strengthened, primarily due to the avoidance of a Japanese version of a Truss shock and the ruling that US tariffs were illegal, momentum was nothing like that seen on 12 May when the US-China agreement was announced, and lost traction when US tariff concerns resurfaced. Differences in Japanese and US monetary policy views also appear to have had an impact. USD/JPY peaked at around 146.5 (148.0-148.5 range on 12 May). Cross JPY, which tends to reflect the market's risk sentiment, was mixed. AUD/JPY was weak, perhaps reflecting the lackluster performance of China-related markets.

### Market outlook and investment recommendations: Raising US and Japanese yield forecasts and forecasted ranges for Japanese equities

In this report's market outlook, we have raised our forecasts for current 10yr and 30yr UST and JGB yields  and raised our forecasted range for Japanese equities this year. These changes were made because the Japanese and US governments have begun to take real steps to avoid a repeat of the Truss shock, which has eased concerns about major risk-off flows (Figure 4). This gives central banks some room to reduce their dovishness, but even so, we think it will be difficult for the BOJ to raise rates this year. At the same time, we continue to expect that the Fed will be forced to cut rates three times from September as economic indicators deteriorate. In our investment recommendations, we raised the entry level, target level and stop-loss level for Japanese stocks, which we had previously recommended waiting to take a position on (Figure 5).

**Fig. 4: Core market forecasts**

(%)

| | Latest (29 May) | End–Jun 2025 | | | End–Sep 2025 | | | End–Dec 2025 | | | End–Mar 2026 | | | End–Jun 2026 | | | End-Sep 2026 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10yr JGB yield | 1.52 | 1.45 | 1.15 – | 1.70 | 1.30 | 1.15 – | 1.70 | 1.45 | 1.25 – | 1.75 | 1.60 | 1.30 – | 1.80 | 1.60 | 1.30 – | 1.80 | 1.75 | 1.50 – | 2.00 |
| 30yr JGB yield | 2.98 | 2.90 | 2.60 – | 3.20 | 2.80 | 2.60 – | 3.20 | 2.90 | 2.70 – | 3.20 | 3.00 | 2.70 – | 3.40 | 3.00 | 2.70 – | 3.40 | 3.10 | 2.90 – | 3.50 |
| 10yr USTs | 4.42 | 4.50 | 3.90 – | 4.80 | 4.20 | 3.90 – | 4.80 | 4.40 | 4.00 – | 5.00 | 4.60 | 4.20 – | 5.00 | 4.60 | 4.20 – | 5.00 | 4.80 | 4.40 – | 5.20 |
| 10yr Bunds | 2.51 | 2.60 | 2.20 – | 3.00 | 2.50 | 2.20 – | 3.00 | 2.70 | 2.40 – | 3.20 | 3.00 | 2.60 – | 3.40 | 3.00 | 2.60 – | 3.40 | 3.20 | 2.80 – | 3.60 |
| USD/JPY | 144.21 | 143 | 140 – | 148 | 145 | 140 – | 150 | 143 | 138 – | 148 | 141 | 137 – | 147 | 139 | 135 – | 145 | 139 | 135 – | 145 |
| EUR/JPY | 163.92 | 160 | 156 - | 166 | 162 | 157 – | 167 | 162 | 157 – | 167 | 161 | 157 – | 167 | 158 | 154 – | 164 | 158 | 154 – | 164 |
| Nikkei 225 (K) | 38.43 | 38.0 | 36.0 – | 40.0 | 38.0 | 36.0 – | 40.0 | 39.0 | 37.0 – | 41.0 | 39.0 | 37.0 – | 41.0 | 40.0 | 38.0 – | 42.0 | 41.0 | 39.0 – | 43.0 |

Note: This reflects the author's personal opinion and is not necessarily consistent with Nomura's house view. Any changes since the previous edition will be highlighted in red.
Source: Nomura

**Fig. 5: Trade recommendations**

| Market categories | Trade | Conditions | Initial recommendation date (m/d/yyyy) | Entry level | Units | Current level | Target level | Loss-cutting level | Trade deadlines (m/d/yyyy) | Trade theme | Bloomberg ticker |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Japanese rates | 10yr bond purchases | Entry | 5/15/2025 | 1.48 | % | 1.53 | 1.20 | 1.60 | 12/30/2025 | Decline in BOJ rate hike expectations, drop in inflation expectations | GJGB10 Index |
| Foreign interest rates | Long 10yr USTs | Entry | 5/15/2025 | 4.43 | % | 4.42 | 4.00 | 4.65 | 12/30/2025 | Fed rate cuts, US tariff deals | GT10 Govt |
| Forex | Against USD/JPY longs | Entry | 4/10/2025 | 144.45 | ¥ | 144.21 | 138.00 | 148.00 | 12/30/2025 | Fed rate cut, shift away from USD assets | JPY Curncy |
| Japanese equity | Longs on Japanese equities | Waiting for entry | 5/29/2025 | 2650-2700 | PT | 2812 | 2950 | 2550 | 12/30/2025 | US tariff deal, bottoming out of global economy, shift away from USD assets | TPX Index |

Note: This reflects the author's personal opinion and is not necessarily consistent with Nomura's house view. Any changes since the previous edition will be highlighted in red.
Source: Nomura

The trade recommendations for the past 12 months can be found *here* .

**Fig. 6: 2025 Market Forecasts by Phase**

| Phase | Timescale | Bonds | Equities | FX | Key themes |
|---|---|---|---|---|---|
| Full year | 1/25–12/25 | Strong in US, weak in Japan and Europe | Weak in US, strong in Japan and Europe | USD depreciation (JPY appreciation) | Reversal of US dominance |
| 1) | 1/25–4/25 | Down | Down | USD depreciation (JPY appreciation) | US tariffs, China and Europe's reflationary measures, reversal of US dominance |
| 2) | 4/25–7/25 | Flat | Flat | USD depreciation (JPY appreciation) | US tariff deal, global economic slowdown, Japan's political situation, US and Japanese fiscal concerns |
| 3) | 7/25–10/25 | Rise | Rise | Flat USD (JPY depreciation) | Fed rate cuts, US tax cuts, global economy bottoms out |
| 4) | 10/25– | Down | Rise | USD depreciation (JPY appreciation) | Pause in Fed rate cuts, change in Fed chair resumption of BOJ rate hikes |

Note: Red areas indicate changes from previous forecasts.
Source: Nomura

### Last week's reports

**Matsuzawa Morning Report**

26 May, *Will the US economy worsen more next year than this year? / Differences in sector trends in Japanese and US stock markets post-tariff shock*

27 May, *Unfavorable rise in US yields and comparison to rise during taper tantrum / Main factor behind USD weakness is US stock market's weakness*

28 May, *"Preemptive" reduction in super-long JGB issuance / Will avoiding a financial shock restore BOJ rate hike expectations?*

