ROCK
INVESTMENT BANK

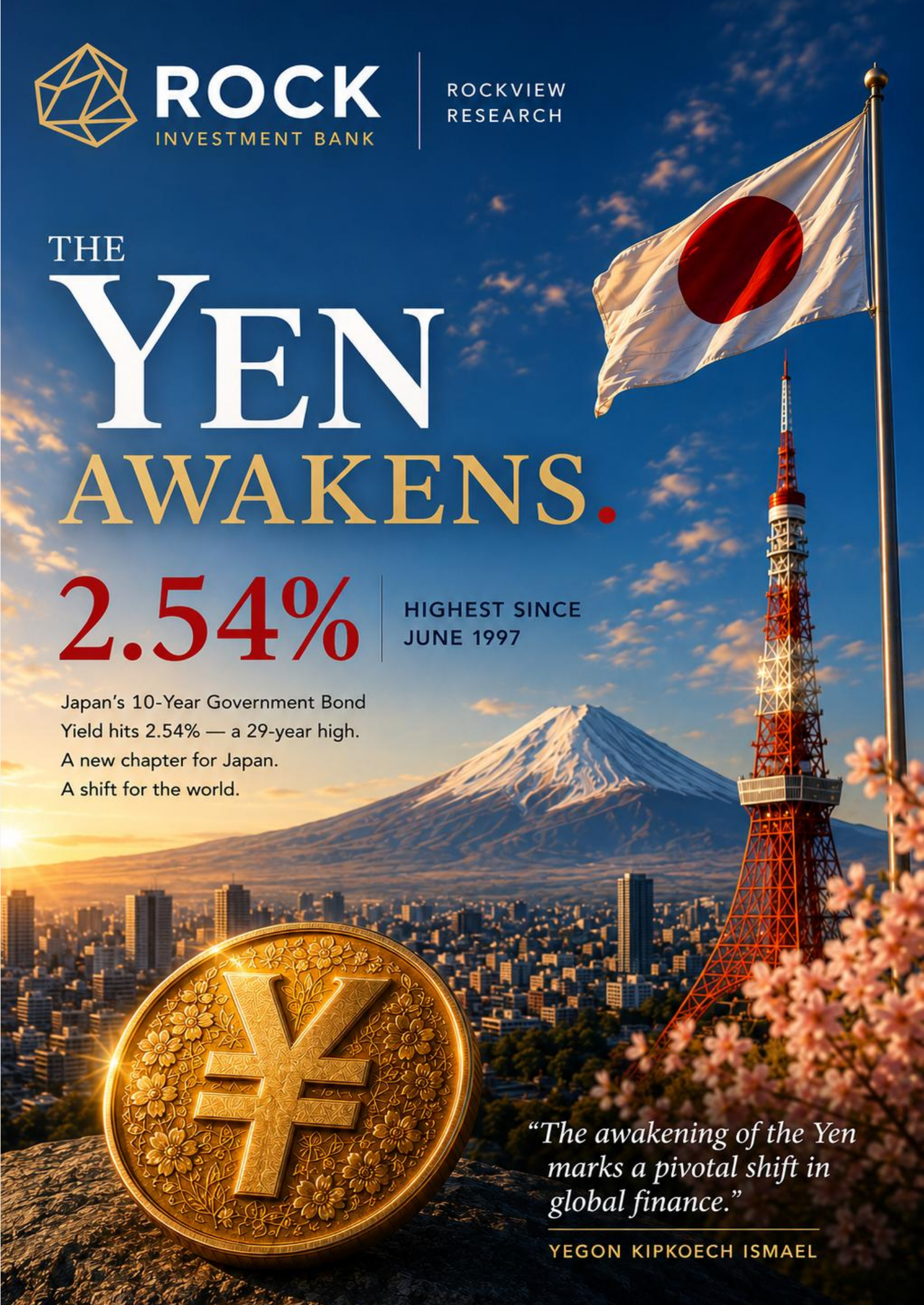
ROCKVIEW
RESEARCH

THE YEN AWAKENS.

2.54%

HIGHEST SINCE
JUNE 1997

Japan's 10-Year Government Bond
Yield hits 2.54% — a 29-year high.
A new chapter for Japan.
A shift for the world.



"The awakening of the Yen marks a pivotal shift in global finance."

YEGON KIPKOECH ISMAEL

I — SETTING THE SCENE

The Sleepiest Corner of Global Finance Just Woke Up

There is a corner of global finance that, for the better part of three decades, barely moved. While the rest of the world's central banks were hiking, cutting, pivoting — Japan sat still. Interest rates at zero, then below zero. Government bond yields pinned near the floor. The yen freely available to anyone willing to borrow it cheaply and deploy it elsewhere. That era is over.

Japan's ten-year government bond yield has climbed above **2.50%—** a level not seen since June 1997, the year of the Asian Financial Crisis. The Bank of Japan's (BOJ) policy rate, which sat at **minus 0.10%** as recently as March 2024, has been raised four times in little over a year to reach **0.75%**, the highest since 1995. Three of the BOJ's nine board members are already calling for a further hike to 1.0%.

The numbers themselves, taken in isolation, may seem small. But context is everything in fixed income. What has changed is not just the level — it is the direction, the speed and above all the signal. A tectonic plate that sat still for thirty years has begun to move.

> *"The BOJ is not stepping on the brake. It is taking its foot off the accelerator — but for a car that has been coasting downhill for three decades, that matters enormously."*

II — THE JOURNEY FROM NEGATIVE TO NOW

A 30-Year Timeline: From Deflation to Discipline

To understand where Japan's rates are going, you have to understand where they have been. This is not a story of a few policy cycles — it is the story of an entire generation of monetary experimentation.

1990–1999
→ ~0%

The Lost Decade begins

Japan's asset bubble collapses spectacularly. Property and equity values implode. Banks become zombies. The BOJ begins cutting rates toward zero as deflation takes hold. The world watches and wonders — it seemed like a uniquely Japanese problem.

2012–2016
→ QE+

"Abenomics" and the Kuroda Bazooka

Prime Minister Shinzo Abe returns to power and triggers the most aggressive monetary easing experiment of the modern era. Governor Kuroda's BOJ launches unlimited government bond purchases, buying roughly ¥6 trillion per month. The idea: flood the economy with money until inflation returns. Japan runs the last negative-rate regime on earth.

