

APOLLO

Why is the yen depreciating? Fed higher for longer, BoJ lower for longer, and worries about fiscal sustainability in Japan

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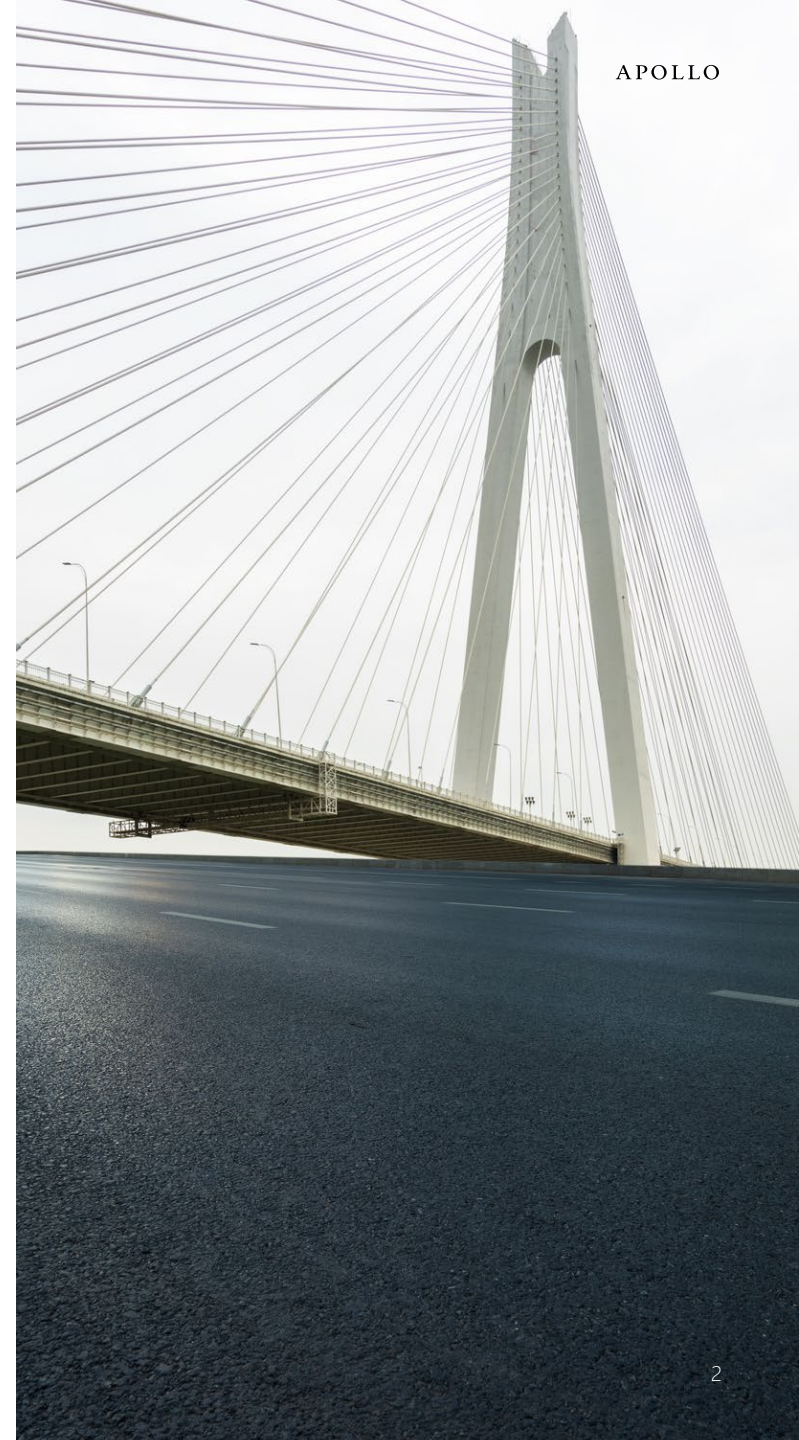
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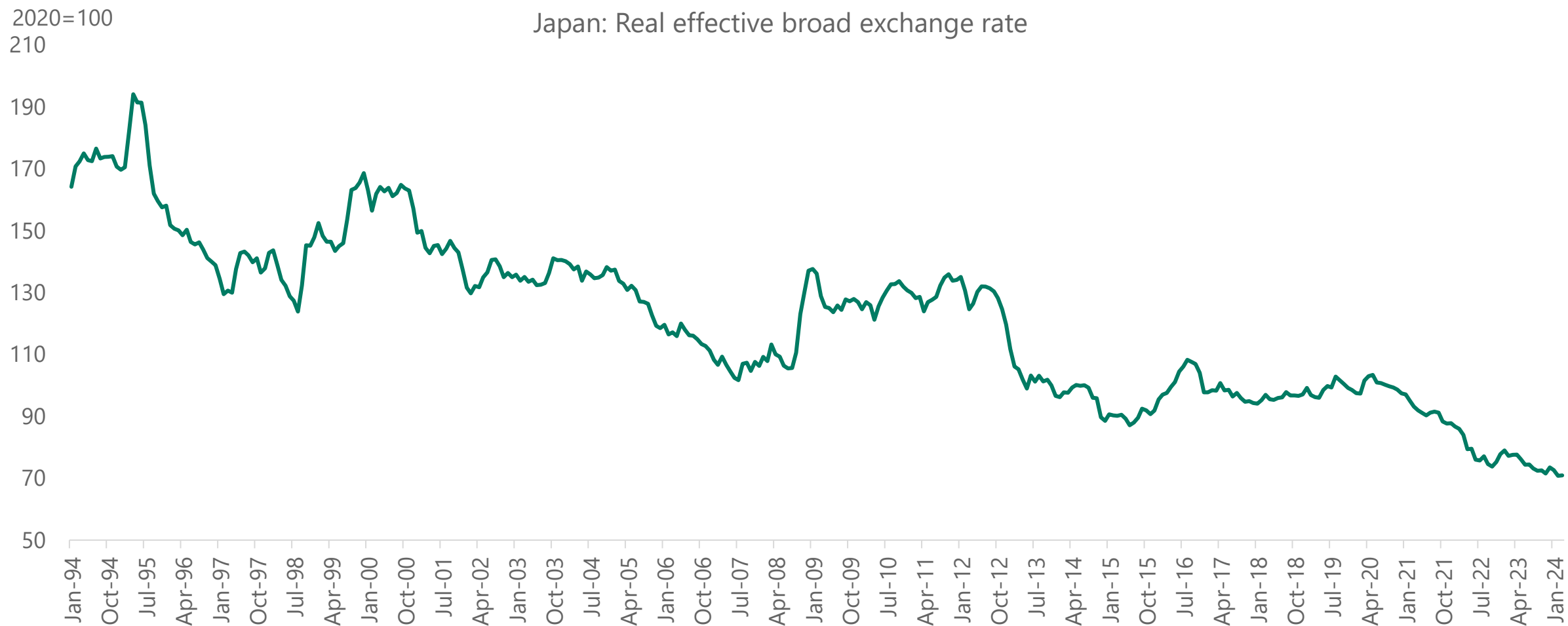
Conclusions

- 1) Fed higher for longer is putting upward pressure on the dollar
- 2) BoJ lower for longer is putting downward pressure on the yen
- 3) BoJ raising interest rates is difficult with very high government debt levels in Japan

The yen has depreciated more than 50% over the past three years



Yen: Real effective exchange rate at lowest levels in decades: Supports Japanese exports

