

Japan & Korea Allocator Intelligence

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MARKET CONTEXT · JAPAN & KOREA ALLOCATOR INTELLIGENCE #005

Both Hikes Left the Yen-Hedged Hurdle Where It Was — SoftBank Is the New Yardstick

The BOJ and the Fed both raised rates. In the arithmetic a hedged Japanese insurer runs, the two moves cancelled out, so the hurdle a hedged dollar loan must clear has not moved. The excess a floating-rate loan earns over a 30-year JGB is where it was in early September. What changed is the liquid comparison: SoftBank's 9.75% dollar bond, hedged into yen, pays roughly 7%. The mid-range private-credit fund after fees now has to explain why it beats that.

The BOJ raised its policy rate to around 1.25% on 18 September by a 7–2 vote, effective 24 September. The Fed raised its target range to 3.75–4.00% on 16 September, by 12–0. Edition 004 told GPs not to expect the September decision to move the hedged arithmetic, and to re-issue the rates page the day after. Here it is.

A hedged Japanese investor never earns the dollar rate. It earns the yen short rate plus your credit spread, less the cross-currency basis (an extra charge in the currency-swap market on top of the rate gap). The BOJ hike lifted three-month TIBOR (the benchmark yen interbank rate) to 1.68%. The Fed hike lifted the three-month T-bill further, to 4.08%. So the hedge cost from the rate gap rose from edition 004's 2.21 points to 2.40; on overnight rates it is 2.65 points, unchanged. The hedge got about 0.2 points dearer, not cheaper. Meanwhile the long JGB rose by about as much as yen cash. The 10-year stood at 3.071% and the 30-year at 4.112% on 25 September. On 24 September the 10-year reached its highest level since August 1996. The term premium (the extra yield a long bond pays over yen cash) therefore stayed at 1.4 points at ten years and 2.4 at thirty.

	Edition 004 (early September 2026)	Late September 2026
BOJ policy rate / Fed funds range	1.00% / 3.50–3.75%	1.25% / 3.75–4.00%
Three-month yen rate (TIBOR)	1.56%	1.68% (28 Sep)
Three-month dollar rate (SOFR / T-bill)	3.65% / 3.77%	3.90% (25 Sep) / 4.08% (24 Sep)
Hedge cost from the rate gap	2.2–2.65 points	2.40–2.65 points
10-year / 30-year JGB	2.91% / 3.97%	3.07% / 4.11% (25 Sep)

	Edition 004 (early September 2026)	Late September 2026
10-year US Treasury	4.78%	5.17% (25 Sep)
JGB term premium over yen cash (10y / 30y)	1.4 / 2.4 points	1.4 / 2.4 points
Hedged gross yield, loan at 5.3–8.3 points over the dollar rate*	~6.7–9.7%	~6.8–9.8%
Excess over the 30-year JGB, before fees	~2.7–5.7 points	~2.7–5.7 points
Liquid comparator: SoftBank 7.5-year USD bond, hedged into yen	—	~6.9–7.2%

*The spread is industry pricing carried over from edition 004, and the 2026 columns deduct 0.2 points of basis, also carried over. Both are held constant so the columns compare.

After an illustrative 1.5–2.5 points of fees and carry, the net excess over a 30-year JGB is still 0.2–4.2 points. The committee's question has not changed: does your low case still pay for locking up capital?

The new yardstick. SoftBank Group priced \$11.1bn of senior notes on 24 September, rated BB+. The dollar tranches pay 8.625% (3.5 years), 9.25% (5.5 years) and 9.75% (7.5 years). Reuters called it the largest high-yield corporate bond issue globally to date. The money funds the final \$10bn tranche of SoftBank's \$30bn additional OpenAI commitment. Hedged into yen at today's gap, the 7.5-year note yields about 6.9–7.2%. That sits in the middle of the private-credit range after fees, with daily liquidity and no management fee.

Three points cut the other way, and a GP should make them out loud:

- SoftBank offered the notes outside Japan only, so Japanese institutions could not buy them at issue.
- A fixed coupon hedged with rolling three-month forwards carries a floating hedge cost. On this arithmetic, if dollar short rates keep rising, the bond's yen yield falls. A floating-rate loan does not have that problem.
- It is one BB+ name, not a diversified book.

SoftBank also shows how differently two markets price one issuer. Its ¥1tn seven-year retail bond pays 4.75%, about 2.26 points over JGBs, while its dollar paper pays about 4.65 points over Treasuries. A Japanese credit allocator reads that gap as evidence that yen credit spreads are tight. That is the case for sending yen money abroad for spread.

Korea is the easier hedge. The Bank of Korea is at 3.00% after a hike on 27 August, only 0.75–1.00 points below the Fed. The three-month won-dollar swap rate was –0.59% on 15 September, so a Korean LP hedges dollars for roughly a quarter of what a Japanese LP pays. The three-year Korean government bond closed at 4.119% on 28 September, its highest since November 2022. On the same method as Japan, a Korean LP keeps about 0.3–1.2 points more excess return than a Japanese one. The live Korean risk is the unhedged currency move. The won went from ₩1,559 per dollar in June to ₩1,358.4 on 23 September. An unhedged dollar asset held over that period lost about 12.9% in won terms. Korean committees will ask about the hedge ratio, not the hedge cost.

October is a watch item, not a turning point. The BOJ meets on 29–30 October. On 24 September markets priced the chance of a back-to-back hike at nearly 30%, and former BOJ executive director Kazuo Momma puts it at 20–30%. September showed the likely effect: yen cash and the long JGB rise together, and the hedged excess barely moves.

How This Changes the GP Fundraising Environment: For Japanese LPs, the rate cycle is no longer a reason to delay; the hurdle has not moved, so say so before a committee uses the hike as an excuse. The competition is now a liquid, high-coupon bond, and a floating-rate fund should argue its floating hedge. For Korean LPs, the cheap hedge makes hedged dollar credit attractive, and the won's swing makes the hedge ratio the first question.

Which GPs Have Opportunities:

GP profile	Why this fits	What they'd need
Senior secured and asset-based lenders pricing at the top of the range, floating rate	The hedged excess over a 30-year JGB is unchanged, and floating coupons keep the hedged yield stable when the hedge cost moves	A dated one-page rates sheet and a side-by-side against SoftBank hedged into yen
Opportunistic credit managers targeting net returns clearly above ~7% hedged	A liquid Japan-linked bond at 9.75% makes a 9% gross target look weak	A net, hedged-into-yen return range above the SoftBank line, with a loss comparison against one BB+ name
USD private-credit managers raising from Korean insurers and mutual-aid associations	The KRW hedge costs little, and the won's 12.9% swing puts hedge policy first	A KRW-hedged class, a stated hedge-ratio policy, and a stress case for a won move back toward ₩1,400

Sources: note 9.

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[9] Both Hikes Left the Yen-Hedged Hurdle Where It Was.

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