Feb 2016
−0.10%

Negative Interest Rate Policy (NIRP) introduced

The BOJ crosses the Rubicon, taking its policy rate below zero for the first time. Banks are charged for parking excess reserves. Theoretically, this forces capital into the real economy. In practice, it compresses bank margins and gives birth to the most powerful carry trade machine the world had ever seen.

Mar 2024
0.00%→0.10%

NIRP ends — historic first hike in 17 years

After 8 years of negative rates, Governor Ueda's BOJ finally pulls the trigger. Japan becomes the last country on earth to exit negative rate policy. The trigger: wage negotiations (Shunto) produce rises of over 5% — the sharpest in more than 30 years — signaling that the inflation-wage cycle the BOJ had chased for a decade was finally real.

Jul 2024

0.25%

Second hike — markets panic, briefly

The BOJ raises to 0.25%. Global carry trade positions that had built up over years begin to unwind rapidly. The Nikkei drops over 12% in a single day — its worst session since 1987's Black Monday. The yen surges. It is a warning shot of what rapid yen normalization can do to global markets.

Jan 2025

0.50%

0.50% — 17-year high

The third hike takes rates to levels not seen since October 2008. Core inflation in Japan is running at 2.7% for fiscal 2024 — the fourth consecutive year above the 2% target. This is no longer a temporary phenomenon. Japan's deflation era is structurally over.

Dec 2025

0.75%

0.75% — 30-year high, unanimous vote

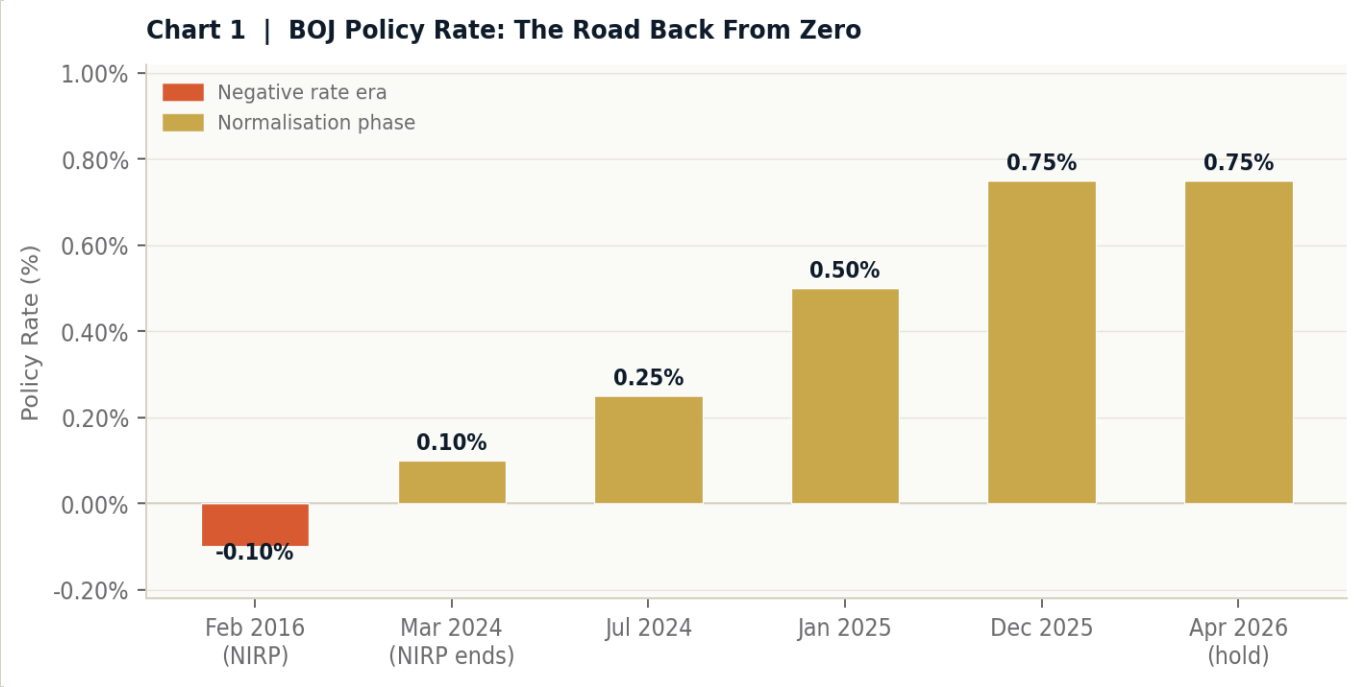
The fourth hike arrives unanimously — a notable contrast from previous split votes. JGB 10Y yields cross 2.0% for the first time since the late 1990s. The BOJ has raised its inflation forecast to 2.8% for FY2026, while cutting growth to 0.5% — reflecting both the success of its mission and the cost of it. Three board members publicly call for 1.0%.

Apr–May 2026

2.50%+

JGB 10Y yields hit 2.50% — 29-year peak

As Middle East conflict drives oil prices higher and inflation concerns intensify, Japan's long bond yields surge past 2.50% — levels not seen since June 1997. The BOJ holds its policy rate steady at 0.75% amid uncertainty, but market rates run ahead. The bond market is pricing in more to come. The BOJ's own minutes reveal board members urging hikes “without long intervals



Source: Bank of Japan monetary policy decisions, 2016–2026.

III — THE STRUCTURAL SHIFT

Why Now? The Three Forces Behind Japan's Turning Point:

It would be tempting to treat this as a mechanical response to global inflation — the rest of the world hiked, Japan eventually followed. That is too simple. Three distinct structural forces converged to make this moment not just possible, but inevitable.

1. Wages finally moved. Japan's Shunto spring wage negotiations — the collective bargaining round that sets the tone for the entire economy — produced results the BOJ had chased for thirty years. The 2024 round delivered the largest wage increase in over three decades, above 5% at major firms. For a central bank that had long argued it couldn't raise rates until wage growth was 'sustainable and stable,' this was the trigger.