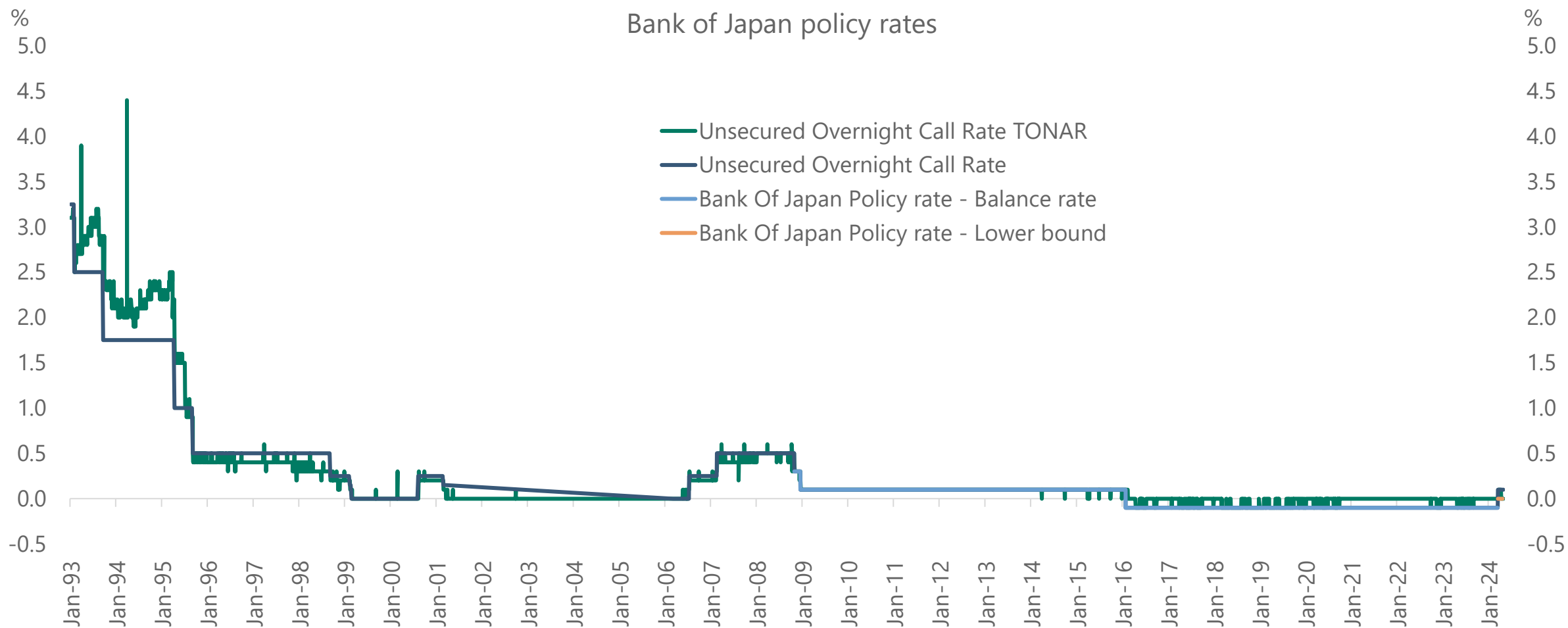


Source: BIS, Bloomberg, Apollo Chief Economist

BoJ: Lower for longer

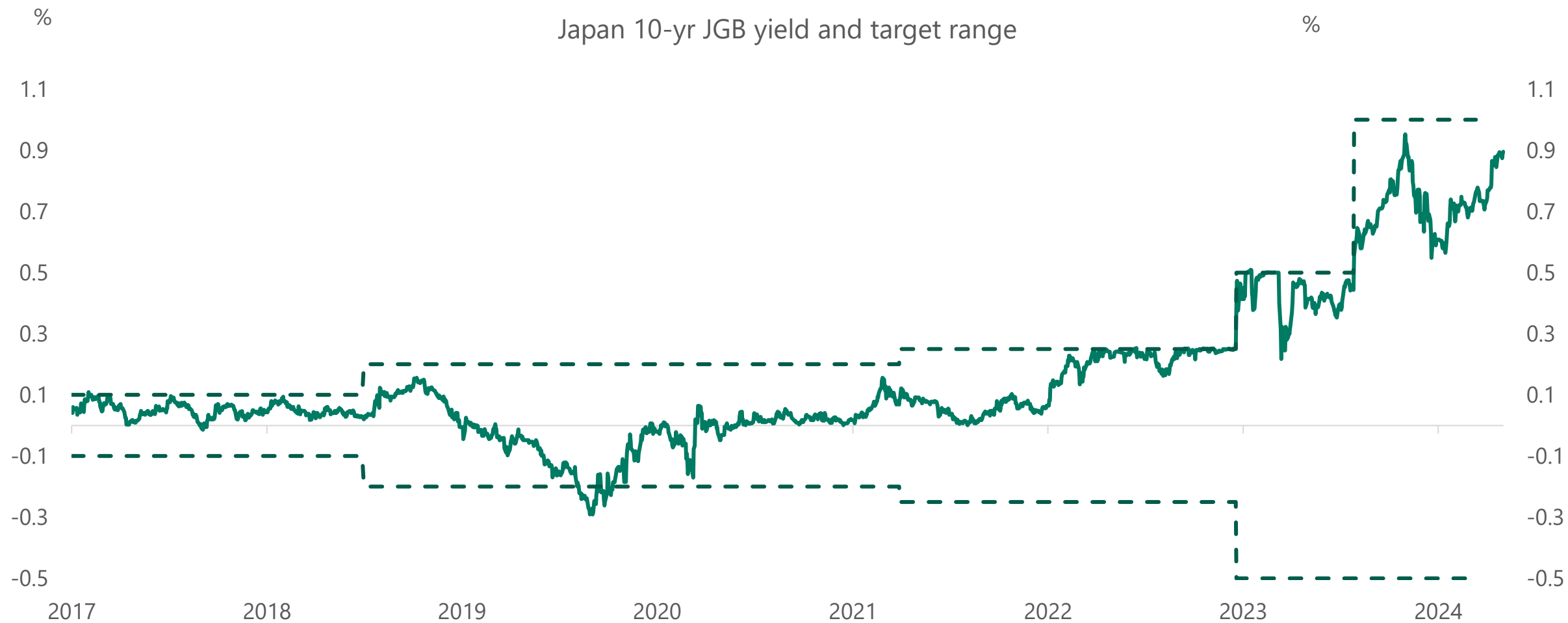


Japan: No rate hike since 2007

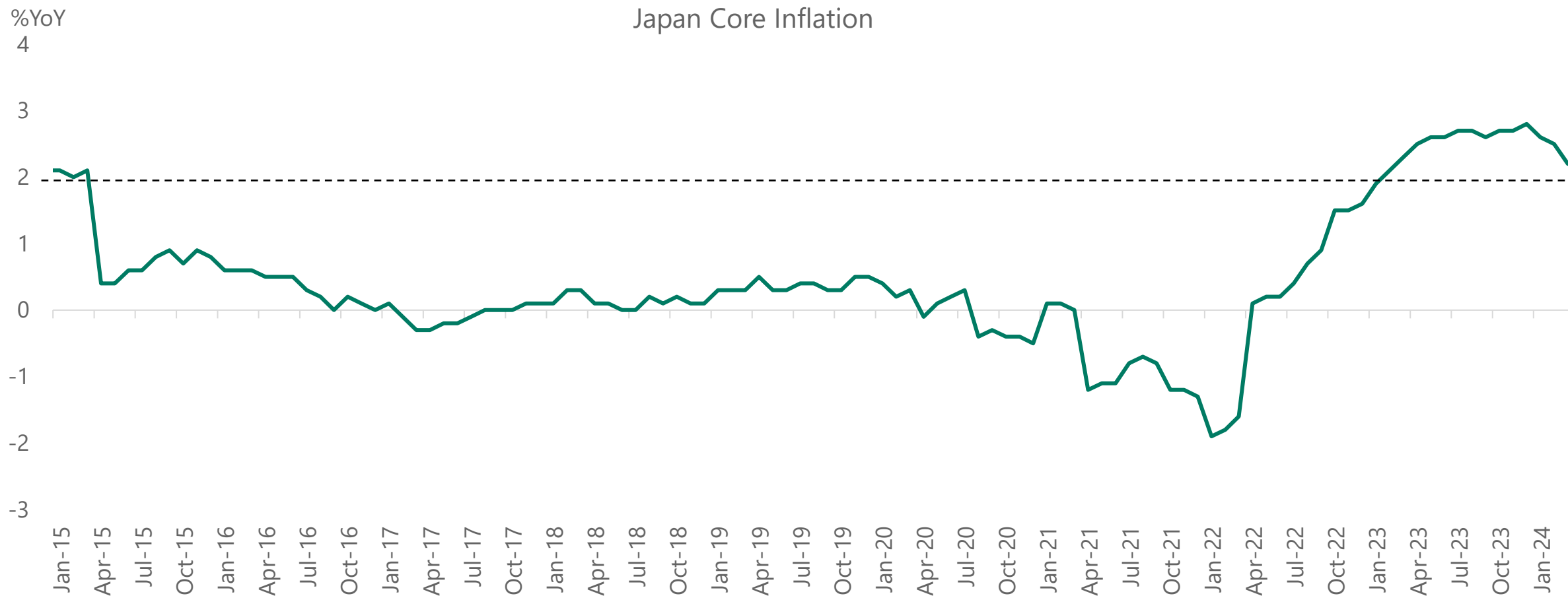


Source: Bloomberg, Apollo Chief Economist

Japanese 10-year yield

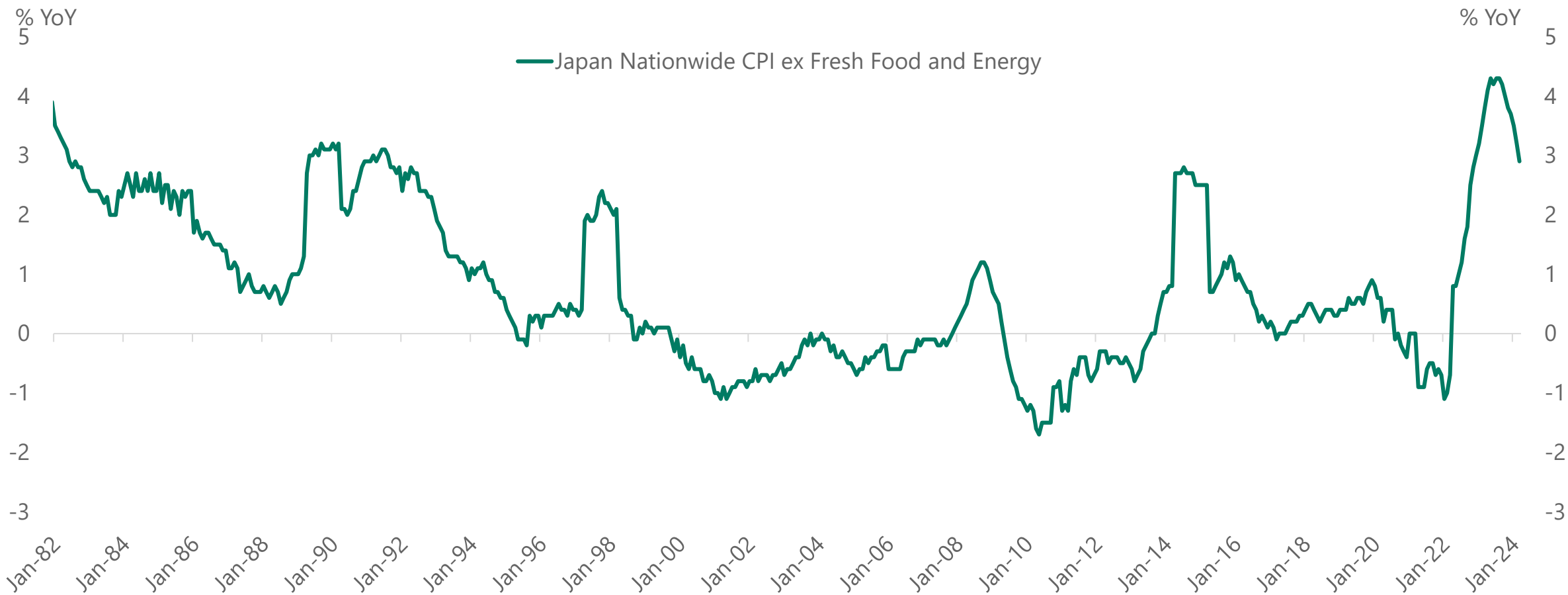


Weaker yen has had no material impact on inflation and Japanese core inflation has started to move lower



Source: Bloomberg, Apollo Chief Economist

Japan: Core inflation coming down

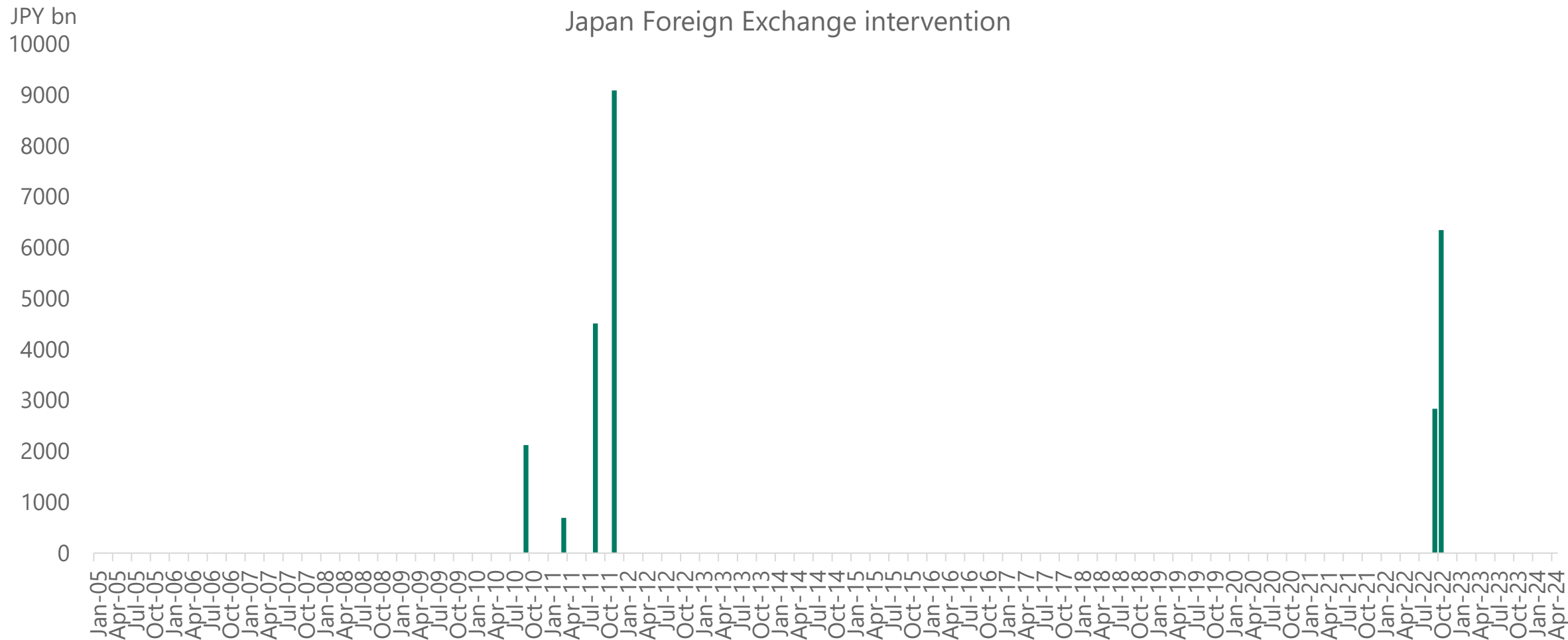


Wage inflation remains in the normal range



Source: Bloomberg, Apollo Chief Economist (The BOJ has positioned wage growth of at least 3% as a prerequisite for stable achievement of its 2% inflation target.)