29 May, *BOJ rate hike trades resume / Two risks standing in the way of rate hikes this year*

30 May, *Ruling on illegality of US tariffs a double-edged sword / Foreign investor trends revealed in weekly flow data*

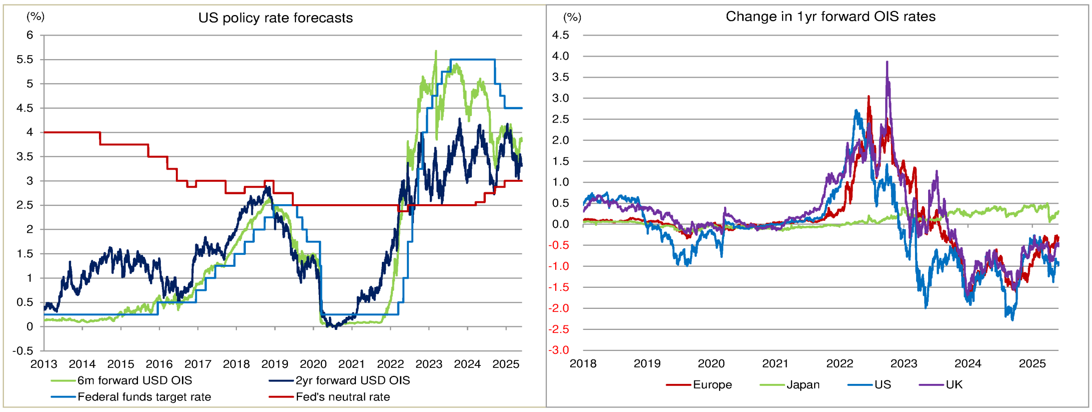
## Fund flow analysis (1): Market environment

### USD financing

**Fed rate cut expectations rebound and credit environment improves**

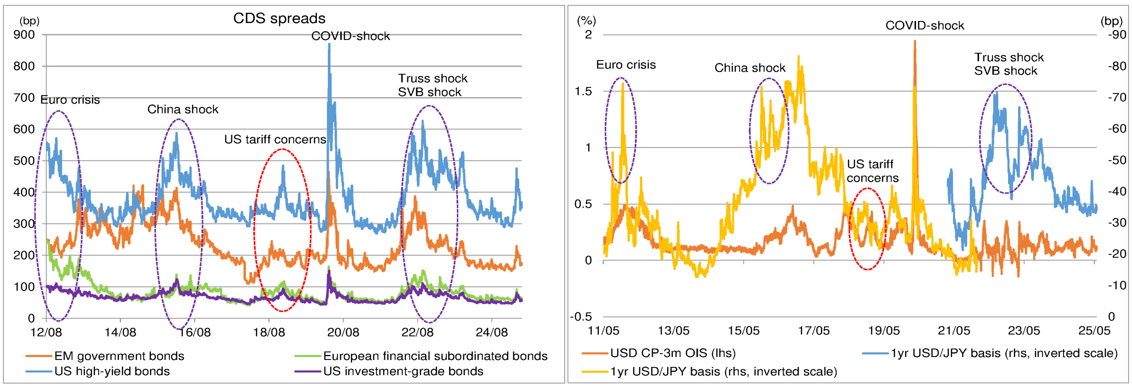
In the week of 26 May, rate hike expectations priced into USD OIS rates began to fall (i.e., rate cut expectations rose) (Figure 7). The market priced in 1bp in rate cuts by the June meeting, 6bp by the July meeting and 51bp by the December 2025 meeting. The 2yr OIS rate, a proxy for the terminal rate, was 3.31%. USD liquidity indicators worsened (right-hand graph, Figure 8). Credit spreads improved (left-hand graph, Figure 8).

**Fig. 7: Policy rate expectations for key countries**




Source: Bloomberg, Nomura

**Fig. 8: USD liquidity indicators and credit spreads**



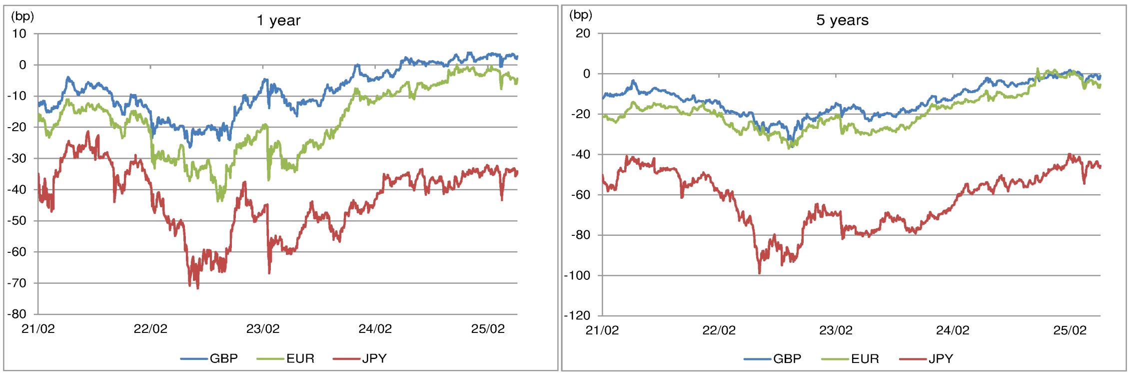

Note: CDS spreads are calculated by Markit.
Source: Bloomberg, Nomura

### Currency basis

**USD/JPY basis improves in short and long zones**

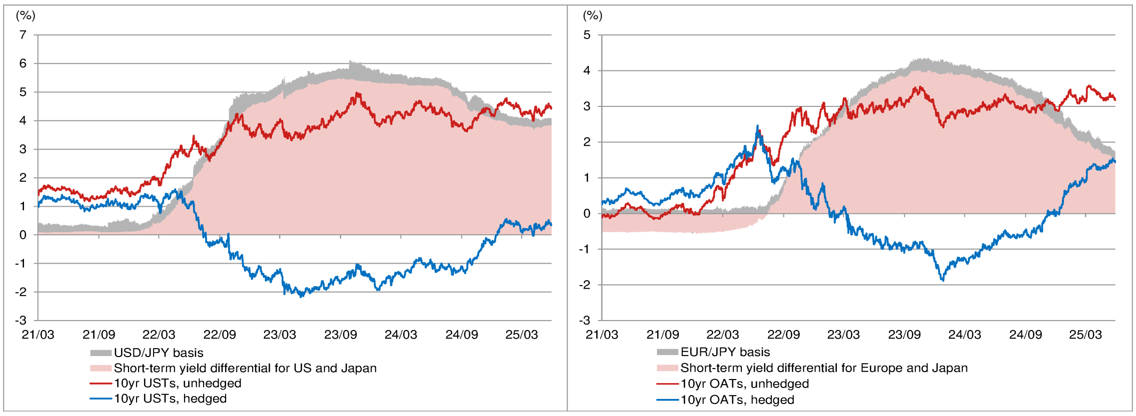
In the week of 26 May, USD/JPY basis improved for the short term and long term (Figure 9). The same was true for other currencies. Currency hedging costs (3m) fell for the US and Europe compared with the previous week (Figure 10). Returns on currency-hedged investments were 0.34% for 10yr USTs and 1.44% for 10yr OATs, worsening for USTs and OATs over the previous week (Figure 11). The drop in government bond yields for both USTs and OATs surpassed the drop in currency hedging costs and returns worsened. In the credit market, returns on 5yr A-rated corporate bonds were 0.55% and were 1.18% on US MBS rates.