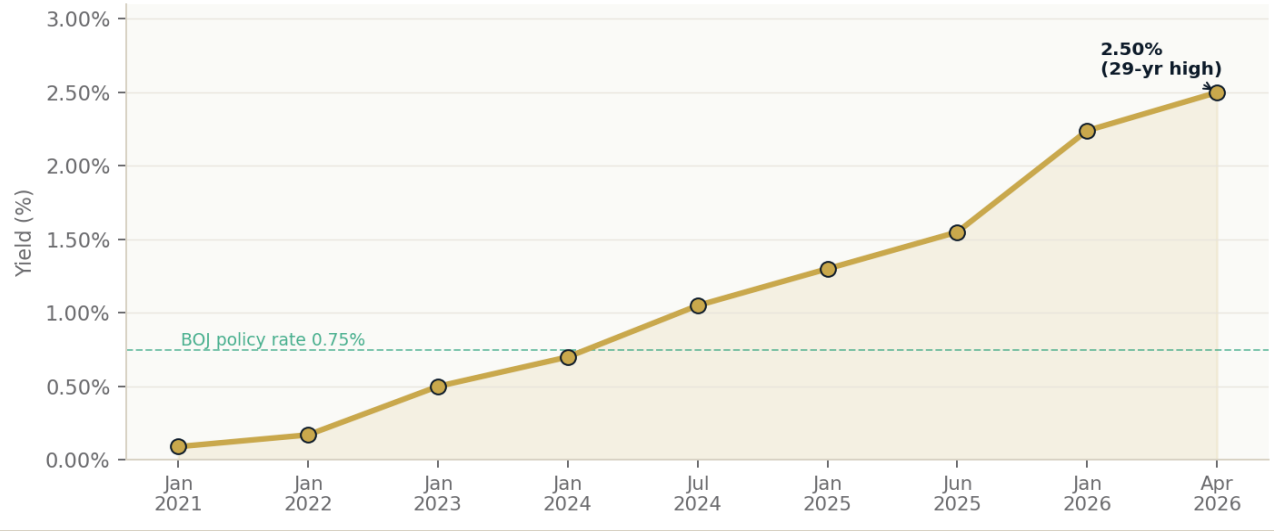
2. Inflation has become structural, not transient. Japan has now recorded more than four consecutive years of core inflation at or above its 2% target. This is the longest such streak in 21st-century Japanese history. The BOJ's own projections show FY2026 core CPI at 2.8% — well above target, even as growth slows to 0.5%. Japan is no longer battling deflation. It is navigating the opposite problem.

© 2026 Rock Investment Bank. All rights reserved.

3. The yen itself demanded action. A persistently weak yen, which breached 160 per dollar in mid-2024, was importing inflation through higher energy and food costs — reinforcing the very inflationary spiral the BOJ needed to control. The irony of ultra-loose policy becoming itself inflationary was not lost on the central bank.

- ✓ The country is navigating a structural regime change: from a world where deflation kept rates at zero, to a world where persistent inflation, rising wages and a weakening currency are forcing normalization. The BOJ itself signals real interest rates remain "significantly negative" — meaning there is considerably more tightening ahead. That at 230% gross debt, a single-year target is less meaningful than a multi-year trajectory.

Chart 2 | Japan 10-Year JGB Yield — A 29-Year Peak



Source: Trading Economics, Tradeweb, Bloomberg. April 2026 figure represents intraday peak recorded April 30, 2026.

There is one number that shadows everything the BOJ does — and one that most commentary on Japan's rate rise chooses to gloss over. Japan's gross government debt-to-GDP ratio stands at approximately **230%** of GDP — the highest among all advanced economies, and nearly double the US ratio. At first glance, this seems to make normalization suicidal: higher rates mean higher debt servicing costs on a mountain of existing borrowing. Japan's FY2026 budget allocates a record **31.3 trillion yen** — roughly one quarter of total spending — purely to service existing debt. That figure assumes an average interest rate of 3.0%, revised upward from 2.0% by the Ministry of Finance in recognition of where rates are heading.

© 2026 Rock Investment Bank. All rights reserved.

But the alarming headline conceals a structural reality that makes Japan's situation more manageable than it appears. On a **net basis** — stripping out government-held financial assets including foreign reserves, pension fund holdings, and assets at quasi-public banks — Japan's net debt is closer to **140% of GDP**, well below the gross figure. More importantly, over 90% of Japan's government debt is held domestically — by banks, pension funds, insurance companies, and the BOJ itself. This is the feature that insulates Japan from the kind of sudden-stop crisis that a similarly indebted emerging market would face. Foreign creditors cannot trigger a panic-driven selloff because they are barely in the room. The JGB market's primary investors are Japanese institutions that hold bonds as part of mandated portfolio allocations and are not about to sell simply because yields are rising.

JAPAN'S DEBT: THE GROSS VS. NET DISTINCTION THAT CHANGES EVERYTHING

- ✓ Gross debt-to-GDP: 230% — the alarming headline figure cited by most commentators.
- ✓ Net debt-to-GDP: 140% — stripping out assets held by the government sector. More relevant, and far less dire.
- ✓ Domestically held share: >90% — Japan's creditors are its own citizens, pension funds, and central bank. Unlike an EM sovereign, Japan cannot be "run on" by foreign creditors.
- ✓ Debt service in FY2026 budget: ¥31.3 trillion — a record, and approximately 25% of total spending. Rising, but manageable within a framework of nominal GDP growth.
- ✓ Fiscal anchor shift: The Takaichi administration has moved away from a single-year primary surplus target toward a medium-term debt-to-GDP stabilization path — recognizing that at 230% gross debt, a single-year target is less meaningful than a multi-year trajectory.

The prospect of outside money — foreign investors in JGBs — returning at scale remains remote. Japan's domestic investor base is deep enough that it has not needed foreign capital to fund its government, and the BOJ's years of buying have absorbed enormous quantities of supply. The more interesting question is whether rising JGB yields eventually **attract** foreign fixed income investors who have ignored Japan for a generation. At 2.5%, Japan's 10-year yield is now competitive with some European sovereigns on a hedged basis. State Street and several other institutional investors have begun citing Japan as an emerging allocation opportunity for global bond portfolios — a sentence that would have been meaningless three years ago. If foreign demand for JGBs grows, it would actually help Japan finance its deficit at lower cost, and support the yen. This is the "virtuous cycle" version of Japan's normalization story — and it is not unreasonable, even if it is not yet the base case.

© 2026 Rock Investment Bank. All rights reserved.

