

Domestic Bond Market Update

10-Year Government Bond Yield Exceeds 2.6%

May 15, 2026

Ultra-Long End Leads Rate Rise on Persistent Inflation Concerns Amid Middle East Uncertainty

The yield on 10-year Japanese government bonds has continued to rise even after hitting 2.5% at the end of April—a level not seen in about 29 years—and stood at around 2.6% as of May 14. This trend reflects rising inflation concerns stemming from the de facto blockade of the Strait of Hormuz amid escalating tensions in the Middle East. A notable indicator is the 10-year BEI (Breakeven Inflation Rate), which has surpassed the Bank of Japan’s price stability target of 2.0% and risen to the 2.1% range. Given Japan’s structural shift toward an inflationary economy and the tendency for inflation expectations to form adaptively, even an energy shock could lead to current price increases spilling over into an upward deviation from the underlying inflation rate. In this regard, the stability of long-term inflation expectations is crucial; however, the rise in the 10-year BEI suggests that the anchor may be becoming unanchored.

That said, it cannot be categorically stated that the Bank of Japan’s policy response is lagging. Looking at the “underlying inflation rate” indicated by the Bank of Japan, while there is some variation across indicators, overall it is gradually approaching 2%. If the policy response were indeed lagging, interest rate hikes should be becoming apparent even in the short-term segment; however, in reality, there has been no significant change in the market’s pricing of rate hikes within the year. Rather, interest rate increases have been more pronounced in the long-term interest rates recently. This trend suggests that, particularly with the rising share of foreign investors holding ultra-long-term JGBs, JGBs have become structurally susceptible to shifts in global risk appetite. Consequently, rising overseas interest rates—such as those driven by rate hikes in other countries—are more likely to spill over into domestic rates.

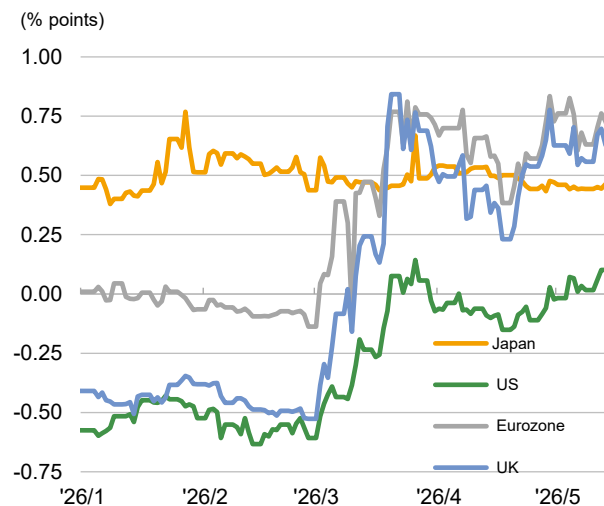
10-Year BEI



※ Latest figure as of May 14, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Market-Implied Policy Rate Changes Through End-2026



※ Negative values indicate an interest rate cut; latest figure as of May 14, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

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