**Fig. 9: USD basis**



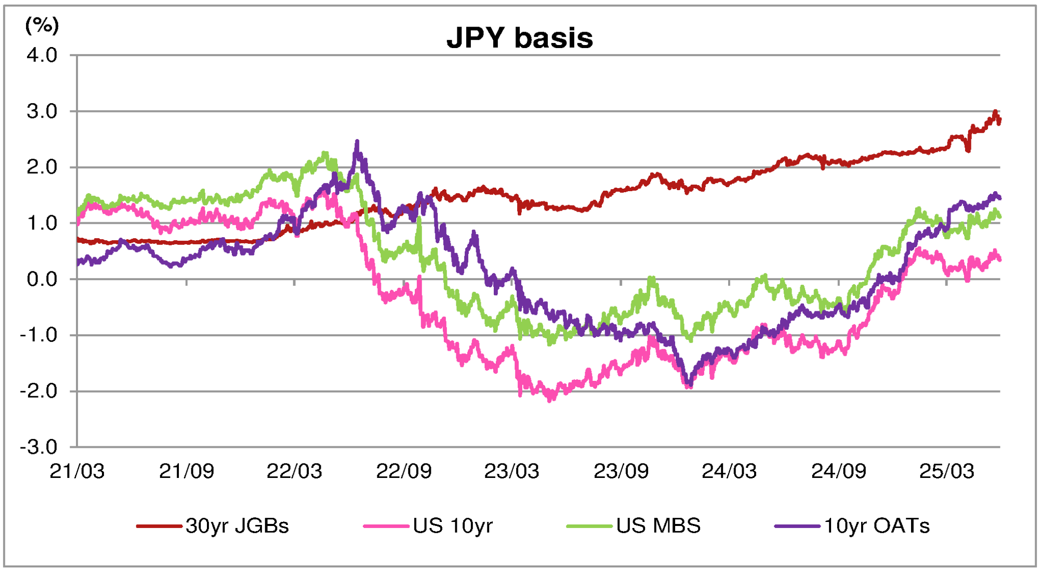

Source: Bloomberg, Nomura

**Fig. 10: Breakdown of returns on currency-hedged foreign bonds**




Note: Assuming that money is raised with 3m Libor and 3m basis is used to hedge currency risk.
Source: Bloomberg, Nomura

**Fig. 11: Government bond yields after accounting for currency hedges**



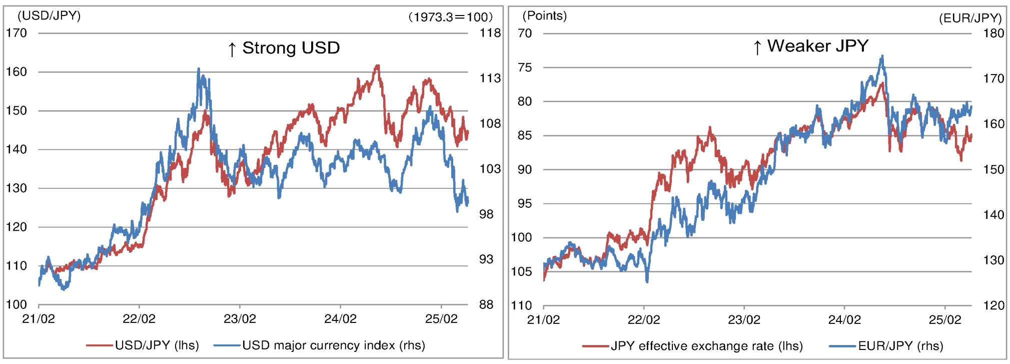

Note: Currency hedges are three-month currency swaps. Unless otherwise indicated, bonds are government bonds. Yields for US MBS are yield to worst.
Source: Bloomberg, Nomura

## Forex

### USD's rebound momentum is lackluster

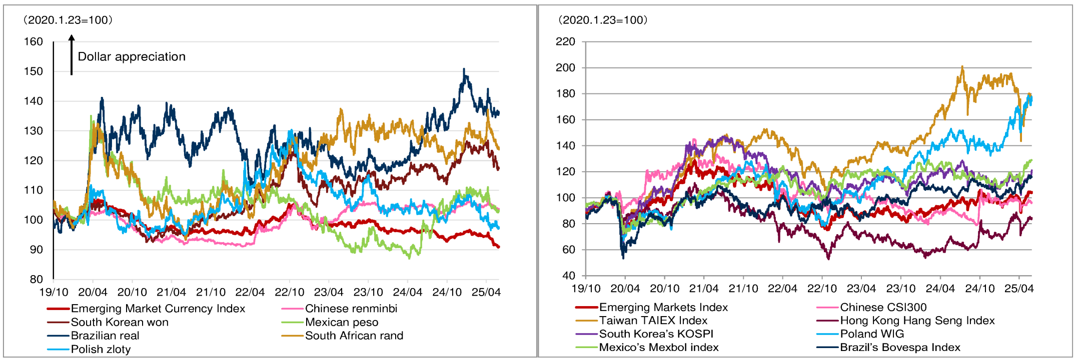
In the week of 26 May, USD strengthened and JPY was mixed (Figure 12). Despite a rebound in USD on the US stock market's strong performance, upside was limited. The USD/JPY rate rose to the 146.0-146.5 range at one point, but was pushed back down to 143.5-144.0. Cross JPY, which tends to reflect the market's risk sentiment, was mixed. EM currencies continued to rise and equities were flat (Figure 13). Bitcoin and gold fell back (Figure 14).

**Fig. 12: USD and JPY exchange rates**



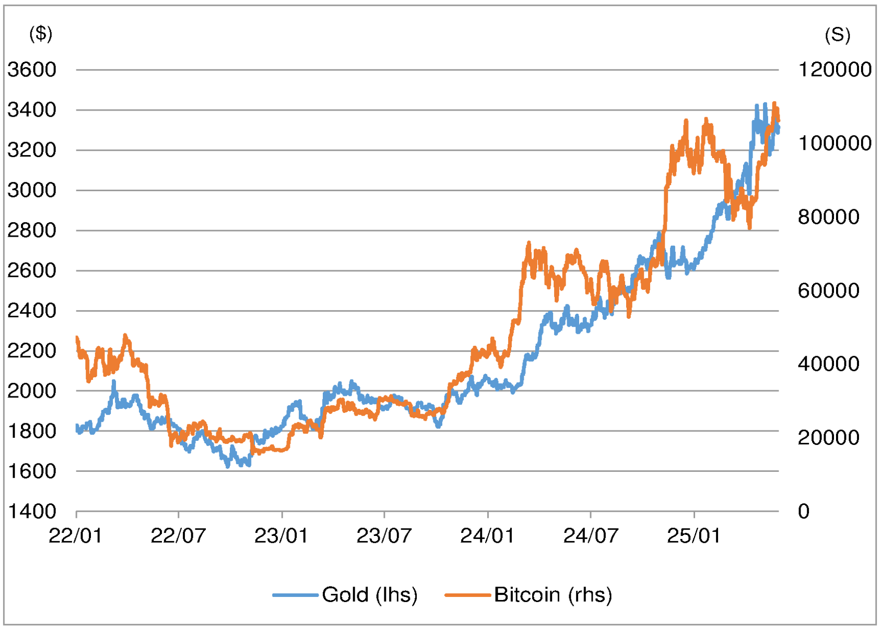

Note: The effective JPY exchange rate is calculated by Citi.
Source: Bloomberg, Nomura