IV — THE MECHANISM THAT LINKS JAPAN TO THE WORLD

The Carry Trade: A Simple Idea with Global Consequences

Before we can understand why Japan's rate shift matters for Kenya, we need to understand the mechanism that ties them together. It is called the yen carry trade and it is one of the most powerful and least-discussed forces in global finance.

The mechanics are simple. For decades, Japan offered borrowing costs at or near zero. A hedge fund, pension manager, or institutional investor could borrow yen at 0.10%, convert those yen to dollars or Kenyan shillings or Mexican pesos, deploy the proceeds into assets yielding 6%, 8%, or 12% — and pocket the difference, day after day, as long as the yen didn't strengthen. That difference — the 'carry' — was essentially free money. The trade worked as long as Japan stayed cheap.

Estimates of the size of this global yen carry trade vary, but most serious analyses place it in the range of trillions of dollars in outstanding notional exposure. At its most basic level: Japan was the world's liquidity factory. Every time the BOJ bought government bonds and pushed yields lower, it was — indirectly — subsidizing risk-taking everywhere from São Paulo to Seoul to Kenya.

Now the factory is changing its product. Borrowing yen is no longer near-free. As rates have climbed from −0.10% to 0.75% and with markets pricing more hikes ahead, the economics of the carry trade have shifted. CFTC (Commodity Futures Trading Commission) data showed net short yen positions declining by 40% from their peak between November 2024 and December 2025 as hedge funds repositioned. That is a meaningful exodus from a trade that had been running for a generation.

> *"When the carry trade unwinds, it does not unwind politely. Investors sell whatever they bought with cheap yen — US equities, emerging market bonds, commodities — and buy yen back to repay the loan. The global selling is simultaneous and indiscriminate."*

We saw a preview of this in July 2024, when the BOJ's rate hike to 0.25% triggered a sudden unwinding that sent the Nikkei down 12% in a single day — its worst session since 1987. The MSCI Emerging Markets Index fell 2.4% in a single month in November 2025, its steepest decline in a year, as the carry trade began its next leg of restructuring. The BIS and IMF have both flagged

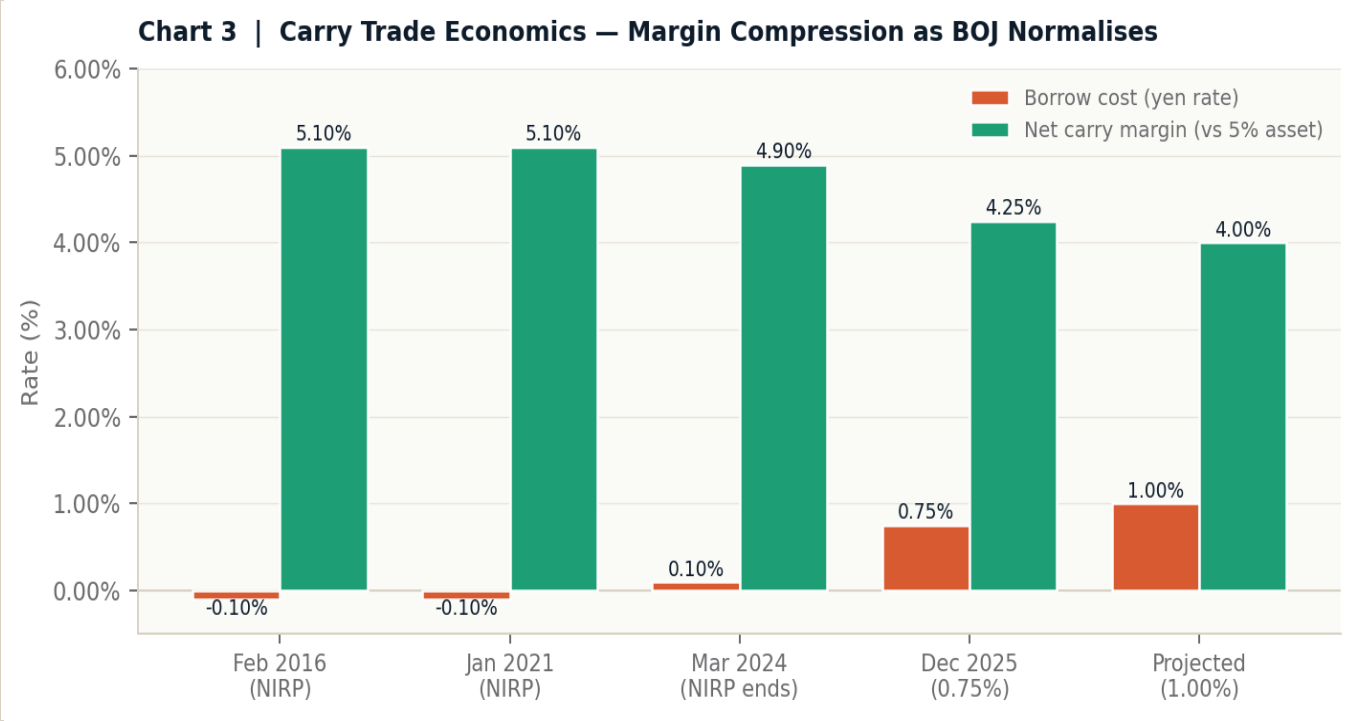
© 2026 Rock Investment Bank. All rights reserved.

the yen carry trade unwind as a systemic risk, warning of 'cascading defaults and synchronized global selling pressures' in stress scenarios.

Think of the BIS — the Bank for International Settlements, headquartered in Basel, Switzerland — as the central bank of central banks. It is where the world's monetary authorities deposit reserves, coordinate crisis responses, and share the kind of data no single regulator can collect alone. When the BIS publishes a warning, it carries a weight that no private-sector research note can replicate: it is speaking from the vantage point of the entire global financial system. Its August 2024 Bulletin on the carry trade unwind was explicit: yen-denominated bank loans to non-banks outside Japan reached **$880 billion** (¥133 trillion) by Q1 2024, up from ¥110 trillion in late 2021. FX derivatives with yen on one side had "grown remarkably." These are not speculative footnotes — they are hard data from settlement systems tracking actual global flows.

