

Japanese government bonds' best month since 2008

A move towards negative interest rates has boosted Japanese government bond returns and investors have been keen to get in on the action.

- February saw the best monthly return for Japanese government bonds since 2008
- Japanese government bond ETFs have seen a spike in inflows so far this quarter
- 10-yr government bond yields have been negative since February 23rd

Bank of Japan (BoJ) governor Haruhiko Kuroda's aggressive stance towards monetary policy has seen Japanese government bond returns enjoy their best month since 2008.

As Japan struggles to stoke growth and inflation, the BoJ moved into uncharted territory last month when it introduced negative interest rates for the first time in its history. Japanese government bond yields fell sharply in response, propping up prices and boosting bond returns in the process.

Investors also piled into Japanese government bonds via exchange traded funds (ETFs), keen to take advantage of Japan's easy monetary policy stance.

Kuroda's ammunition

The surprise move to introduce negative rates on January 28th caught the market by surprise and this was evident in the move in 10-yr Japanese government bond yields, falling 15bps intraday.



Japanese government 10-yr bonds have subsequently fallen below zero, and have remained there since February 23rd, according to Markit's bond pricing service.

iBoxx Sovereign Japan local currency

	Monthly total return
Feb/2016	1.91%
Dec/2008	1.88%
Aug/2006	1.75%
Jan/2016	1.42%
Aug/2004	1.41%

This in turn has propped bond returns (prices move inversely to yields), with February being the best month for the [Markit iBoxx Sovereign Japan local currency index](#) since December 2008. Post 2000, Japanese government bonds have seen very little price movement, with investors eking out monthly returns, averaging 0.17%.

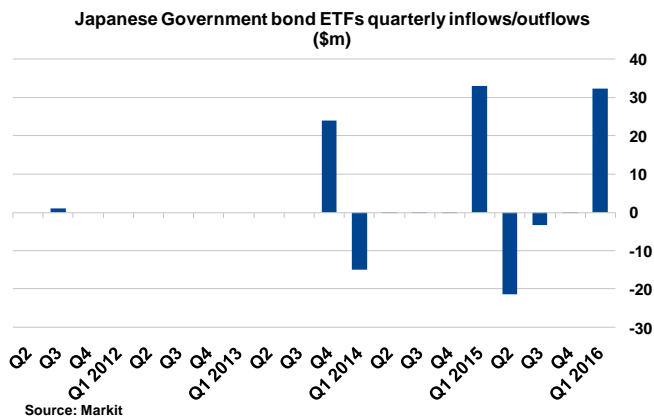
With negative interest rate policy already proving unpopular with the Japanese public and commercial banks, expectations are that the BoJ may resort to increasing its asset purchase programme, which currently runs at ¥80trn per year, should current stimuli measures fail.

These expectations saw returns for the Markit iBoxx Sovereign Japan local currency index this month so far peak at 1.64% on March 9th. But returns were erased as bond yields rose in reaction to the European Central Bank's

QE expansion last Thursday. The yield on the Markit iBoxx Sovereign Japan local currency index now stands at 0.32%; double that of last week.

Investors look to Japan

All eyes will now be on tomorrow's BoJ monetary policy meeting and statement, for further hints of what Kurodo's next move may be. Investors have already positioned themselves for further Japanese government bond appreciation.



ETFs tracking Japanese government bonds have seen \$32m of inflows so far this quarter, just shy of Q1 2015's record \$33m. It's easy to see why the most popular ETF in the space has been the [db x-trackers II IBOXX JAPAN SOVEREIGN UCITS ETF](#), which has seen a total return this year of 3.25% according to Markit's ETP service.

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