**Fig. 13: EM share prices and currencies**




Source: Bloomberg, Nomura

**Fig. 14: Gold and bitcoin**




Source: Bloomberg

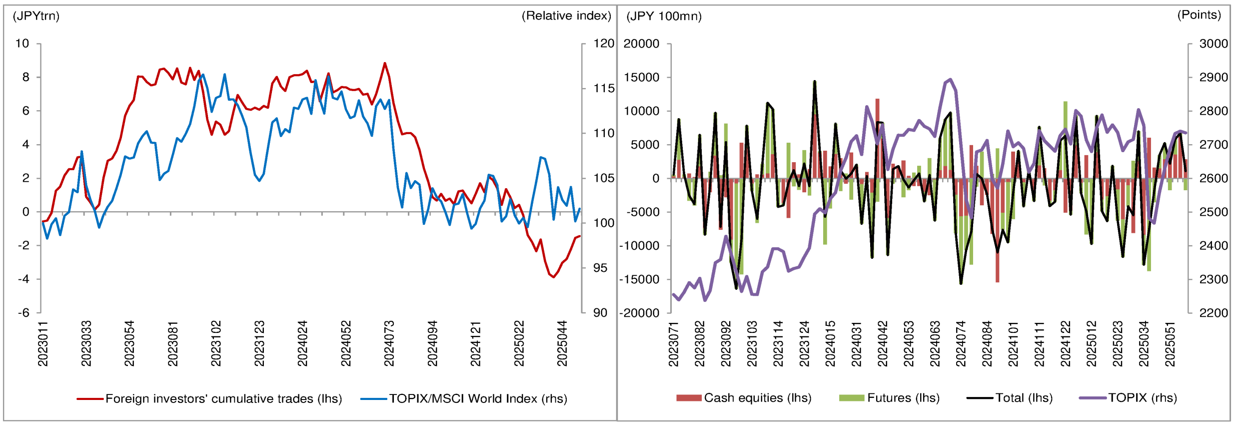
## Fund flow analysis (2): Investor trends and BOJ operations

### Japanese equities: foreign investors

**Despite a sixth straight week of buying, the amount was low, and they became sellers of futures**

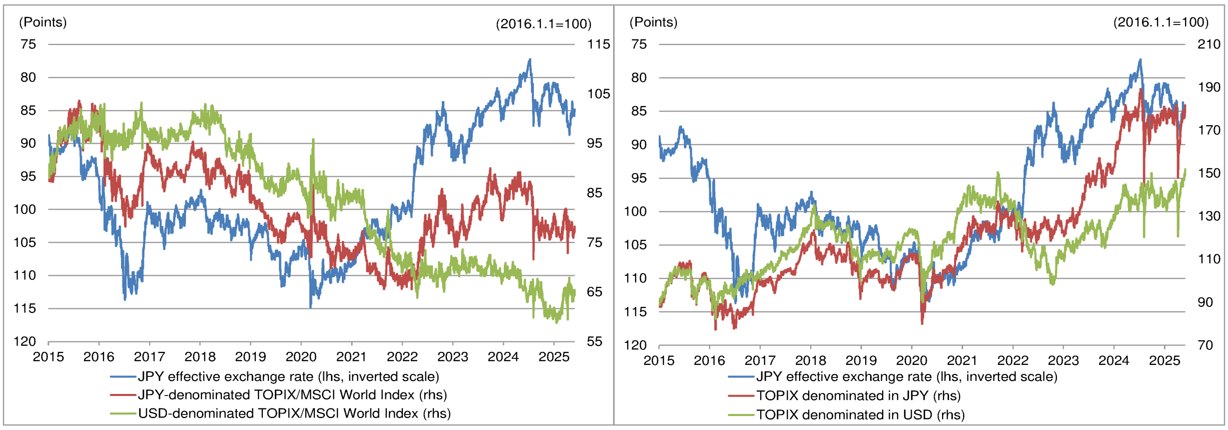
Foreign investors were net buyers of Japanese equities at JPY110.1bn in the week of 19 May (right-hand graph, Figure 15). This was the sixth straight week of net buying and the amount was low. They have bought as an overall trend since the third week of April. Cumulative trading since the start of the year totals JPY3.3trn in selling, and cumulative trading since the start of 2023 is JPY1.4trn in net selling (left-hand graph, Figure 15). Turnover totaled JPY28-29trn, above the average since early 2023 (JPY26-27trn range) for a second week. They were net buyers of cash equities for an eighth week and net sellers of futures for the first time in three weeks. Global equities were down 1.6% and Japanese equities were down 0.2%. In this week, Japanese equities richened against global equities both when denominated in JPY and converted to USD. Global equities and Japanese equities rebounded in the week of 26 May. Japanese equities richened against global equities when denominated in JPY but cheapened when converted to USD (Figure 16).