Is the carry trade's impact material? The August 2024 episode answered that question decisively. When the BOJ raised rates by just 25 basis points — a quarter of one percentage point — the Nikkei fell **12.4% in a single session**, its worst day since the 1987 Black Monday crash. The VIX (Wall Street's fear gauge) briefly spiked to levels not seen since the COVID-19 pandemic. The Mexican peso, the Australian dollar, and Brazilian equities all sold off simultaneously — markets with no direct connection to Japan, all linked through the common thread of yen-funded positions being unwound. The mechanism driving this is called **"forced deleveraging":** when a currency you have borrowed strengthens rapidly, your loan becomes more expensive in local currency terms, triggering margin calls that force asset sales across every market you're invested in. It is simultaneous, indiscriminate, and extraordinarily difficult to predict in advance. The Nikkei fell not because Japan's economy had deteriorated — it fell because the global investment community had borrowed yen to buy Japanese equities, and was now forced to sell both simultaneously to repay the loans.

© 2026 Rock Investment Bank. All rights reserved.



Illustrative. Assumes investment in a 5.0% yielding asset. Actual carry profitability also depends on currency movements, hedging costs and leverage.

V — THE REPATRIATION QUESTION

Will the Money Come Home?

Japan is the world's largest creditor nation. Its residents — pension funds, life insurers, retail investors and corporations — hold trillions in foreign assets accumulated during decades of near-zero domestic returns. A natural question follows: as domestic yields rise, will that capital repatriate? And if it does, what happens to the assets it leaves behind?

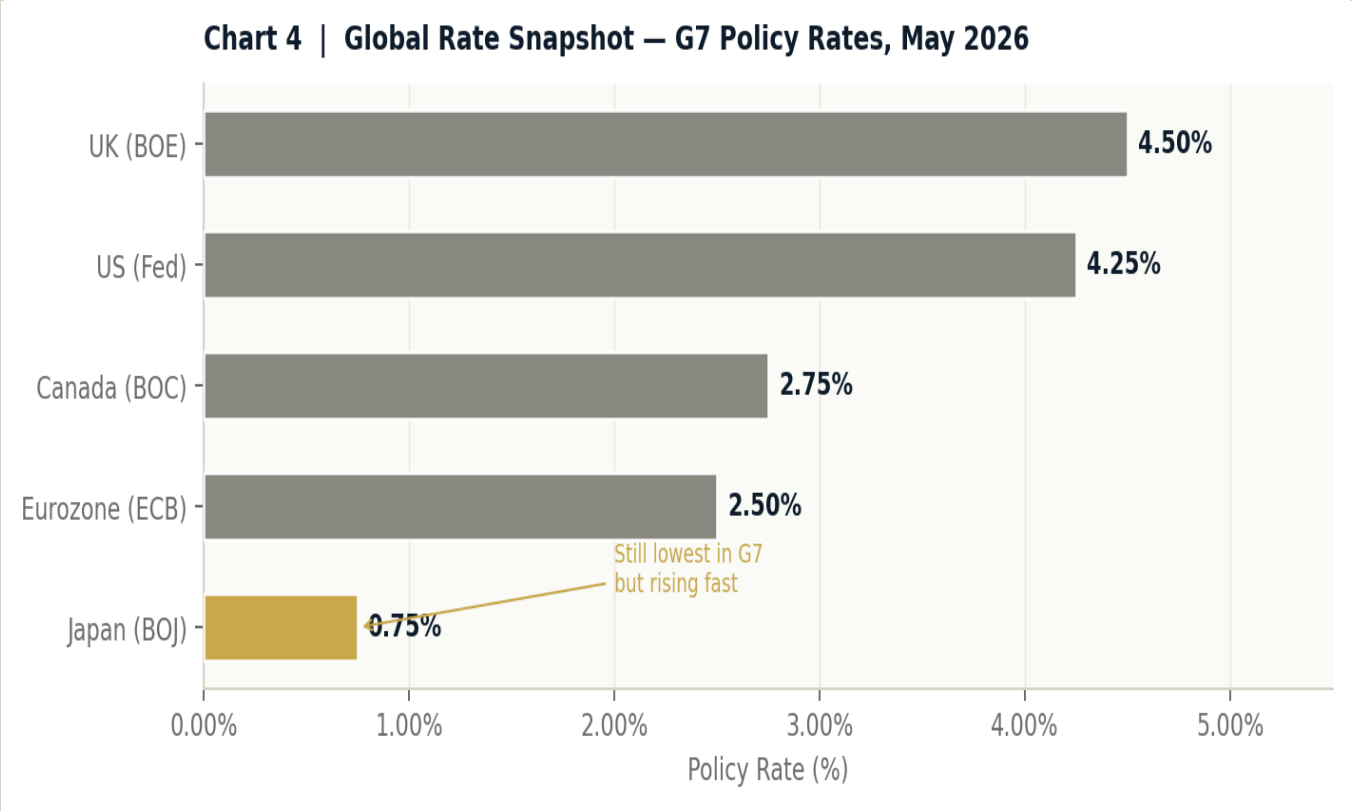
Goldman Sachs research from February 2026 found no evidence of large-scale repatriation from Japan's institutional investors. Japan's Government Pension Investment Fund (GPIF) — the largest in the world — is unlikely to make major allocation shifts outside its scheduled strategic reviews, the next of which is not due until around 2030. Retail investors, empowered by Japan's NISA programme launched in 2024, have been net buyers of foreign equities rather than sellers.

However, this is not a clean 'no repatriation' story either. J.P. Morgan Private Bank holds a 'structurally bullish' view on the yen and expects repatriation flows and converging rate differentials to further support yen appreciation over the next 12 months. Hedged investors — primarily banks — have begun adjusting positions. And critically: the longer JGB yields remain elevated, the more compelling the argument for Japanese institutional investors to bring money home becomes.

The mechanism matters more than the timing. Even without a flood of repatriation, the direction of capital is shifting. Japanese investors who once had to go abroad to earn a real return are

© 2026 Rock Investment Bank. All rights reserved.

finding that JGBs, at 2.5%, are finally paying something again. That changes the marginal flow calculus — quietly, but persistently.



Source: Central bank policy statements, May 2026. Japan BOJ rate unchanged since December 2025 meeting.

