Japan Bond Yields – What Are They Telling Us?

Last time, we touched on the performance of government bonds and the disparity in returns between US and South African bonds over the last 5 years. However, one major global bond market that is now **flashing red is Japan**. The large spike up in yields on longer dated Japanese Government Bonds (JGBs) is signaling growing market confidence about the Bank of Japan's (BOJ) ability to manage inflation and the massive debt.

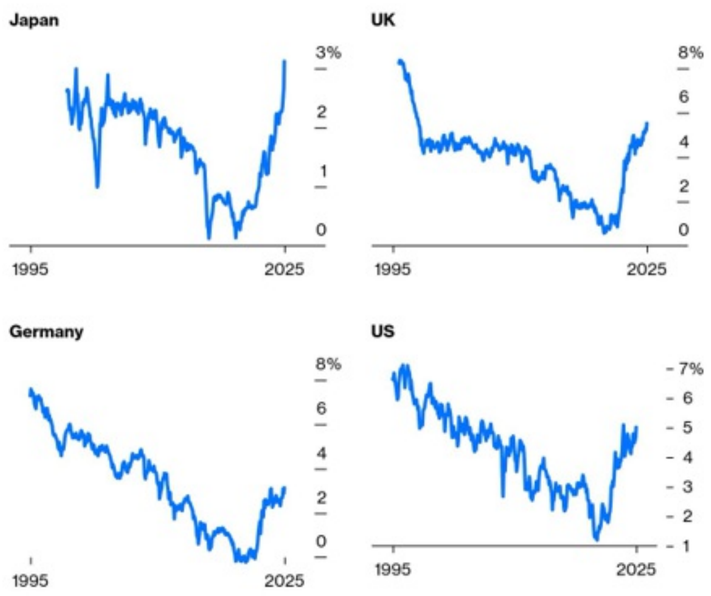
For decades Japan's very low inflation and interest rate on government debt created a unique environment. This stability fueled the yen carry trade, where hedge funds and banks borrowed cheaply in yen to invest in higher-yielding assets worldwide.

Japan's aging population and persistent deflationary pressures allowed the government to accumulate debt exceeding 250% of GDP, one of the highest ratios globally.

The question of who funds this enormous debt is critical. The answer: primarily the BOJ itself. Through extensive bond-buying programs, the BOJ now holds approximately 52% of outstanding JGBs, effectively monetizing the debt by creating yen to purchase it. Another 32% is owned by life companies, banks and pension funds.

Long Bonds, High Yields

Globally, 30-year government yields are breaking into record territory



Source/s: Bloomberg (30 April 2025)

Rising Yields Signal Trouble

Despite the BOJ's efforts to keep interest rates low, cracks are appearing. In 2025, yields on JGBs have spiked, reflecting market concerns about inflation and debt sustainability. This shift challenges the BOJ's control and could have far-reaching consequences, including:

1) Destabilizing of global flows as the Japan carry trade reverses.

2) Huge losses for Japanese institutions on their bond exposure.

3) Higher Japanese inflation – e.g. Japan rice prices are up 100% over the last year.

4) A repricing of sovereign solvency.

5) A catalyst for even more central bank intervention to contain interest rates – i.e. central bank quantitative easing.

Conclusion

The scenario playing out in the Japanese and other sovereign bond markets signals a need for a more cautious approach to investing in longer dated government bonds. What we are seeing is a repricing of sovereign debt to cheaper valuations.

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If you have any questions, Ian and our team would love to hear from you on global@seedinvestments.co.za.

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