**Fig. 15: Japanese share prices and foreign investors' transactions**




Source: Japan Exchange Group, Bloomberg

**Fig. 16: FX rates and relative share price of Japanese equities**



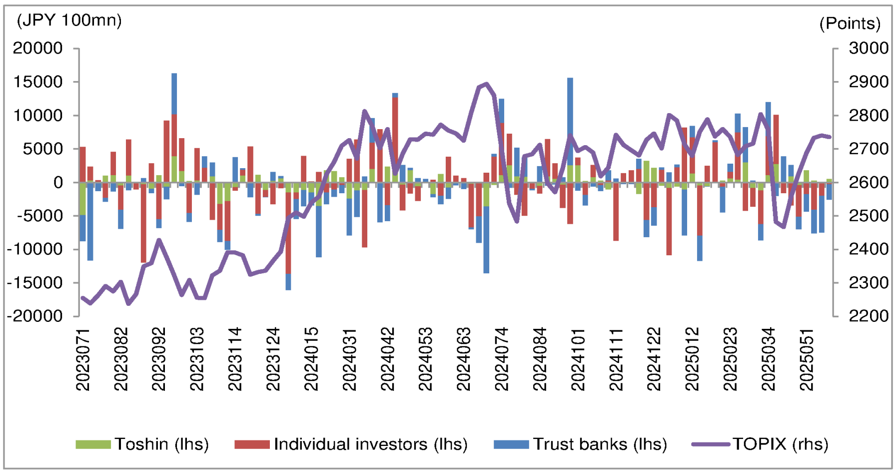

Source: Bloomberg, Nomura

## Japanese equities: Japanese investors

### Share buybacks reach record high

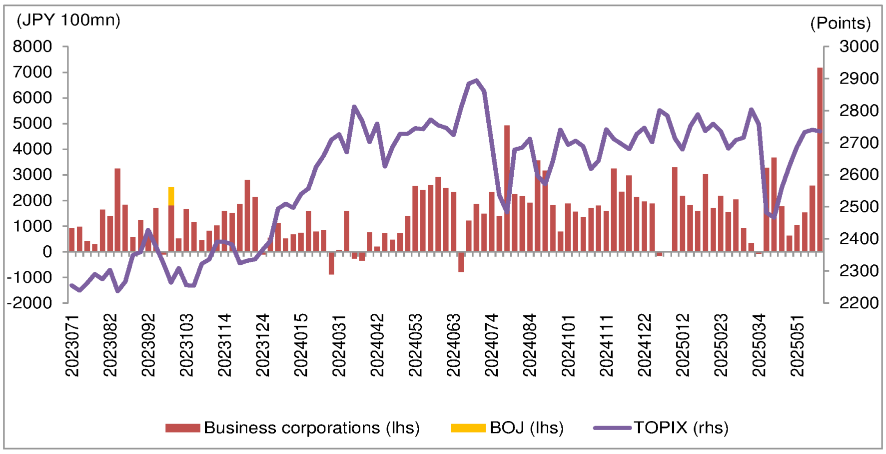
Among Japanese investors, trust banks (pension funds) were net sellers at JPY222.9bn in the week of 19 May, the fifth straight week of net selling (Figure 17). Cumulative trading since the start of 2025 came to JPY1.3trn in net selling. Japanese investors were net sellers of foreign equities for a second week (discussed below). Individual investors were net sellers at JPY30.2bn, while JPY53.6bn in net buying via toshin was also recorded. Taken together, they were net buyers for the first time in four weeks. Cumulative net buying by individual investors and toshin since the start of 2025 totaled JPY1.4trn. Business corporations were net buyers at JPY717.8bn (including share buybacks) (Figure 18). This was far above the average since 2023 (JPY130.bn). Cumulative buying since the start of 2025 totaled JPY4.2trn.

**Fig. 17: Japanese equity transactions (trust banks, toshin, individual investors)**




Source: Japan Exchange Group

**Fig. 18: Japanese equity transactions (business corporations, BOJ)**



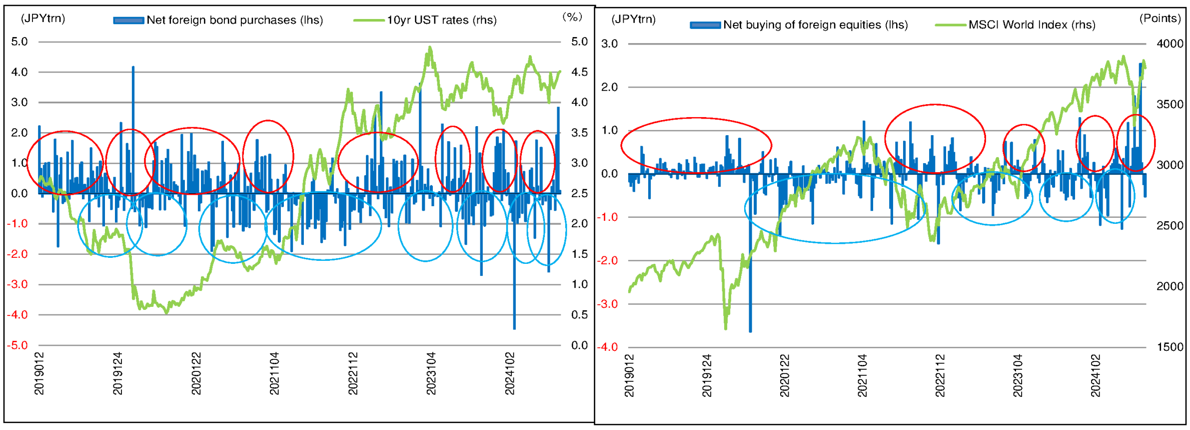

Source: Japan Exchange Group

### Foreign rates: Japanese investors

**Japanese investors continued to buy foreign bonds on the dip and sell foreign equities for a second straight week**

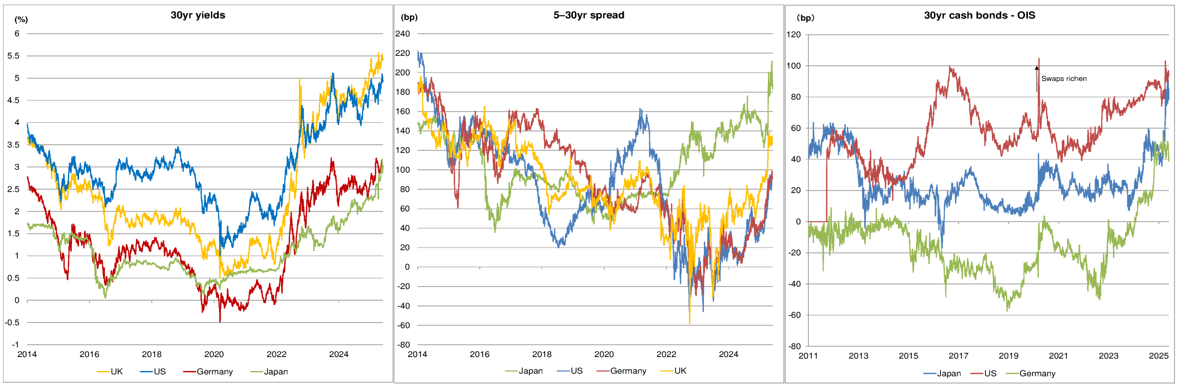
Japanese investors bought a net JPY92.0bn in foreign bonds in the week of 19 May (left-hand graph, Figure 19), the third straight week of net buying, albeit at a small amount. Net buying was substantial over the past two weeks, surpassing JPY1trn. US yields continued to rise in this week, driven by long-term bonds, but Japanese investors continued to look to buy. Turnover was in the JPY14-15trn range, below the average since 2023 (JPY18-19trn range). They have bought since the third week of April. Cumulative net buying since the start of the year totals JPY4.8trn. UST 10yr yields rose to 4.63% at one point in this week, and the yield curve bear flattened (Figure 20). The USD/JPY rate continued to fall to the 142.0-142.5 range at one point. Japanese investors were net sellers of foreign equities in this week at JPY524.7bn (right-hand graph, Figure 19), marking the second straight week of net selling. They have generally bought since the second week of December 2024. Cumulative trading since the start of 2025 amounted to JPY7.2trn in net buying. Global share prices began to fall in this week.