Before we arrive to Kenya, there is one more thread to pull — one that connects Japan's monetary story to the global commodity markets. It concerns **oil and it runs in both directions.**

Japan is almost entirely dependent on imported energy. In 2025, it imported approximately **98% of its crude oil needs**, consuming roughly 870 million barrels a year while producing less than 0.3% of that domestically. Some 95% of those imports come from the Gulf — 40% from Saudi Arabia, 43% from the UAE. Japan is also the world's largest importer of liquefied natural gas (LNG). This creates a two-way relationship between oil prices and the yen that is both direct and counterintuitive.

When oil prices rise, Japan must spend more dollars to buy the same barrels — worsening the trade balance, increasing demand for USD and putting **downward** pressure on the yen. This is the classic negative correlation between oil and the yen: expensive oil means a weaker currency. We saw this vividly when US military strikes on Iranian nuclear facilities in June 2025 sent Brent crude sharply higher — the yen fell to five-week lows almost immediately. The BOJ's own April 2026 Outlook Report flags this tension explicitly: a weaker yen "pushes down households' real income and exerts downward pressure on the profits particularly of small and medium-sized firms, mainly through a rise in import prices."

© 2026 Rock Investment Bank. All rights reserved.

The paradox, however, runs in the other direction too. Japan's yen also carries a **safe-haven premium** that often pushes it **higher** during geopolitical crises — including Middle Eastern conflicts. When global uncertainty spikes, investors historically flee to the yen precisely because Japan is a major creditor nation with a current account surplus and deep, liquid capital markets. This creates the unusual dynamic of a country that is simultaneously hurt by the crisis (through oil costs) and benefited by it (through safe-haven capital inflows). In 2026, with Middle East tensions driving JGB yields higher and oil prices elevated, both forces are operating at once — pulling Japan's monetary policy, currency and trade balance in competing directions simultaneously.

VI — THE KENYA DIMENSION

What this means for Kenya:

If Japan feels abstract — a faraway monetary experiment with limited relevance to East African markets — consider the following. Kenya has, over the past two years, tied its own debt strategy directly to the Japanese yen. That decision, taken in pursuit of diversification and lower borrowing costs, has now placed Kenya inside the story we have been telling.

KENYA'S YEN EXPOSURE —

In August 2025, Kenya and Japan signed a term sheet for a ¥25 billion (approximately $169 million) yen-denominated loan — effectively a Samurai-style instrument — backed by Nippon Export and Investment Insurance (NEXI). The deal was struck at TICAD 9 in Yokohama, with President Ruto in attendance. Proceeds are earmarked for electric vehicle assembly support and reduction of Kenya's electricity transmission losses (currently around 23% of national output).

This follows Kenya's earlier MOU to issue up to $500 million in Samurai bonds in two phases and a broader strategic ambition articulated by National Treasury PS Chris Kiptoo: "We need to diversify to other markets — the Chinese market with Panda bonds, the Japanese market with Samurai bonds."

As of December 2024, Japan ranked as Kenya's third-largest bilateral lender at KES 79.5 billion outstanding — behind only China (KES 692.6bn) and France (KES 90.2bn). Kenya's yen-denominated external debt stands at approximately 5.2% of total external borrowing.

Kenya's yen-denominated loans, including this facility and planned Samurai bonds, are mostly fixed-rate. This gave predictability and low costs when rates were near zero, but it means the interest rate stays locked even as the BOJ hikes. The real risk now comes from currency movements — if the yen strengthens against the shilling, the shilling value of both the fixed interest payments and the principal rises.

© 2026 Rock Investment Bank. All rights reserved.

VI-A — KENYA'S EXTERNAL DEBT CURRENCY MIX

CURRENCY	SHARE	PRIMARY LENDERS	FX RISK DIRECTION
US Dollar	**62.0%**	Eurobond holders, World Bank, IMF	High — USD remains strong
Euro	**24.8%**	France, EU development lenders	Moderate
Japanese Yen	**5.2%**	JICA, NEXI, bilateral Japan	Rising — yen strengthening risk
Chinese Yuan	**5.3%**	China Exim Bank, bilateral	Moderate
Other	**2.7%**	Sterling, other bilateral	Various

Source: National Treasury, Business Daily Africa, December 2024 data.

Kenya's 5.2%-yen exposure may appear modest. But the direction of risk matters as much as the quantum. When Kenya borrowed in yen, it was implicitly borrowing cheap — rates were near zero and the yen had been structurally weak. The assumption, reasonable at the time, was that yen borrowing would remain affordable for the foreseeable future.

That assumption now warrants revisiting. A Kenyan market analyst quoted at the time of the initial Samurai bond discussions issued a warning that, in retrospect, reads as prescient: 'In the next 5–10 years, the Bank of Japan is expected to start hiking rates and as a result, strengthen its currency. This would mean forex losses on anyone who has yen-denominated loans.' That future is now the present.

At this point a natural question arises: does the interest rate on Kenya's yen debt actually change as Japan raises rates? Or is the cost already fixed? The answer matters enormously for how exposed Kenya really is — and it is more reassuring than the headlines suggest. JICA's ODA loan framework, which governs the bulk of Kenya's Japanese bilateral borrowing, offers loans predominantly on **fixed interest rate terms** for lower-middle income countries like Kenya. Concessional rates are set at the time of signing and remain constant over the life of the loan — which can run up to 40 years with a 10-year grace period. This means Kenya's existing JICA-

© 2026 Rock Investment Bank. All rights reserved.

funded loans are largely insulated from the BOJ's current rate hike cycle. The rate you signed at does not move. The fix **is**, in a very real sense, already in.