BoJ: Foreign exchange intervention, monthly data, last observation is April 2024

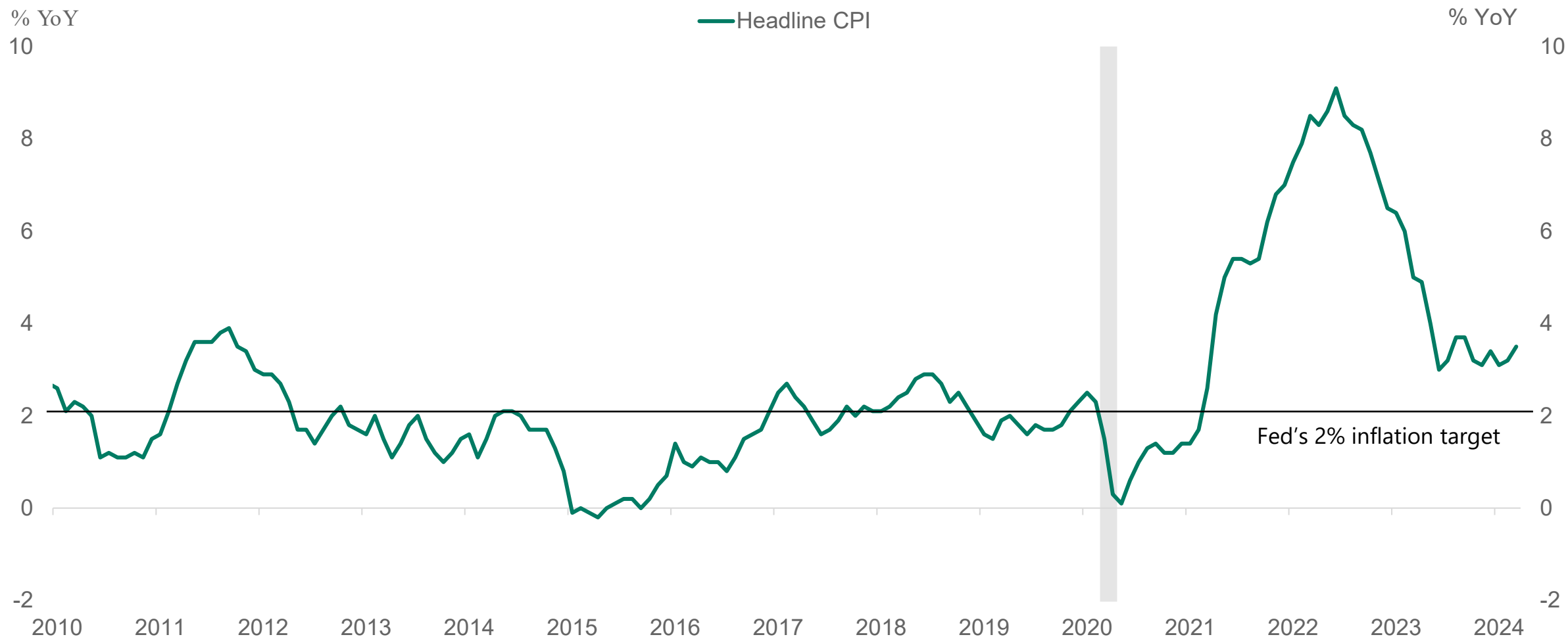


Source: Ministry of Finance, Bloomberg, Apollo Chief Economist

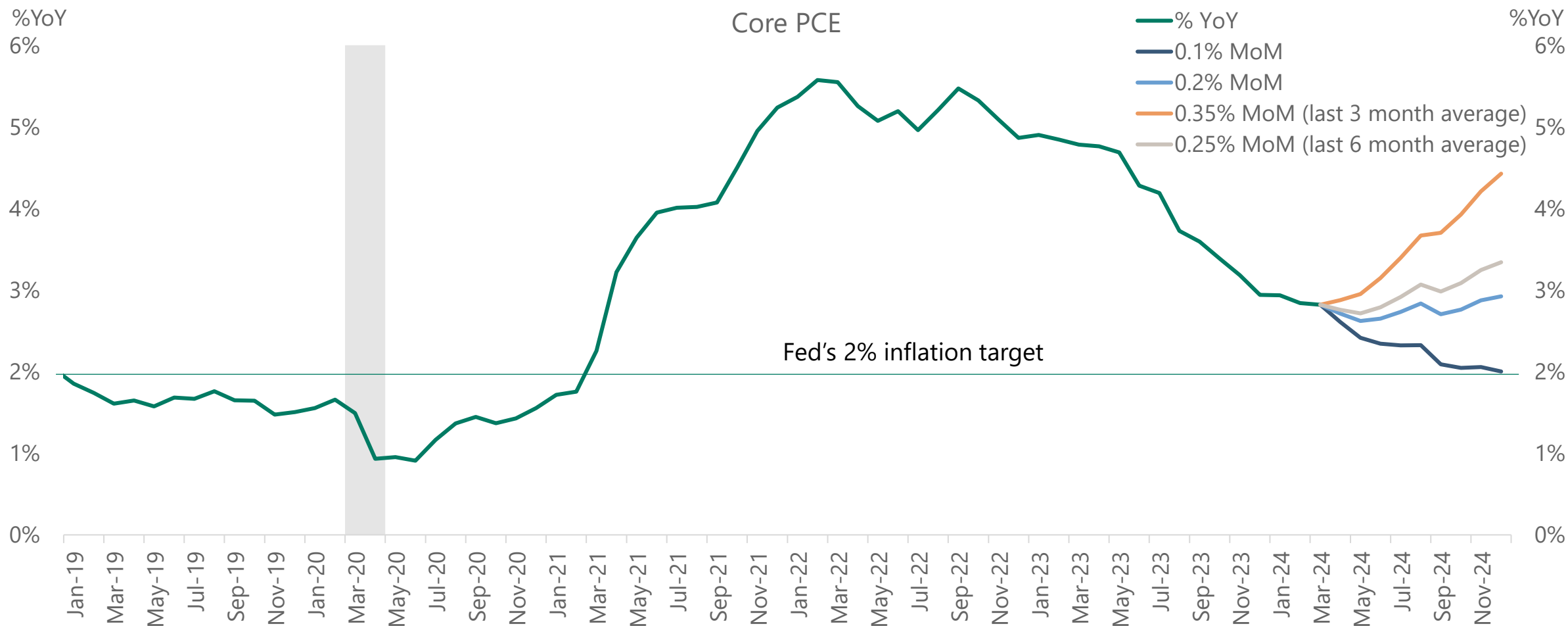
Fed: Rates higher for longer



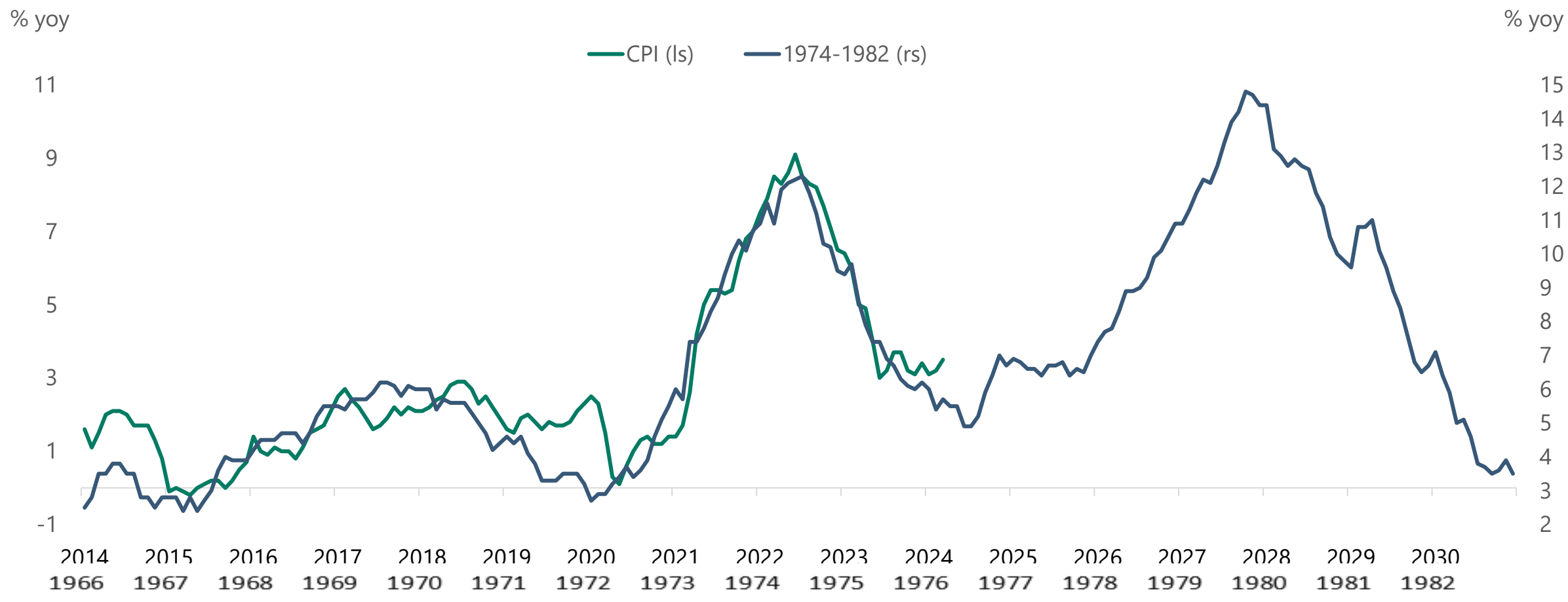
US inflation is sticky above the Fed's 2% inflation target



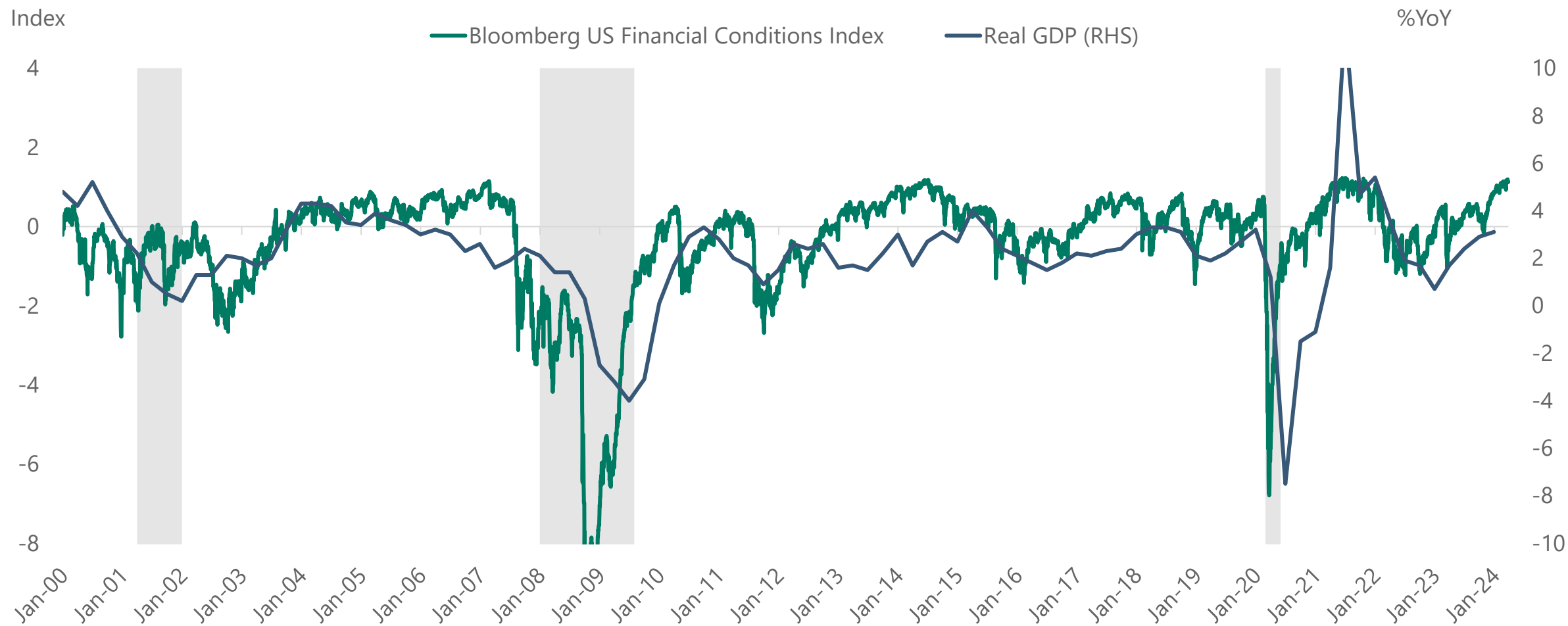
Core PCE inflation will remain high for the rest of 2024



