The Evolution of Global Bond Trading in Japan

July 22, 2024

Executive Summary:



Global demand for fixed income assets has surged in recent years as yields have increased amidst efforts to dampen inflation in major markets globally. Japanese investors in particular have sought out government and corporate bonds from developed and emerging markets that offer higher yields than can be found at home with little or no additional risk. This demand has increased trading volumes across most fixed income products, leaving investment managers in search of solutions to manage both the volumes and the data necessary to find the liquidity they need.

While human intelligence and relationships remain central to the functioning of fixed income markets in Japan and around the world, technology is augmenting investors and traders as they grapple with this new demand. Electronic trading tools are playing a major role in helping investors manage these new market challenges. While e-trading in Japan lags other developed markets, our research has found that adoption in Japan and in Asia more broadly is growing as local investors seek out liquidity in both local and foreign markets. And while the market dynamics of each country and bond can vary widely, bond-trading venues have developed a variety of trading protocols that allow trading of nearly all bonds, from the most liquid to the least and everything in between.

Based on interviews with investors in Japan and Asia in the fourth quarter of 2023, this research examines the evolution of fixed income market structure in Japan, how technology is adding efficiency to the trading workflow, the growing role of electronic trading, tailwinds and headwinds impacting e-trading growth, and the opportunities available to Japanese fixed income investors via the electronic trading ecosystem.

Methodology:

Coalition Greenwich interviewed over 450 buy-side fixed income investors in Japan in the fourth quarter of 2023. The study was conducted over the phone, online and in-person. Respondents answered a series of qualitative and quantitative questions focused on their dealer relationships, market expectations and use of electronic trading tools.

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