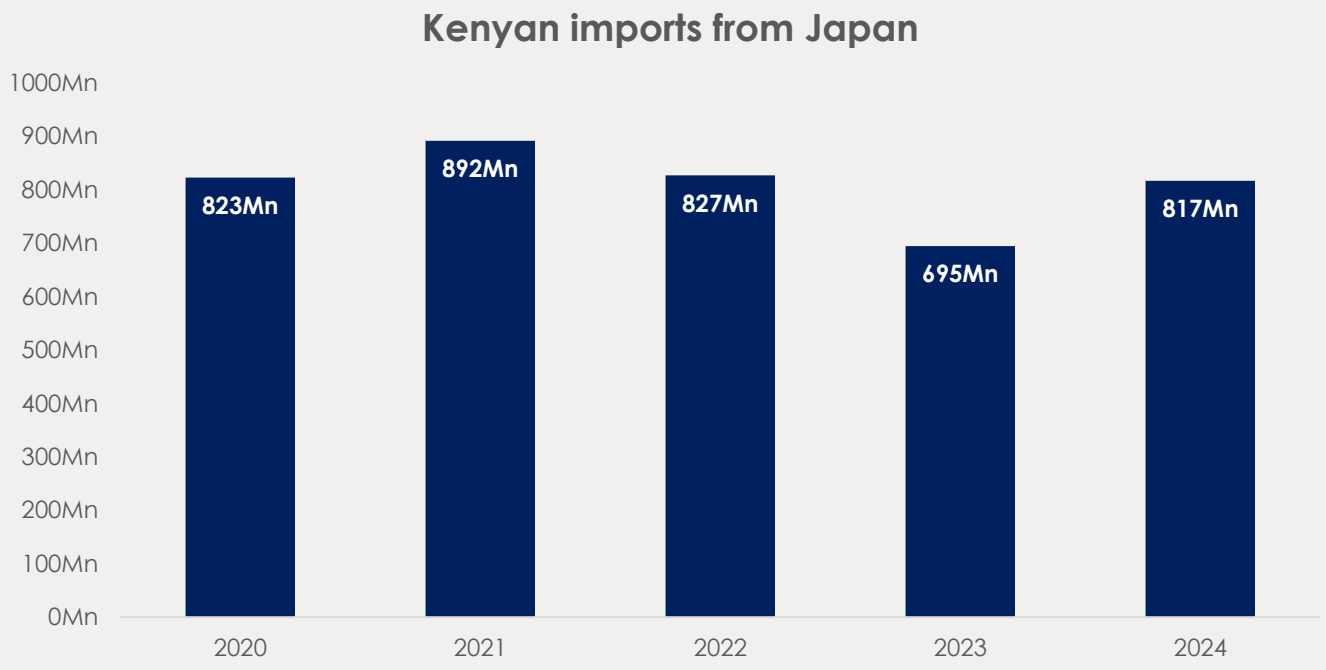
The exposure that **does** move, however, is the currency. And here the risk is alive and accumulating. When a loan is denominated in yen, the interest rate may be fixed, but the repayment amount in Kenyan shillings is not — it rises or falls with the yen/KES exchange rate. If the yen strengthens 15% against the shilling by the time a repayment falls due, that repayment costs 15% more shillings than originally budgeted. No fixed rate clause protects against that. The August 2025 NEXI-backed loan and any future Samurai bond issuance, carry this exposure embedded in their very structure. The question for Kenya's debt managers is not "what rate did we sign at" but "at what exchange rate did we model our repayments — and how far has the yen moved since?"

Beyond debt, there is a second, more immediate channel that receives almost no attention in Kenya's financial press: **imports**. Kenya's trade relationship with Japan is deeper and more structural.

KENYA'S TRADE EXPOSURE TO JAPAN — THE NUMBERS

- ✓ Total imports from Japan (2024): $817 million — making Japan Kenya's fifth largest import source (COMTRADE data, 2024).
- ✓ Share of Kenya's total imports: Approximately 5–6% of Kenya's annual import bill is sourced from Japan.
- ✓ Dominant category: Used vehicles. Japan supplied 94.3% of Kenya's used vehicle imports in the 12 months to June 2023 — some 58,972 units out of 62,495 total. The brands are Toyota (Probox, Corolla, Land Cruiser, Hiace, Vitz), Nissan, Honda, Isuzu, Subaru, Mazda, Mitsubishi.
- ✓ Monthly volumes: 4,000–6,000 units per month in recent data. In August 2024 alone, Japan shipped 6,270 used vehicles to Kenya.
- ✓ Other key imports: Industrial machinery, construction equipment, electronics, and medical equipment.

© 2026 Rock Investment Bank. All rights reserved.



Source: United Nations COMTRADE data,2024.

These vehicles are purchased in Japanese yen, negotiated in yen and shipped from Japanese ports. When the yen strengthens, the landed cost of every Toyota Probox in Mombasa rises in shilling terms — even before customs duties and taxes are applied. Kenyan vehicle dealers who typically hold 30-90 days of inventory are effectively running an unhedged yen exposure every time they restock. A 10%-yen appreciation, sustained for a year, is the equivalent of a 10% cost increase on Kenya's entire used vehicle supply chain — a chain that serves small businesses, boda-boda operators, taxi-hailing drivers and rural transport networks across the country. This is not an abstract institutional risk. It is one that works its way through to the price of the car that a **Mama Mboga** buys to transport her produce and the cost of the Probox that her son uses for deliveries.

© 2026 Rock Investment Bank. All rights reserved.

VI-B — THE TRANSMISSION CHANNELS

Three Ways the Yen Story Reaches Kenya:

CHANNEL	MECHANISM	KENYA EXPOSURE	DIRECTION
Debt Service Cost	Yen appreciation vs. KES raises the shillings value of yen-denominated debt repayments	¥25bn loan + additional Samurai pipeline	Negative if yen strengthens
Carry Trade Unwind	Global investors liquidate EM assets funded by cheap yen, withdraw from frontier markets	NSE portfolio inflows; Kenya Eurobond spreads; T-bill demand	Negative — capital flight risk
Global Liquidity	Rising JGB yields make Japanese capital "stay home" — reducing global credit supply	Kenya's future external borrowing costs; Samurai pipeline volumes	Negative — tighter credit
Trade & JICA Flows	Stronger yen makes Japanese goods pricier, may slow FDI and JICA disbursements in Kenya	Japan is Kenya's 3rd largest bilateral lender; Japanese manufacturing investors	Mixed — watch JICA pipeline

THE ANALYTICAL POINT WORTH MAKING

Kenya's Samurai bond and yen loan strategy was conceived as a diversification play — reducing dollar concentration. That logic remains sound in the long run. But the timing of expanding yen exposure coincides precisely with the most significant tightening of Japanese monetary conditions in a generation. The question Kenya's debt managers must now be asking: **at what yen/KES rate does the FX loss on yen-denominated debt offset the interest rate savings compared to dollar borrowing?** That break-even point is now materially closer than it was in 2023 when the strategy was conceived.