Reaccelerating economy could create another spike in inflation



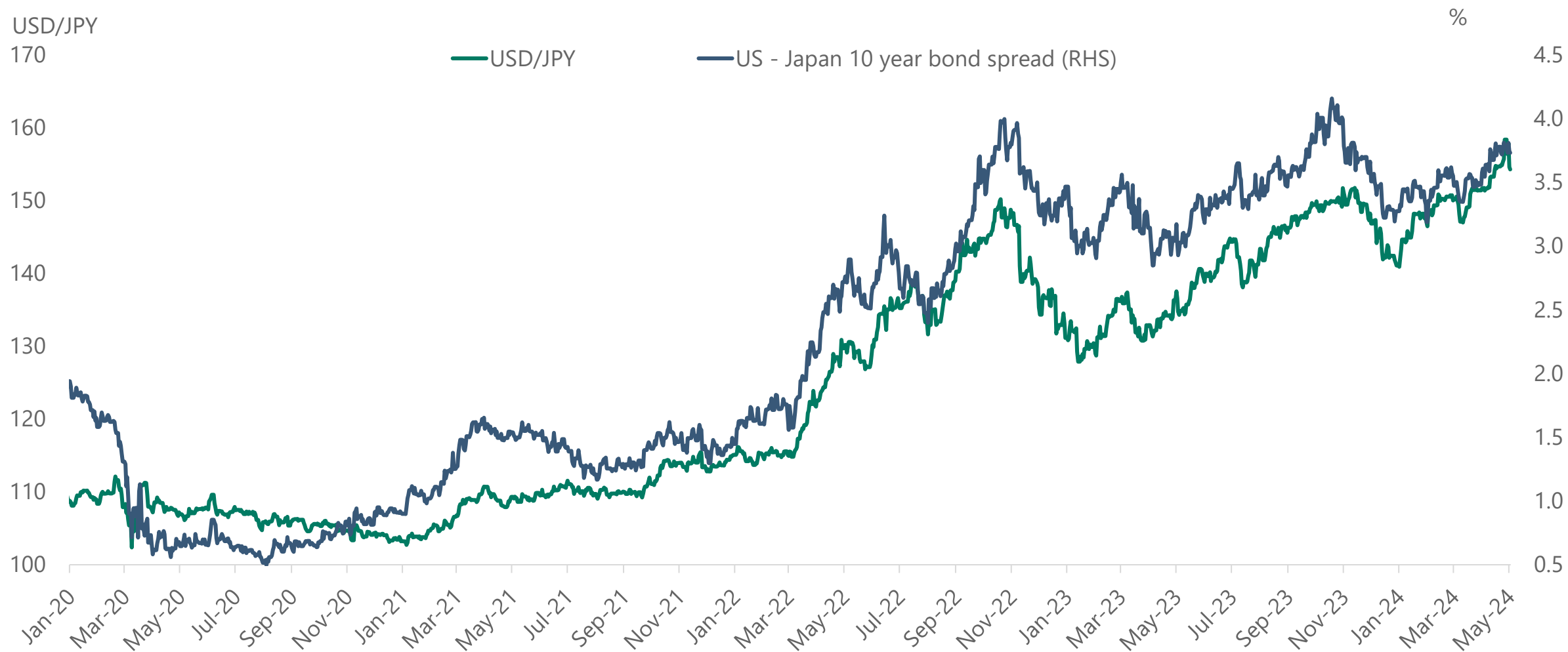
Easier financial conditions point to a rebound in GDP growth



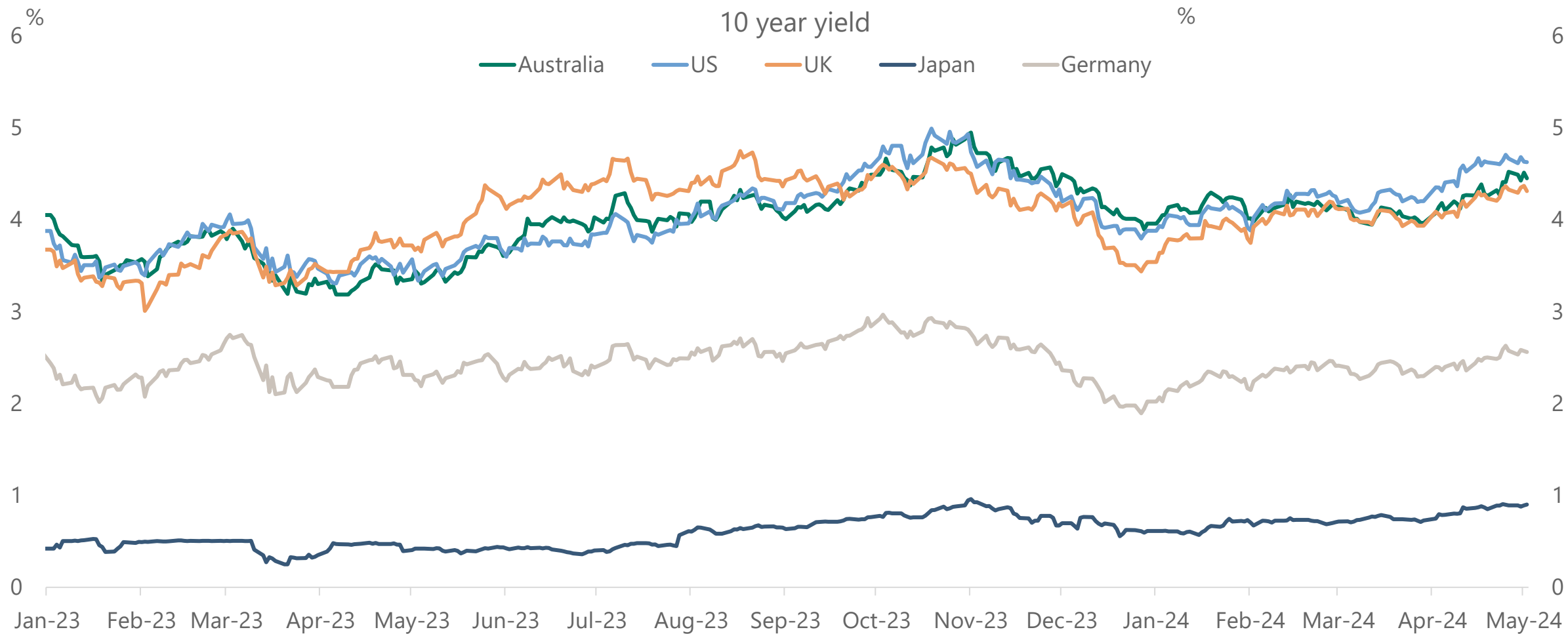
US/Japan interest rate differentials
are the key driver of USDJPY



