Japan Joins Germany With Five-Year Government Yield Evaporating

By Wes Goodman and Shigeki Nozawa - Jan 12, 2015

Japanese bonds rose in the latest leg of a worldwide surge in government securities, with five-year yields matching Germany (GDBR5)’s at zero percent, as falling oil costs indicate inflation will slow.

The effective yield on the Bank of America Merrill Lynch Global Broad Market Sovereign Plus Index dropped to 1.21 percent yesterday, a record low in data starting in 1996. Australia’s 10-year yield declined to its lowest level ever. Germany’s have touched negative levels every day this month. Switzerland’s closed yesterday at a record-low minus 0.127 percent.


U.S. 10-year yield, the benchmark for company and sovereign borrowing costs, declined one basis point to 1.90 percent as of 12:14 p.m. in Tokyo, according to Bloomberg Bond Trader data. The 2.25 percent note due in November 2024 rose 1/8, or $1.25 per $1,000 face amount, to 103 6/32.

Japan’s 10-year yield fell one basis point to 0.265 percent, matching a record low. Australia’s dropped as much as nine basis points to an unprecedented 2.608 percent. A basis point is 0.01 percentage point.

The Bank of America sovereign index has returned 3.1 percent in the three months ended yesterday. The MSCI All-Country World Index of shares advanced 2.8 percent, including reinvested dividends.

Oil Tumbles

Government bonds have surged as oil tumbled and as traders prepared for the European Central Bank to start buying government debt as soon
Crude oil has slumped 14 percent this year, after tumbling 46 percent in 2014.

The difference between yields on 10-year Treasuries and similar-maturity Treasury Inflation Protected Securities, a gauge of expectations for consumer prices, was at 1.56 percentage points. The figure slid to 1.54 last week, the least since 2010.

ECB President Mario Draghi has said policy makers are making “technical preparations” to combat deflation, raising speculation he is preparing a bond-buying program similar to Japan’s to pump money into the economy.

The Bank of Japan’s purchases of as much as 12 trillion yen ($102 billion) a month are about equivalent to what the government issues in coupon-bearing securities.

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