VII — THE CONTRARIAN LENS

Most of the commentary on Japan's rate cycle is unambiguously bearish for emerging markets — carry trade unwinds, capital flight, tighter liquidity. The risks are real. But rigorous analysis requires also considering where the consensus narrative may be incomplete or even wrong.

The repatriation fear may be overstated. Goldman Sachs' February 2026 analysis found no evidence of large-scale repatriation. Japan's NISA-empowered retail investors have been net buyers of foreign assets. GPIF will not restructure until its next periodic review around 2030. The structural flow change may arrive more slowly than the market narrative implies.

© 2026 Rock Investment Bank. All rights reserved.

A stronger yen, paradoxically, may help Kenya on one dimension. If the yen strengthens significantly against the dollar — which J.P. Morgan's structurally bullish yen view implies — then Kenya's dollar-denominated debt becomes relatively cheaper to service in yen terms. The yen story is not uniformly negative for all EM debt dynamics.

Kenya's future Samurai pipeline could get repriced, not cancelled. Higher JGB yields mean Kenya will need to offer a wider spread over the Japanese benchmark. This is a cost, but NEXI backing gives investors structural comfort that does not disappear with higher rates — the price goes up, but the market remains accessible.

The BOJ itself may pause longer than feared. The April 2026 decision to hold at 0.75% despite three dissenting hawkish votes shows genuine caution from Governor Ueda. A 'normalization plateau' at 1.0% — rather than an aggressive march to 2% — remains a plausible scenario, which would moderate carry trade pressure on EMs.

VIII — SCENARIO MATRIX

What Happens Next: Three Paths for the BOJ

SCENARIO	BOJ PATH	JGB 10Y (END-2026)	YEN DIRECTION	KENYA IMPACT
Base — Measured	One more 25bp hike to 1.0% mid-2026, then pause	2.5–2.8%	Moderate appreciation; USDJPY 140–148	Manageable FX headwinds on yen debt; carry trade slow unwind; no crisis
Bull — Hawkish Pivot	Hikes to 1.0% mid-year, signals 1.5% by end-2026 as Middle East inflation persists	3.0–3.5%	Sharp yen strengthening; USDJPY <135	Elevated FX cost on yen loans; sharper carry unwinds; EM spreads widen; KES pressure
Bear — Shock Pause	Global growth shock forces BOJ to pause indefinitely below 1.0%	2.0–2.3%	Yen weakens back toward 155+	Yen loans cheaper in KES terms; carry trade partially re-activates; EM liquidity improves temporarily

© 2026 Rock Investment Bank. All rights reserved.

IX — WHAT TO WATCH

The Indicators That Will Tell the Story

For investors and other analysts in Kenya tracking this story, the following data points carry the most signal:

Monitor these closely:

- Japan's Shunto wage negotiations (March 2026 results) The clearest leading indicator for the BOJ's next move. If large corporates deliver 5%+ again, expect another hike. If momentum slows below 4%, the BOJ pauses longer.

- JGB 10Y yield vs. 2.50% level A sustained break above 2.50% signals market-driven tightening beyond what the BOJ controls and historically triggers global risk-off episodes.

- USDJPY exchange rate Watch for sustained moves below 145 (yen strengthening) as the signal that repatriation or carry-trade unwind is accelerating. BOJ intervention signals appear around 150+.

- Kenya's National Treasury Samurai pipeline Any update on the ¥25bn loan disbursement tranches and whether the second phase of Samurai issuance proceeds — and at what coupon.

- MSCI EM flows Net foreign portfolio flows into Kenya's equity and bond markets will show if the carry trade unwind is hitting East Africa's frontier market allocations.

© 2026 Rock Investment Bank. All rights reserved.

X — CONCLUSION

Is this the End of Free Yen Money? — And What Comes Next

The story of Japan's interest rate normalization is ultimately a story about the price of money itself — and about what happens when the world's most generous supplier of cheap capital changes its terms.

For thirty years, Japan subsidized global risk-taking. Investors everywhere — from New York to Lagos to Kenya — benefited from a world where yen was nearly free to borrow. That era did not end with a crisis. It ended with a wage negotiation in Tokyo, an inflation reading that stayed stubbornly above 2% for four years running and a central bank that finally felt it had the cover to act.

The BOJ has moved from −0.10% to 0.75% in the space of 21 months. Japan's ten-year bond yield sits at levels not seen since the year the Asian Financial Crisis tore through emerging markets. The carry trade that funded a generation of risk-taking is unwinding — not all at once, but steadily, inevitably, in the way that all structural regime changes ultimately play out.

For Kenya, this is not a distant story. Kenya has deliberately woven itself into the yen narrative — through its ¥25 billion loan, its Samurai bond ambitions and its broader relationship with Japan as its third-largest bilateral creditor. That is not a mistake. Diversification from dollar-only borrowing remains the right long-term strategy. But strategy needs to be executed with eyes open to the environment in which it unfolds.

The yen has awakened. The question now is how quickly — and how far — it runs.

> *"In markets, the most expensive sentences are 'this time is different' and 'this doesn't apply to us.' Japan's normalization applies to everyone who borrowed in yen, invested with yen-funded capital, or relied on yen-subsidized global liquidity. That is most of the world — and it includes Kenya."*

END

© 2026 Rock Investment Bank. All rights reserved.

DISCLAIMER

No Investment Advice. This report has been prepared by Rock Investment Bank for informational and research purposes only. It does not constitute an offer, solicitation, or recommendation to buy or sell any financial instrument or to participate in any investment strategy. Recipients should conduct their own independent due diligence and seek professional advice before making any investment decision.

Forward-Looking Statements. Information herein is derived from sources believed reliable as at May 2026 but is not warranted for accuracy or completeness. Any forecasts, projections, or yield estimates are forward-looking and are not guarantees of future performance. Actual results may differ materially due to market developments, policy changes, or other factors beyond Rock Investment banks' control.

Limitation of Liability. Rock Investment Bank, its directors, officers, employees, and affiliates accept no liability for any direct, indirect, or consequential loss arising from use of or reliance on this report. Rock Investment Bank and its affiliates may hold positions in instruments referenced herein.

© 2026 Rock Investment Bank. All rights reserved. *· 4th Floor, The Oval Building, Ring Road, Nairobi, Kenya · www.rib.org · info@rib.co.ke*