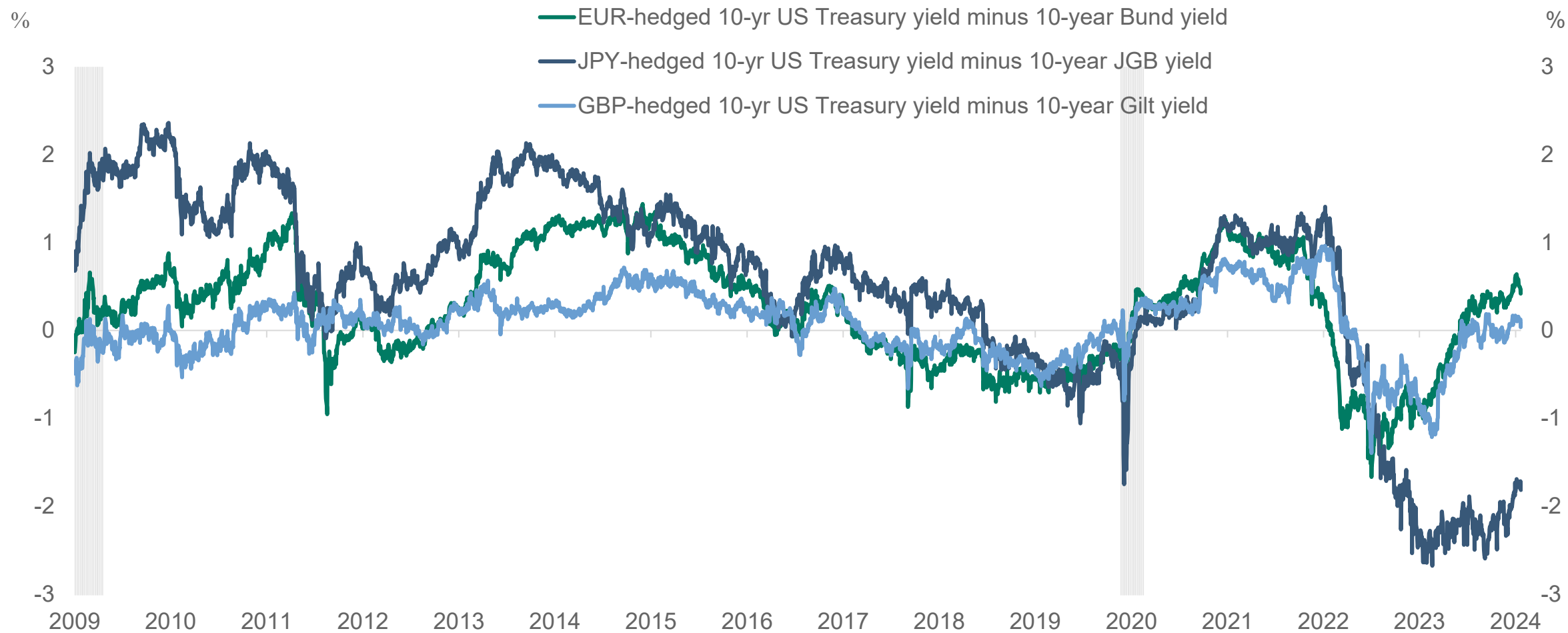
USDJPY and US/JP 10s highly correlated



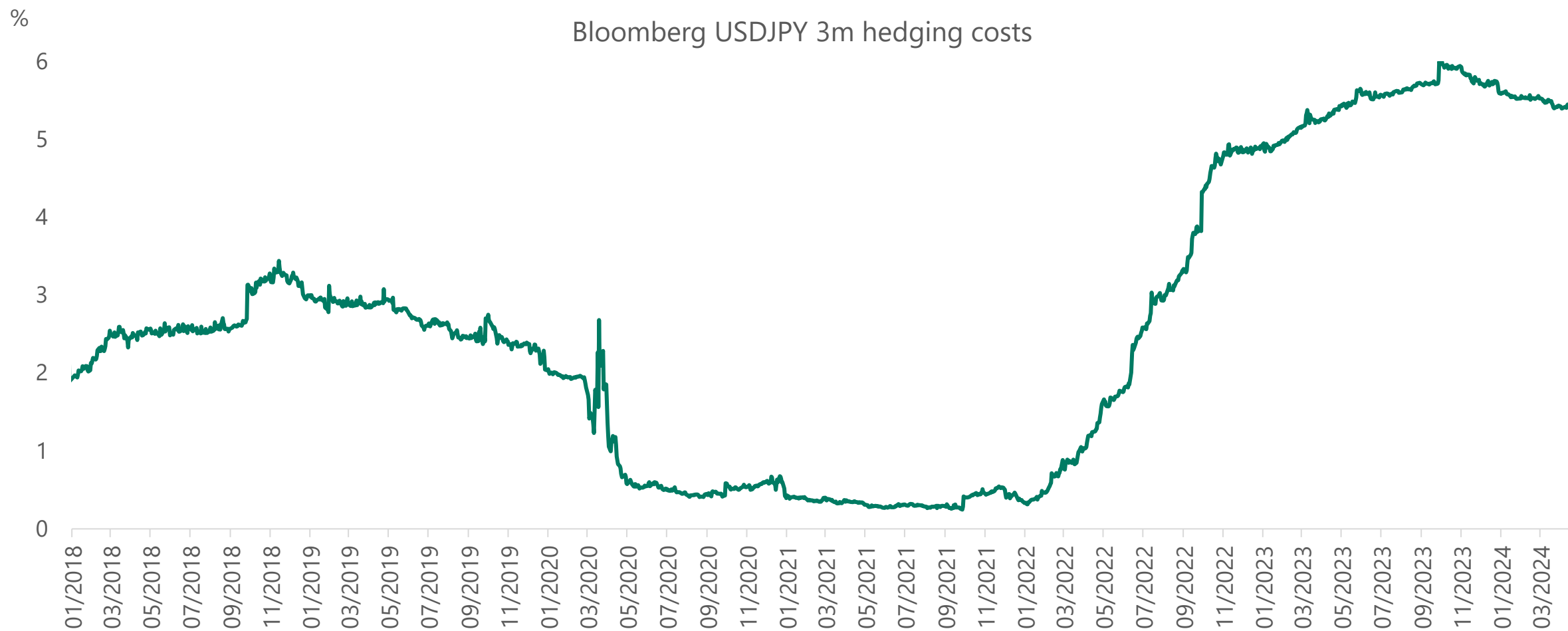
Japanese long-term term interest rates remain very low



Negative returns from holding JPY-hedged Treasury yields

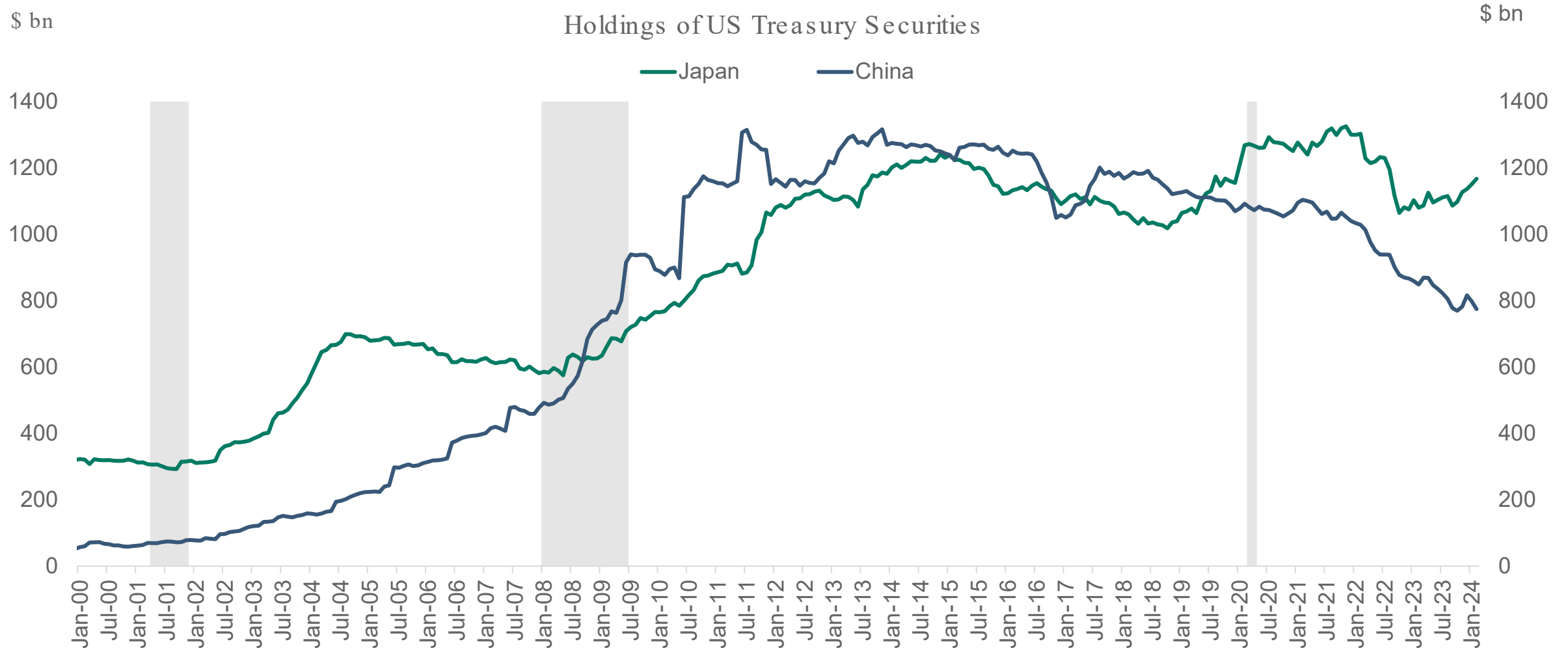


Dollar-hedging costs for Japanese investors



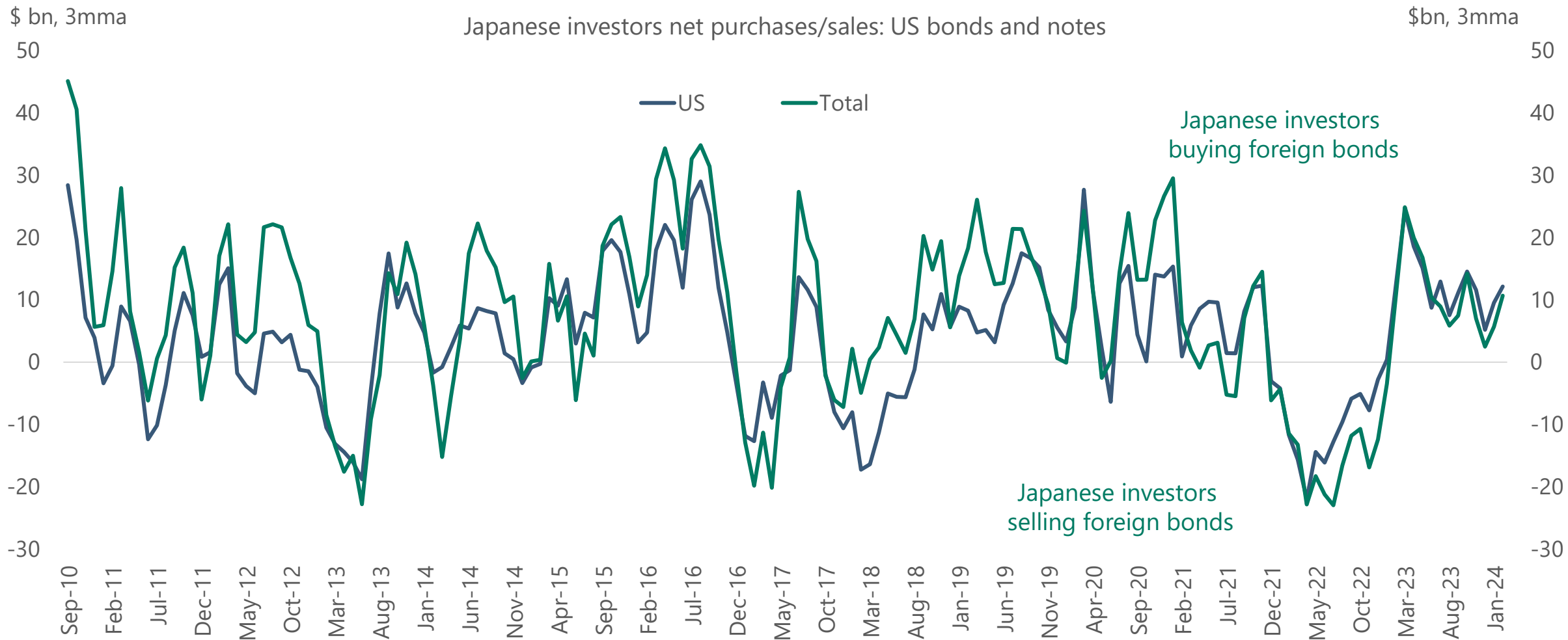
Source: Bloomberg, Apollo Chief Economist

Japan owns more than \$1trn in US Treasuries, more than China



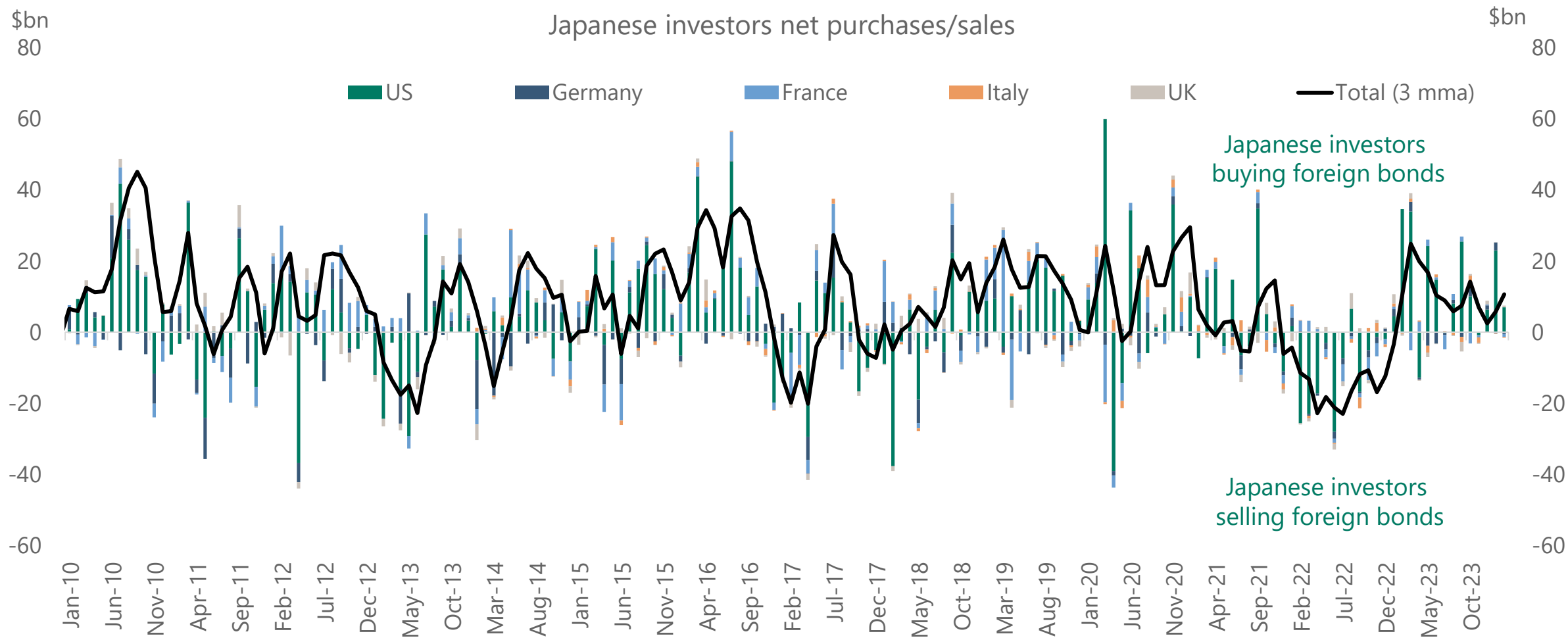
Source: Bloomberg, Apollo Chief Economist

