【Fixed Income Commentary】

Intriguing RV graphs: JGB yields losing appeal among overseas real money investors

(original Japanese report issued on October 5, 2026)

Key points

- Appeal of JGB yields among overseas RM investors (crucial for stable JGB absorption), has recently diminished
- Relative appeal of JGB yields after deducting forex hedging costs has declined compared to major nation government bonds, particularly 10-year maturities
- Focusing on JGB market from perspective of overseas real money investors, specifically announcement of FY27 JGB issuance plan and stable JGB absorption going forward

Appeal of JGB yields among overseas RM investors (crucial for stable JGB absorption) has recently diminished

In this report we examine yields on major government bonds on a currency-hedged basis (Graph 1-7).

The appeal of JGB yields, as seen by overseas real-money (RM) investors, is now waning. In recent years, overseas investors have been seen as playing a crucial role in ensuring the stable absorption of JGBs.[1] As the BoJ's holdings of JGBs continue to decline, and due in part to the impacts of various regulations, it is unlikely that domestic financial institutions will resume their previously active stance on JGB investment. Against this backdrop, trends among the so-called "real money" investors, especially overseas investors, will be particularly important. Compared to the overseas investors referred to as "short-term traders (speculators)," real money investors tend to hold their positions for longer periods and do not demand high yield premiums. However, the relative appeal of JGB yields, as seen from the perspective of the real money investors, is now declining.

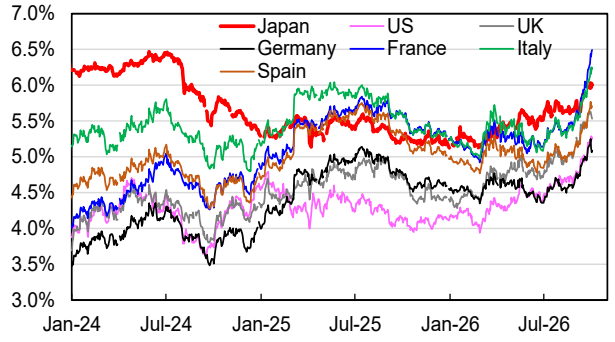
Overseas RM investors buying JGBs with currency hedges: Hedging for short, all durations

Overseas real money investors often use currency hedges when investing in JGBs, except in cases when they hold yen-denominated bonds. Currency hedging not only mitigates exchange rate risk but can also enhance yields under current market conditions. Investors may use short-term hedges with tenors of three, six, or 12 months and roll them over, or hedge for the full maturity of the bond. For example, an investor purchasing a 10-year JGB may use a 10-year currency hedge.[2]

[1] We also mentioned this point at MoF's 9th Study Group on Government Debt Management (November 4, 2025). Refer to Document 4 of the meeting minutes ("Challenges for the stable absorption of JGBs") for further details (Japanese only, title translated by MUMSS).

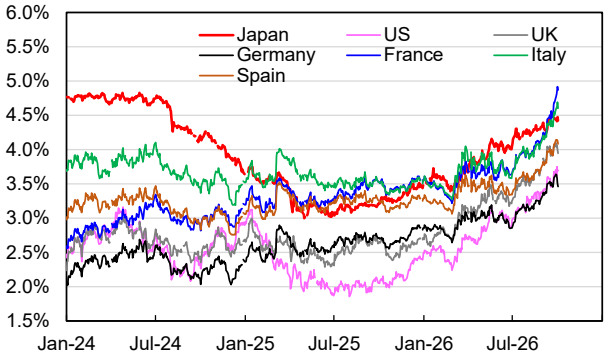
[2] As noted in our May 22, 2026 *Fixed Income Commentary* ("Asia trip report: Distinctive super-long JGB investment by South Korean investors"), some South Korean real money investors purchase super-long JGBs with 5-to-10-year currency hedges.

Graph 1: 10yr government bond yields after 3m FX hedging costs for USD investors



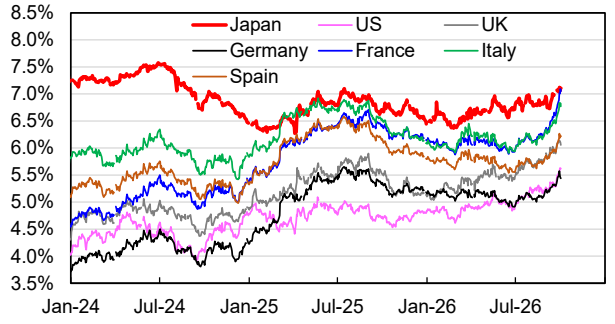
Note: 3m FX hedging costs are deducted from all yields except US Treasury yields.
Source: MUMSS, from Bloomberg data

Graph 2: 10yr government bond yields after 3m FX hedging costs for EUR investors



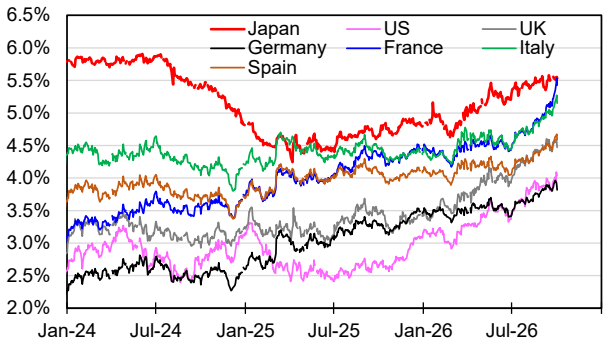
Note: 3m FX hedging costs are deducted from all yields except euro area government bond yields.
Source: MUMSS, from Bloomberg data