**Fig. 19: Foreign bond and foreign equity investment by Japanese investors**




Source: MOF, Bloomberg, Nomura

**Fig. 20: 30yr yields and relative value**



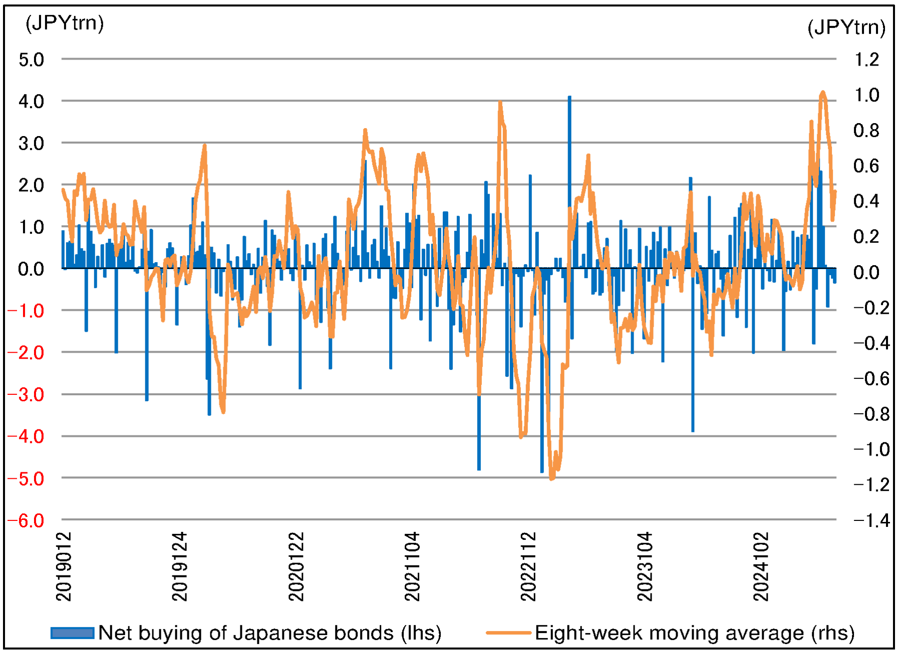

Source: Bloomberg, Nomura

## Japanese rates: Foreign investors

### Fourth straight week of selling cash bonds

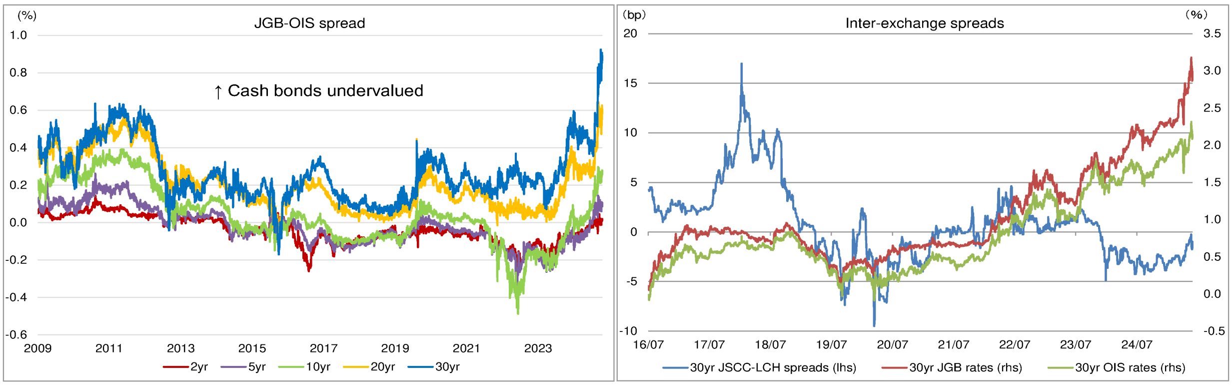
Foreign investors were net sellers of Japanese bonds at JPY334.4bn in the week of 19 May (Figure 21). They had generally bought since the second week of January (cumulative total of JPY11.5trn), but recently they have been modest net sellers for four straight weeks (cumulative total of JPY1.6trn). Cumulative trading since the start of 2025 totaled JPY9.4trn in net buying. The JGB yield curve bear steepened and the JPY swap yield curve steepened in a twist. Asset swaps worsened in all maturities. The JSCC-LCH spread worsened in the super-long space (receiver swaps prevailed among foreign investors; Figure 22). In the week of 26 May, the JGB yield curve and the JPY swap yield curve flattened in a twist. Asset swaps improved for all maturities. The JSCC-LCH spread improved from the 10yr space.

**Fig. 21: Japanese bond investment by foreign investors**




Source: MOF, Nomura

**Fig. 22: Swap rate spread and JSCC-LCH spread**



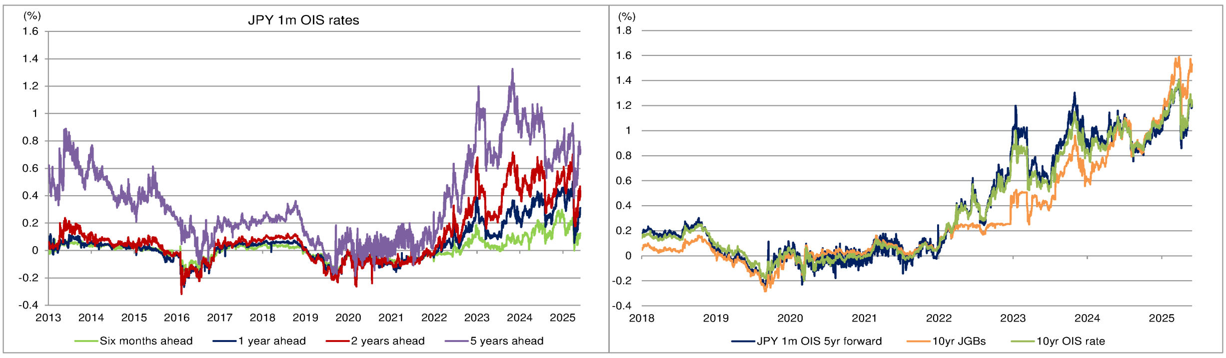

Source: Bloomberg, Nomura

## Japanese rates: BOJ

### Bond market turbulence faded and expectations for a rate hike this year rose

In the week of 26 May, rate hike expectations began to increase over the previous week (left-hand graph, Figure 23). The market priced in a 15% probability of the next rate hike in July (from 0.50% to 0.75%), 60% in October and 67% at the December meeting. The 2yr forward OIS rate, a proxy for the terminal rate forecast, continued to rise over the previous week to 0.92% and the 5yr forward OIS rate, a proxy for the neutral rate forecast, began to fall, reaching 1.20%. Fed rate cut expectations began to rise for the near term in response to a pause in the turbulent market for super-long JGBs.

**Fig. 23: Japanese policy rate expectations and 10yr yields**




Source: Bloomberg

## Major investor trends

Please refer to the following editions of Macro Strategy Insight for analysis of Japanese bond and foreign bond transaction data.