Japanese investors have been net buyers of US Treasuries recently



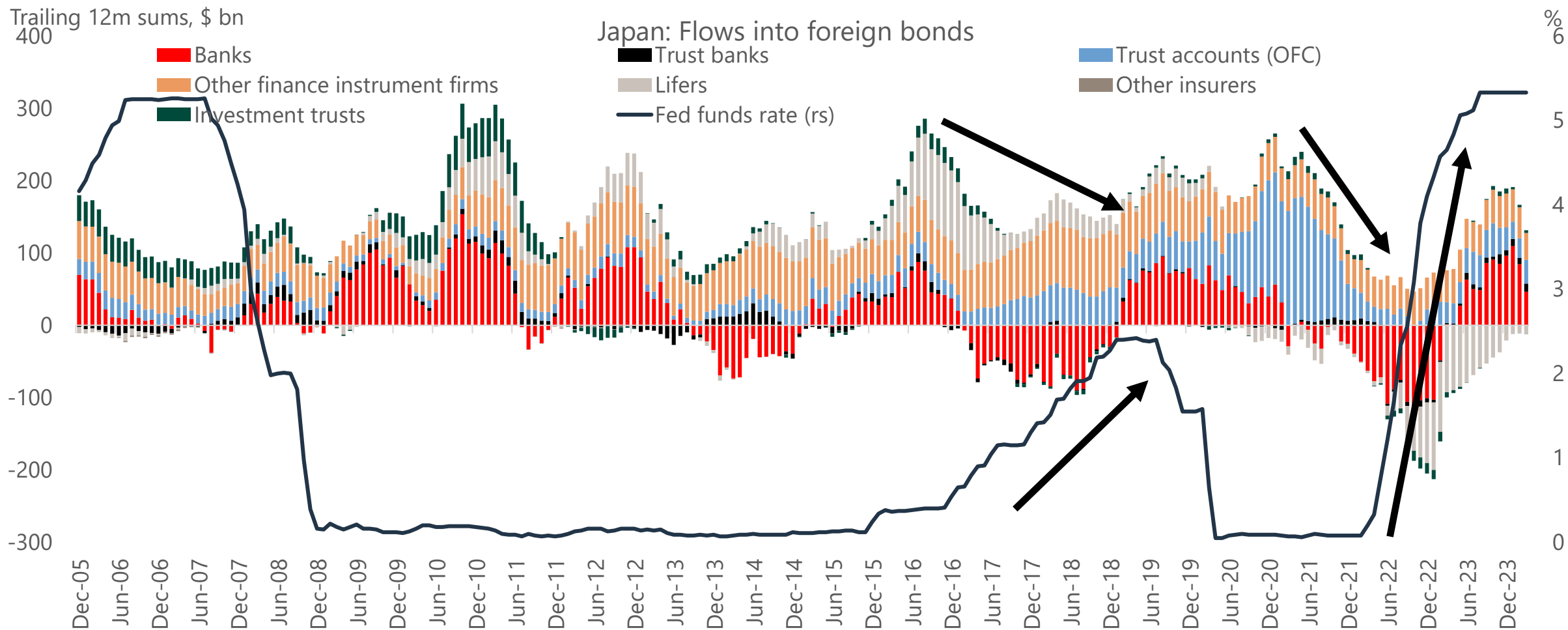
Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Japanese investors buying foreign bonds



Source: Ministry of Finance Japan, Bloomberg, Apollo Chief Economist

Japan: Net flows into foreign bonds: When US rates rise, Japanese investors sell US fixed income