Graph 3: 30yr government bond yields after 3m FX hedging costs for USD investors



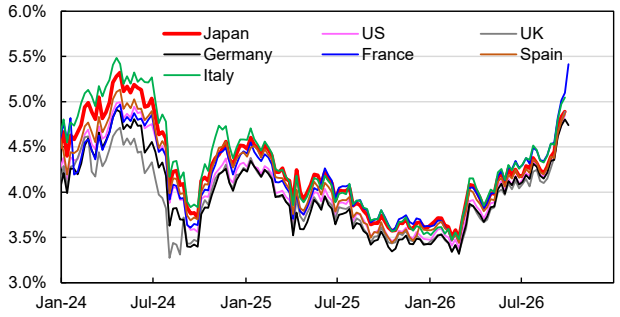
Note: 3m FX hedging costs are deducted from all yields except US Treasury yields.
Source: MUMSS, from Bloomberg data

Graph 4: 30yr government bond yields after 3m FX hedging costs for EUR investors



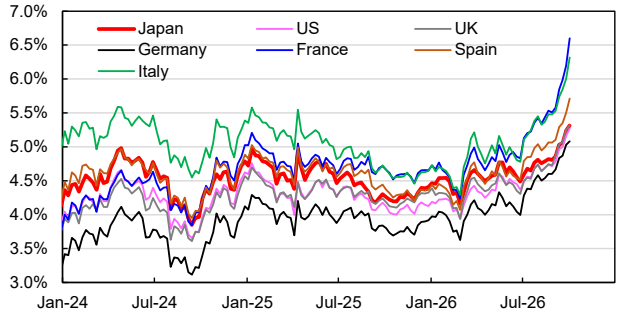
Note: 3m FX hedging costs are deducted from all yields except euro area government bond yields.
Source: MUMSS, from Bloomberg data

Graph 5: 2yr government bond yields after full-maturity FX hedging costs for USD investors



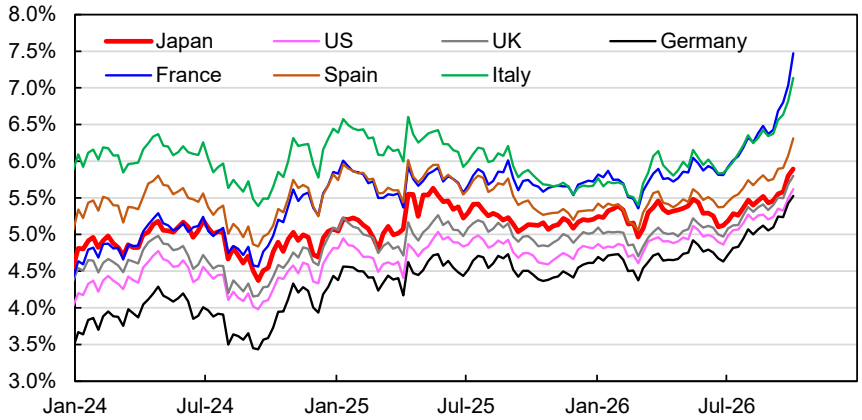
Note: 2yr FX hedging costs are deducted from all yields except US Treasury yields.
Source: MUMSS, from Bloomberg data

Graph 6: 10yr government bond yields after full-maturity FX hedging costs for USD investors



Note: 10yr FX hedging costs are deducted from all yields except US Treasury yields.
Source: MUMSS, from Bloomberg data

Graph 7: 30yr government bond yields after full-maturity FX hedging costs for USD investors



Note: 30yr FX hedging costs are deducted from all yields except US Treasury yields.
Source: MUMSS, from Bloomberg data

In addition to rising major government bond yields, negative spread narrowing for USD/JPY currency basis contributing to decline in relative appeal of JGB yields after currency hedging

From the perspective of yields after deducting forex hedging costs, the relative appeal of JGBs has declined overall, regardless of whether the hedging is for short or all maturities (Graphs 1-7). This is because, recently, yields on other major government bonds have been rising more sharply than those on JGBs. In the case of short-term hedging, while the cost of hedging against the yen has fallen for those holding US dollars, yields on other major government bonds are rising at a faster pace than those on JGBs. As a result, the relative appeal of JGBs has declined. With regard to hedging for all maturities, in addition to rising yields on major government bonds, the narrowing of the negative USD/JPY currency basis (higher yen procurement costs for USD holders) has contributed to the decline in JGB appeal. Currently, yields on French government bonds have risen notably, particularly against the backdrop of political risks. However, even when compared to UST, the appeal of JGB yields, particularly for the 10-year maturity after currency hedging, has declined.[3]

Monitoring JGB outlook from perspective of overseas real money investors ahead of FY27 JGB issuance plan

Discussions are expected to intensify in the coming months regarding Japan's FY27 budget proposal, tax reforms, and the JGB issuance plan. The trends involving overseas real money investors targeting JGBs will also impact the outlook for the stable absorption of JGBs. We therefore focus on how overseas real money investors view the JGB market.

*Please note that we will not issue our regular "Intriguing RV graphs" series report for the next week. The next issue is scheduled on October 19. Thank you for your understanding.

Takahiro Otsuka
Senior Fixed Income Strategist
9:00 JST, October 5, 2026

[3] Although yields on major government bonds after full-maturity FX hedging costs for EUR investors are not shown, their relative attractiveness across countries is broadly similar to that for USD investors.

Appendix A

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