21 May, *April JSDA bond transactions and investor trends / Foreign investors continue to buy super-long bonds; city banks take contrarian stance and sell intermediates*

12 May, *April foreign bond and equity transactions and investor trends / Banks sell foreign bonds despite tariff shock; toshin continue to buy foreign equities*

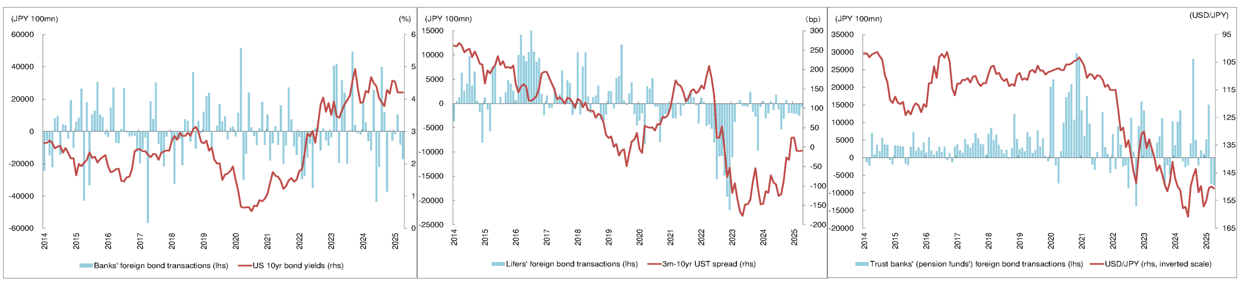
**Fig. 24: Supply and demand structure for super-long JGBs**

JPY trillion

| | | Quarter (monthly average) | | | | | Previous three months | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 24/1-3 | 24/4-6 | 24/7-9 | 24/10-12 | 25/1-3 | 25/2 | 25/3 | 25/4 |
| Monthly super-long JGB issuance [a] | | 2.9 | 3.1 | 3.0 | 2.5 | 2.8 | 2.6 | 3.0 | 2.6 |
| BOJ purchase operations [b] | | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Total private-sector absorption [a]-[b]** | | **2.3** | **2.5** | **2.4** | **1.9** | **2.2** | **2.0** | **2.4** | **2.0** |
| **Total of key investor purchases** | | **1.6** | **1.3** | **1.5** | **1.5** | **1.0** | **0.8** | **0.7** | **1.8** |
| Pensions | Trust banks | 0.7 | 0.7 | 0.4 | 0.7 | 0.2 | 0.4 | -0.1 | 0.0 |
| Short-term investor demand | City banks | -0.1 | -0.1 | -0.1 | 0.3 | -0.4 | -0.7 | -0.6 | -0.5 |
| | Overseas | 0.2 | 0.0 | 0.5 | -0.1 | 1.3 | 1.2 | 2.2 | 2.3 |
| Inconsistent investor demand | Regional banks | 0.2 | 0.2 | 0.4 | 0.4 | 0.1 | 0.1 | -0.1 | 0.1 |
| | Agricultural FIs | 0.2 | 0.1 | 0.1 | 0.1 | -0.0 | 0.0 | -0.0 | -0.1 |
| Consistent investor demand | Insurers | 0.3 | 0.3 | 0.1 | 0.2 | -0.2 | -0.4 | -0.6 | 0.0 |

Note: 1) Data indicate monthly averages. 2) Figures for the BOJ are based on operation results, excluding floaters. 3) New JGB issues include those from enhanced-liquidity and No. 2 non competitive auctions. 4) Orange-highlighted cells indicate large net buyers and blue-highlighted cells indicate large net sellers.
Source: JSDA, BOJ, MOF, Nomura

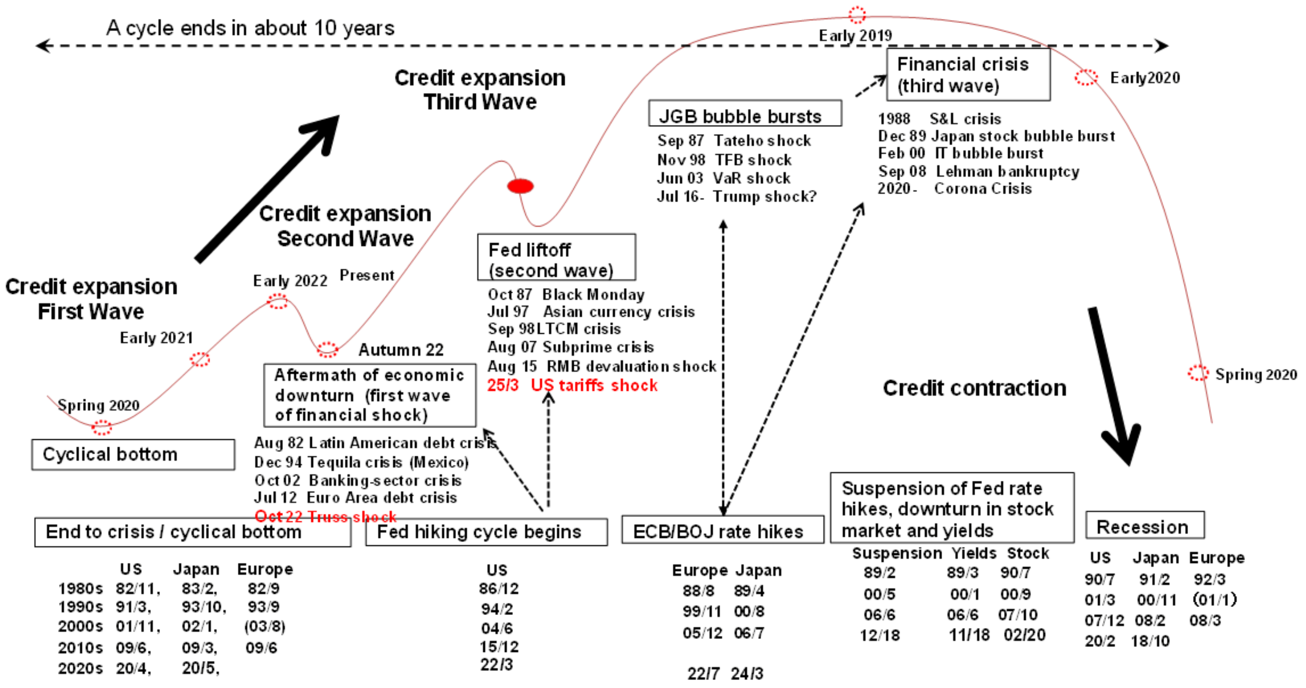
**Fig. 25: Foreign bond transactions by investor**




Source: MOF, Bloomberg, Nomura

## 2. Medium-term outlook and strategy (changes/additions since last week highlighted)

**Fig. 26: Diagram of credit cycle**




Source: Nomura

**Medium-term scenario (changes since the previous edition are in bold type)**

• The 10-year credit cycle is currently in a credit contraction caused by the US tariff shock. In a trend reminiscent of past financial shocks (LTCM crisis in 1998, euro crisis in 2011, China shock in 2016, etc.), this author expects global share prices to bottom out in April June, but it would take about a year before they return to levels marked before their sharp fall, which means early 2026. Bonds will likely rise when central banks turn dovish following a sell-off sparked by a temporary liquidity crunch. This author has pushed back his forecasts for Fed rate cuts to one in **September, October and December**, for a total of three, and a BOJ rate hike in January 2026. In the FX market, Fed rate cuts and the reversal of US dominance **(shift away from USD)** will likely be a theme throughout the year and USD will likely continue to weaken. When momentum is risk-off, JPY will tend to be the alternative to USD, and when momentum is risk-on, EUR will likely play this role.