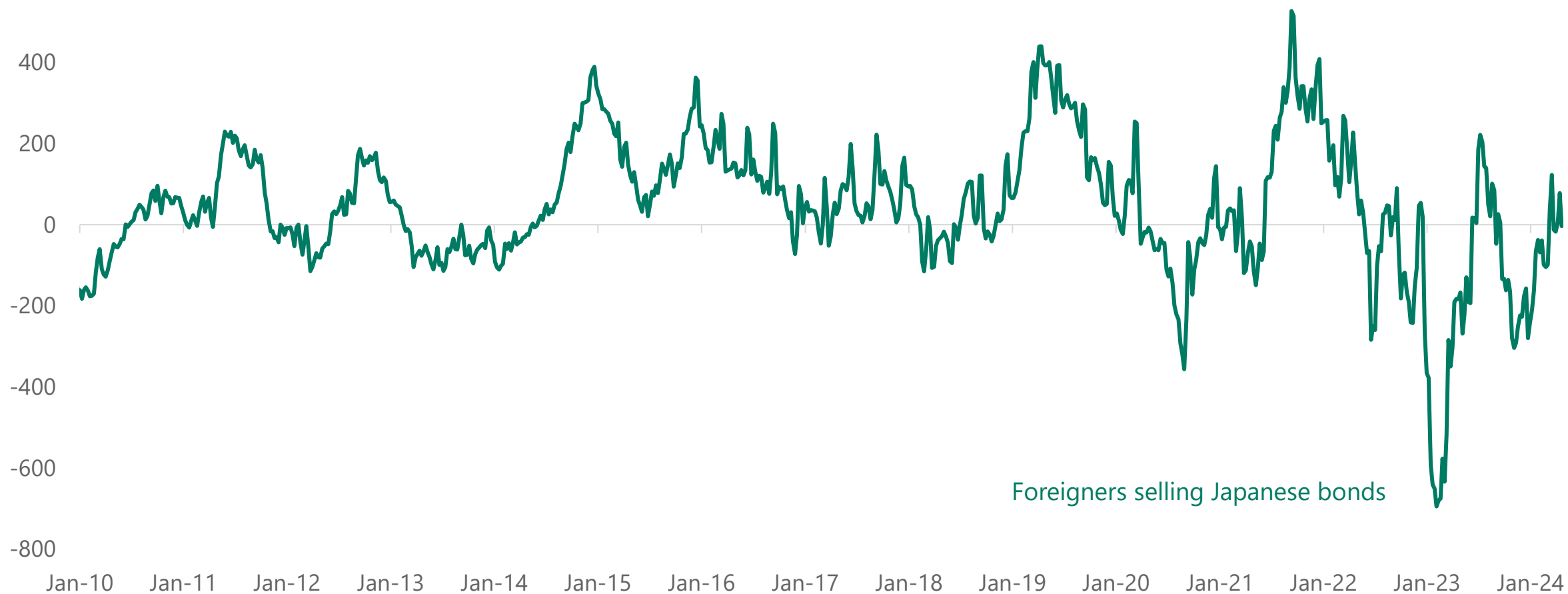


Foreign net purchases of Japanese bonds

24 week MA, JPY bn
600

Non residents net investment in Japanese Bonds

Foreigners buying Japanese bonds

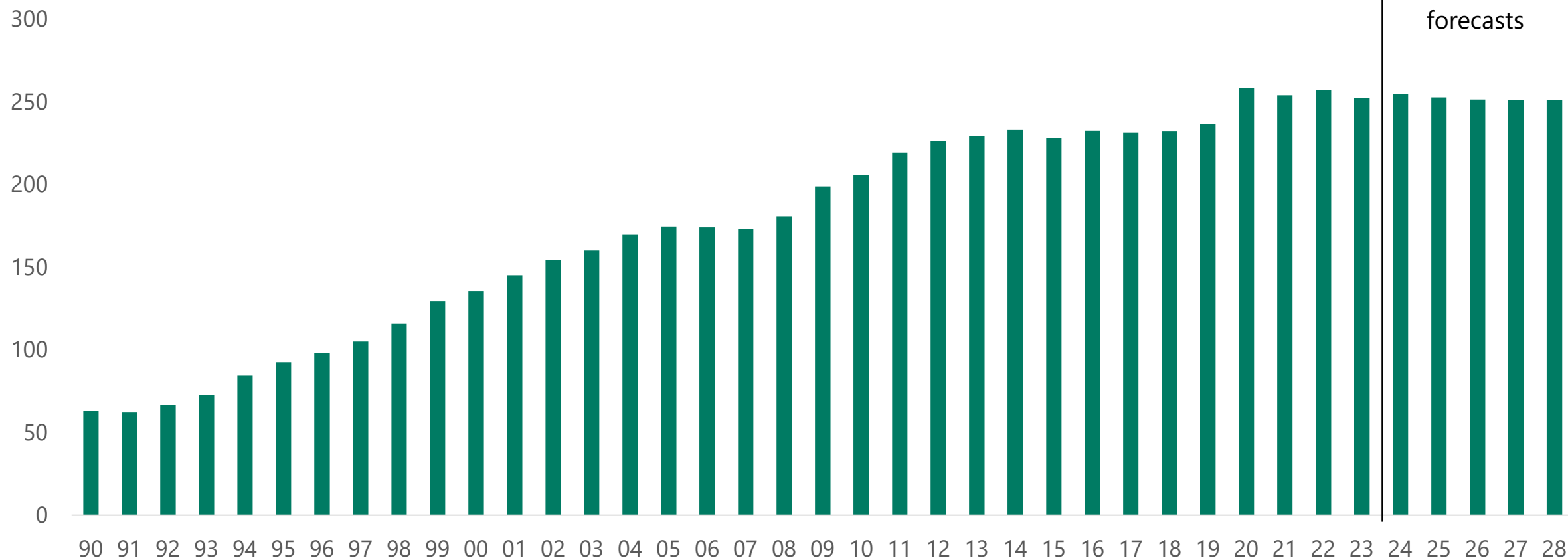


Japan: Worries about fiscal sustainability



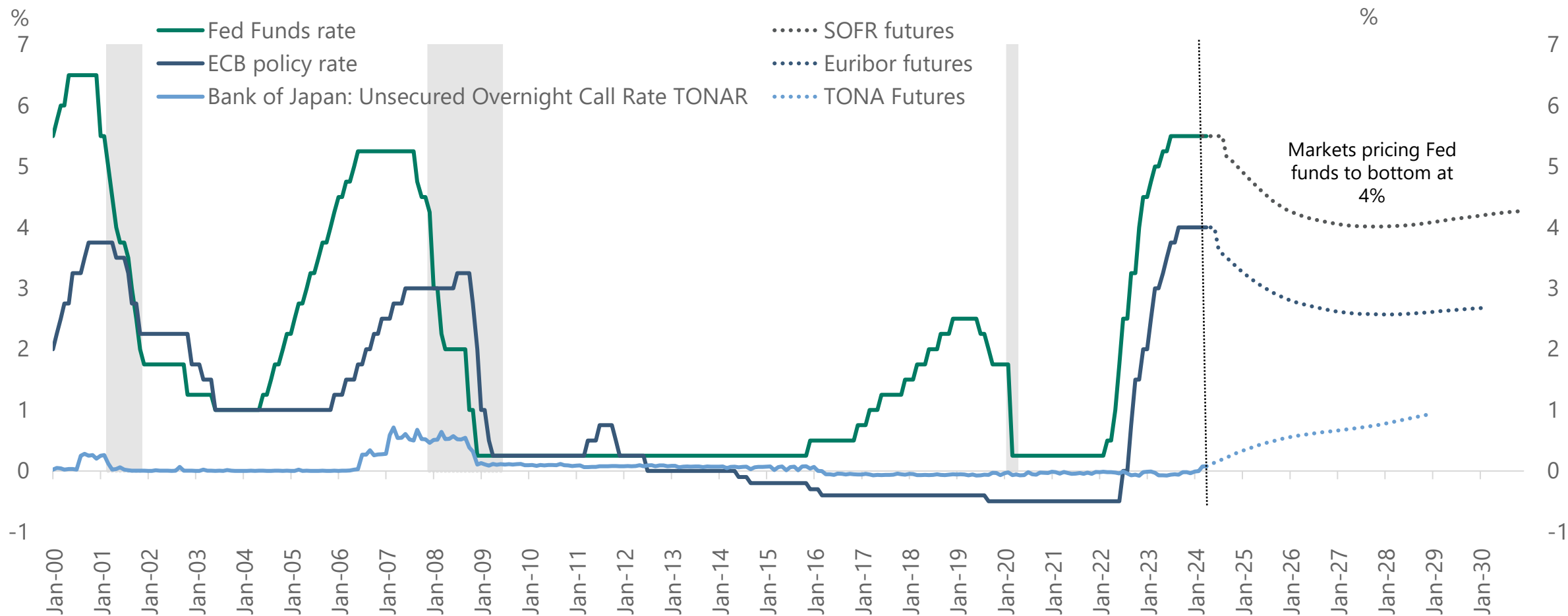
Japan government debt to GDP at 250%

Japan: General Government Gross Debt as % of GDP

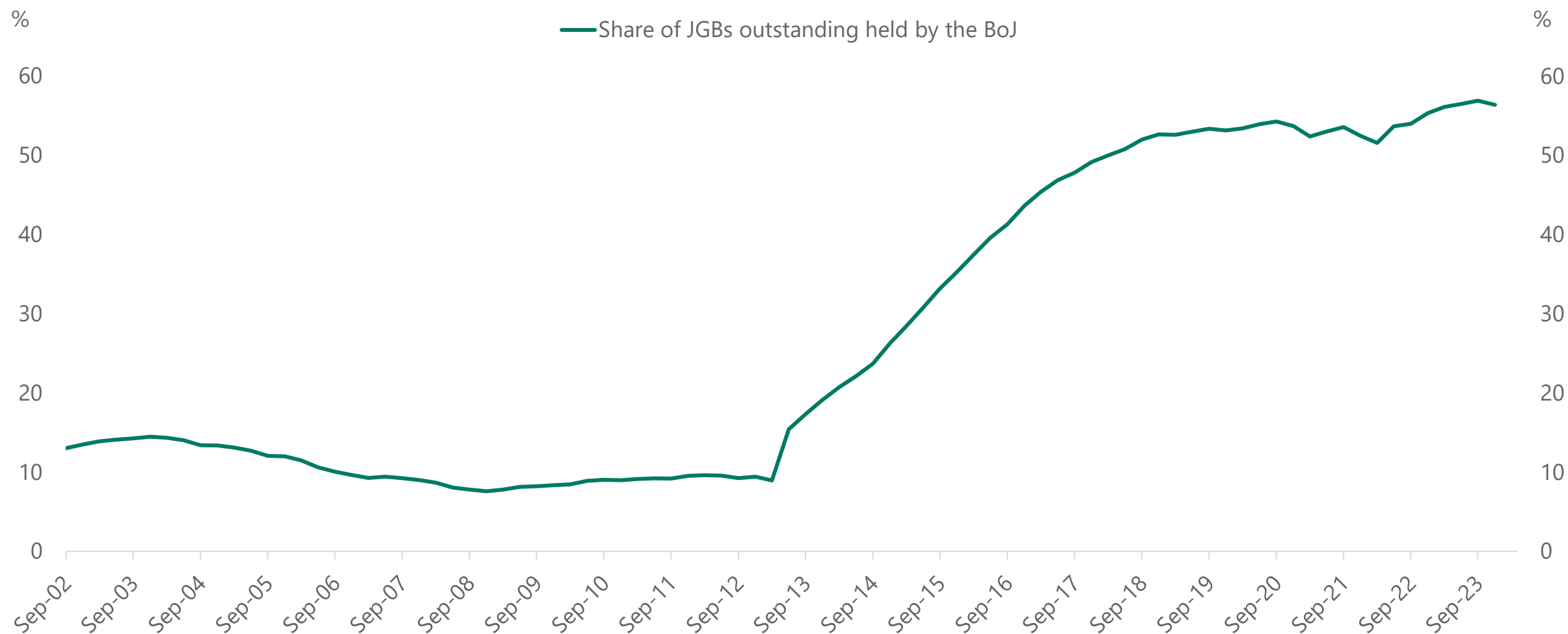


IMF forecasts

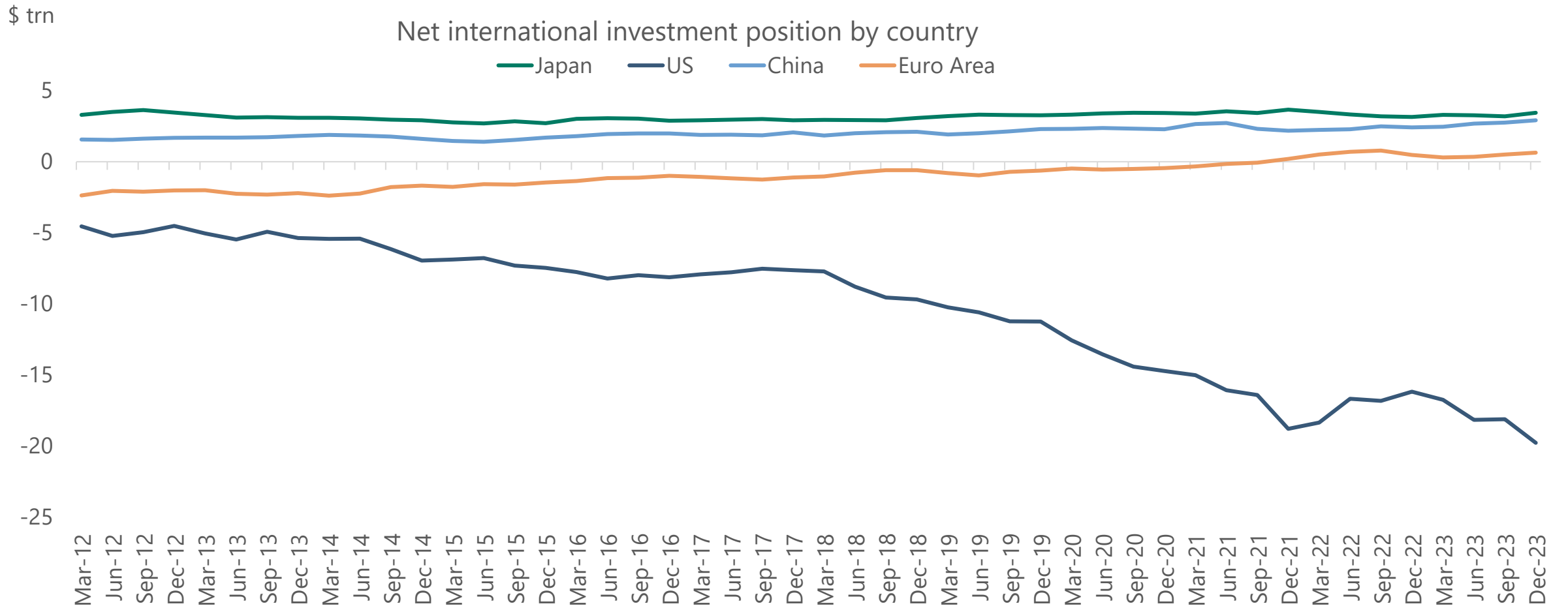
If Japanese interest rates go up it will create problems because of high debt to GDP