**Market forecasts and investment strategy (changes since the previous edition are in bold type)**

• In the UST market, the yield curve will likely bull steepen as additional rate cuts are priced in for the **second half of 2025**. Corporate activity will likely come to a halt due to the US tariff shock, and the Fed will likely carry out rate cuts in September, October and December. Expectations for an end to rate cuts will pick up **around end-2025 on expectations that the economy will accelerate again due to the effect of a US tariff deal and rate cuts**, and 10yr yields will likely surpass 4.50% again. Initially, the market will likely bear steepen as inflation expectations rise, and subsequently the yield curve bear flatten as the resumption of rate hikes looks more likely. Credit spreads widened in response to the US tariff shock, but this author expects Fed rate cuts to prevent a credit contraction, which will cause spreads to narrow again. Credit spreads will probably stop narrowing on signs that rate cuts are ending. Spreads will likely widen when investors become aware of the possibility of the resumption of rate hikes and a deeper inversion in the US bond market.

• In the JGB market, this author thinks the US tariff shock has pushed out the possibility of a rate hike to January 2026, and the terminal rate forecast has been revised downward.

This author expects 5yr, 10yr, and 30yr yields to test levels at **0.80%, 1.20%, and 2.60%**. **Economic sentiment will bottom out around year-end due to US tariff deals, spurring signs that Fed rate cuts are winding down. A BOJ rate hike would begin to look more realistic and the terminal rate forecast will likely be revised upward, with possible increases for 10yr and 30yr yields to 1.60% and 3.00%, respectively**. The yield curve will likely bear flatten the more that the neutralization of policy rates is priced in. Reductions to buying will likely be concentrated in the 10yr and shorter maturities, and the overvalued levels in this zone will tend to be corrected.

• In the global stock market, this author expects the dominant US scenario to be questioned on the view that US tariff policy will have a negative impact on the US itself. Although the US stock market will likely prove soft, primarily cyclicals, ongoing expectations for a Fed rate cut and the easing of anxiety following the Chinese AI shock could slow the drop in tech and growth stocks. In China and Europe, expectations for fiscal and monetary easing will likely support stock markets. Japanese equities will likely underperform as the government fails to shift to easing measures. **From autumn, when US tariff deals raise expectations that the economy will bottom out**, share prices will recover, primarily in the tech and growth sectors, due in part to the effect of Fed rate cuts. Toward the end of the year, the main theme will likely gradually shift to the renewed acceleration of global manufacturing and capex. Cyclical stocks, such as capital goods, and value stocks will tend to perform well. **If the global economy recovers to some extent,** US inflation concerns will emerge again and the resumption of Fed rate cuts comes into view, and US bank and real estate stocks would likely struggle again, and tech stocks would also tend to face valuation corrections, so the reversal of US dominance could get under way in earnest again.

• Japanese equities will likely remain weak through summer 2025. This is because, while the negative impact of US tariff policy is expected to be modest compared with other countries, JPY will tend to strengthen as a safe-haven currency, and Japan will not take fiscal and monetary easing measures premised on US tariff policy as Europe and China are doing. **Investors will also be aware of the risk of a new administration after the upper house elections in July and changes to the policy framework.** From summer, when concerns about US tariffs are expected to subside, through the end of the year, the main theme will likely gradually shift to a reacceleration of global manufacturing and capex, and investors will likely turn their attention to Japanese equities, which are sensitive to the global economy, and the BOJ terminal rate forecast could begin rising again, so Japanese equities will gradually outperform other countries' stock markets. **Even if the administration does change after the upper house election in July, the government will not return to Abenomics, will stick to structural reforms, and support the BOJ's neutralization process, and JPY's stabilization and even gains**. This author expects investors to shift from foreign demand-related equities to domestic demand related equities as JPY strengthens. Wages will likely catch up with inflation, making it easier to shift higher costs on to prices for not only companies, but also consumers. This would likely drive domestic demand-related stocks. **The BOJ's terminal rate forecast will rise and upside for bank stocks broaden. As the rise in the BOJ terminal rate forecast runs its course, investors would find appeal in real estate stocks rather than bank stocks**. This author expects the TOPIX to rise to 2,900 by end-2025 and 3,150 by end-2026.

• In the FX market, this author expects the US's dominance to reverse from early 2025. USD will likely weaken due to the **US stock market's poor performance and Fed rate cuts** caused by the US tariff shock. EUR and JPY will likely serve as the alternatives, and EUR tends to be strong during risk-on flows while JPY tends to be strong during risk-off flows. Other factors strengthening JPY are the BOJ's ongoing rate hike trajectory, lifers' withdrawal of currency hedges, and the slowdown in foreign stock investments via NISA. In the second half of 2025, speculation over a halt in Fed rate cuts would emerge as the shock over the US tariff shock subsides, and USD would likely rebound at first. **As the global economy recovers to some extent, the dominance of US equities would fall again when inflation hits a bottom and money would again flow out of USD**. We expect the USD/JPY rate to stand at 135 by end-2025 and 125 by end-2026.

**Risks**

• (Bear flattening): The Fed resumes rate hikes. The BOJ accelerates its efforts to neutralize policy.

• (Flattening in a twist): US tariffs become protracted **and are raised again**. USD liquidity is curbed and financial institutions' cash positions worsen.

• (Bear steepening): The BOJ speeds up the pace of QT. The US, China and Europe adopt massive stimulus plans.

• (Bull flattening): Key governments shift to fiscal austerity. China's asset bubble collapses, and its economy experiences Japanification.

• (Bull steepening): Fed rate cuts become prolonged. Europe and China take quantitative easing measures. The US or OPEC countries increase oil production. Tensions in Ukraine and the Middle East ease.

# Appendix A-1

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○Rating Agencies
Standard & Poor’s
-Name of the rating agency group and registration number
Name of the rating agency group: S&P Global Ratings (S&P)
Name of the registered credit rating agency within the group and its registration number:
S&P Global Ratings Japan Inc. (Financial Services Agency Commissioner 5)
-The way of obtaining summary information on the policies and methods used for assigning credit ratings
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Moody's
-Name of the rating agency group and registration number
Name of the rating agency group: Moody's Ratings (Moody's)
Name of the registered credit rating agency within the group and registration number:
Moody's Japan K.K. (Financial Services Agency Commissioner 2)
-The way of obtaining summary information on the policies and method used for assigning credit ratings
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Fitch
-Name of the rating agency group and registration number
Name of the rating agency group: Fitch Ratings (Fitch)
Name of the registered credit rating agency within the group and registration number:
Fitch Ratings Japan Limited. (Financial Services Agency Commissioner 7)
-The way of obtaining summary information on the policies and method used for assigning credit ratings
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