The BoJ owns almost 60% of Japanese government bonds outstanding

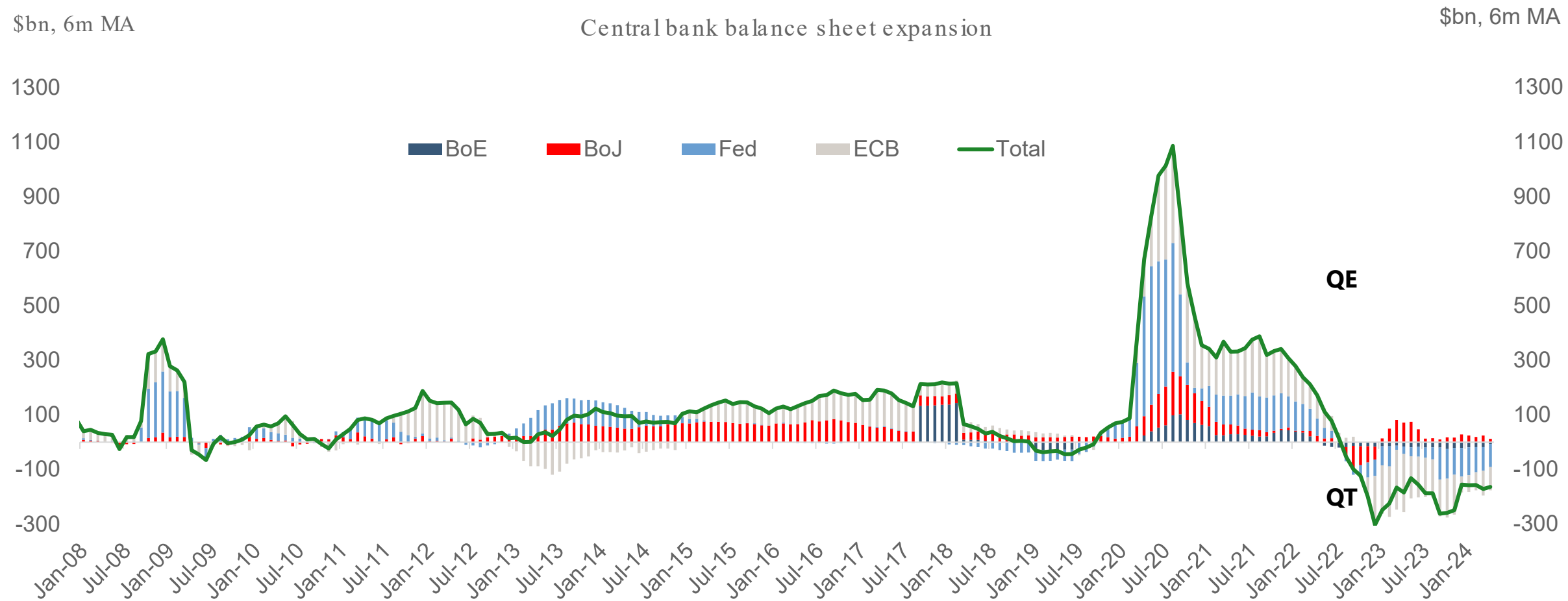


Japan has the largest positive NIIP in the world

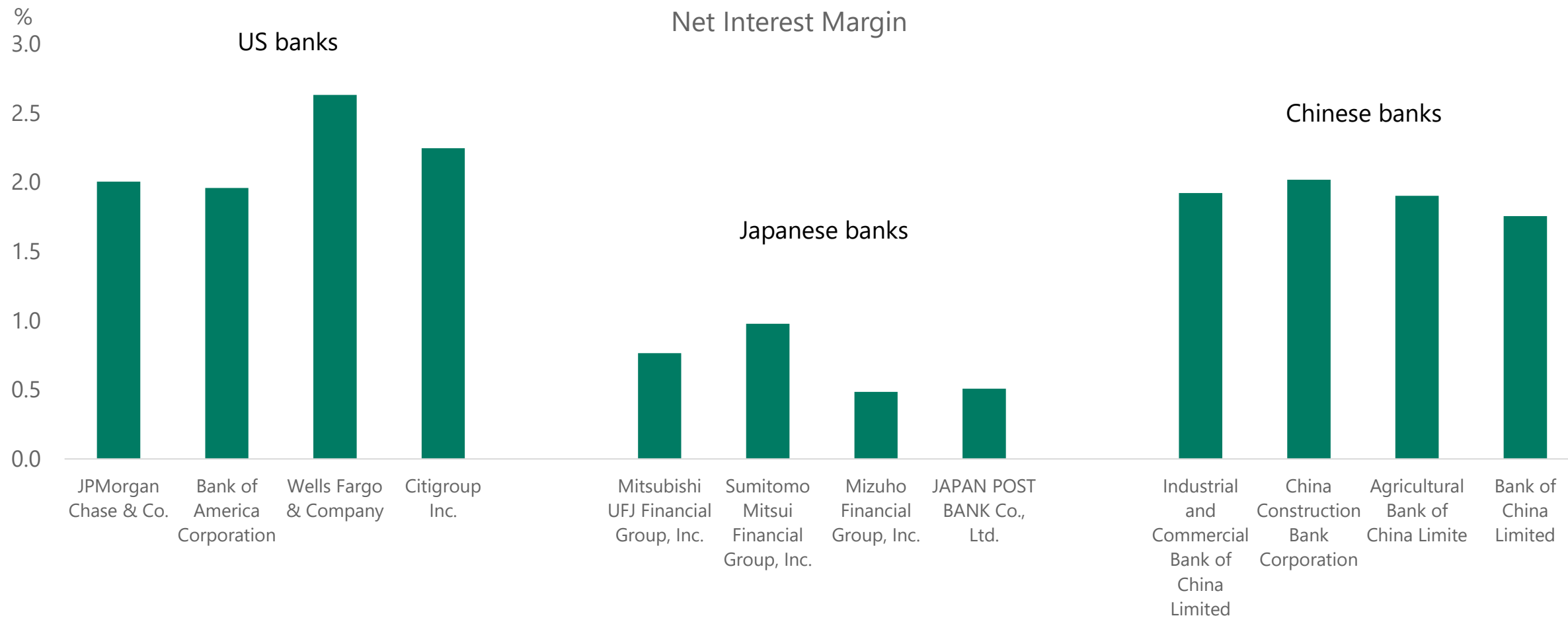


Source: The IMF, Bloomberg, Apollo Chief Economist (Data as of Q4 2023)

G4 central bank balance sheets

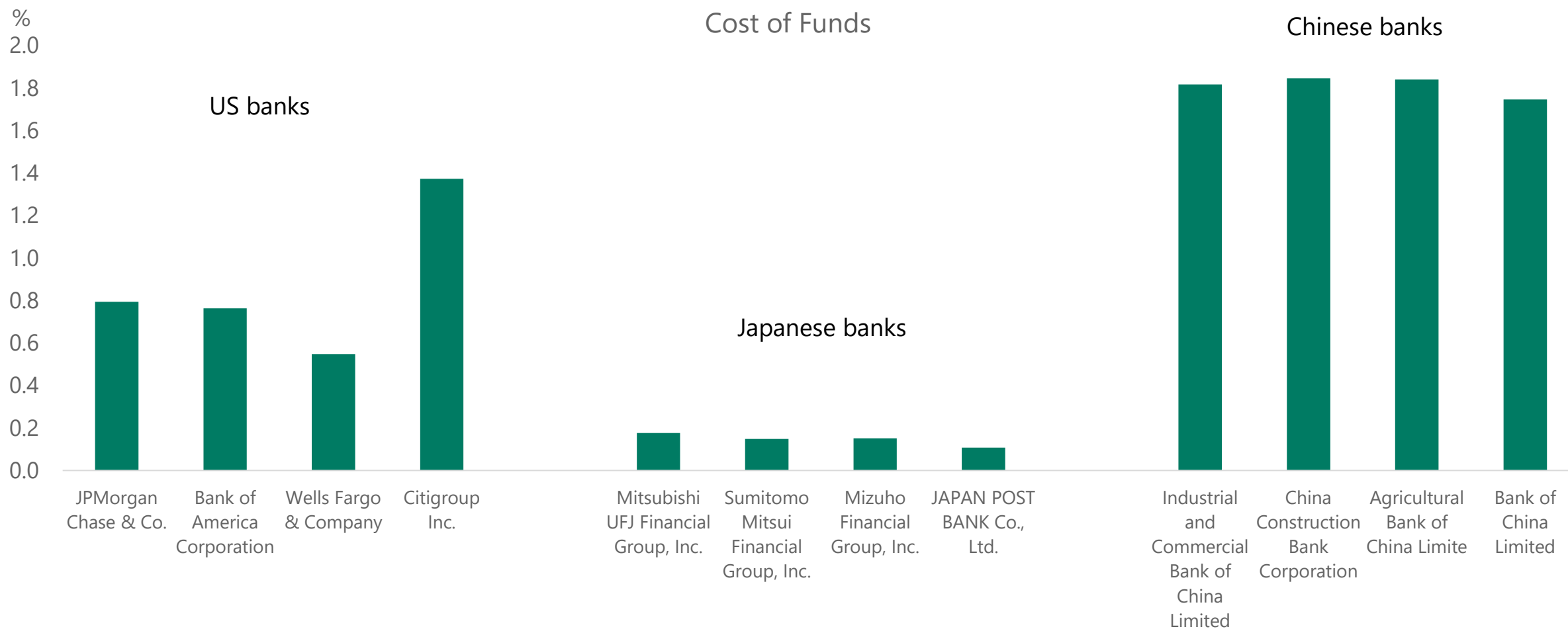


NIM for banks: US, Japan, and China

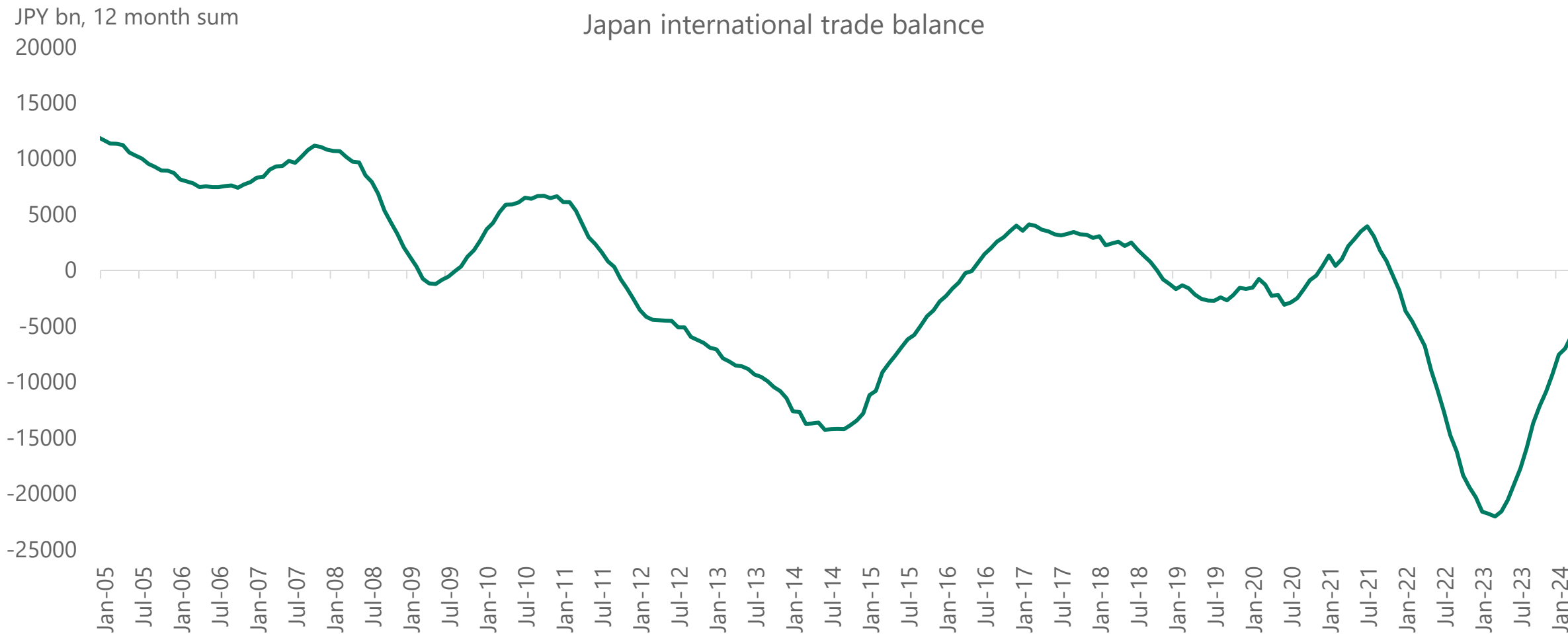


Source: S&P, Apollo Chief Economist

Cost of funds for banks: US, Japan, and China

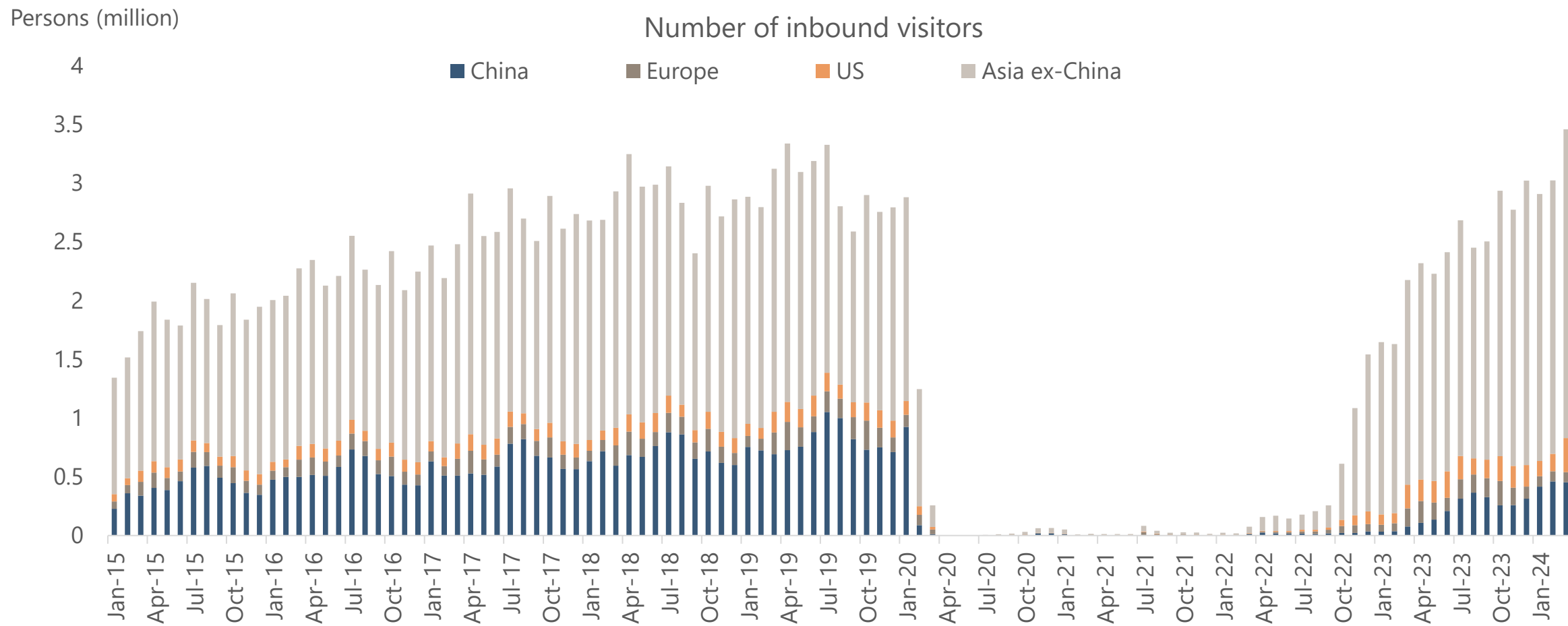


Japan trade balance



Source: MoF, Bloomberg, Apollo Chief Economist

Tourism: International visitors coming back to Japan, partly driven by weak yen



Source: Japan National Tourism Organization, Bloomberg, Apollo Chief Economist



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Torsten Slok joined Apollo in August 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.