Minutes of the Meeting of JGB Investors
(84th Round)

1. Date: Friday, May 22, 2020
2. Place: Held in writing
3. Gist of Proceedings:

1. Latest JGB market situation and outlook for future investments
2. Changes in the JGB Issuance Plan associated with the second supplementary budget in FY2020

▶ The Financial Bureau gave the following explanation about the changes in the JGB Issuance Plan associated with the second supplementary budget for FY2020

・ As shown in the document, Prime Minister instructed the formulation of the second supplementary budget at the 34th Meeting of the Novel Coronavirus Response Headquarters on May 14 for strengthening the first supplementary budget. The cabinet decision on the draft budget will be made around May 27.

The second supplementary budget plans to extend employment adjustment subsidies, provide rent support for small and medium-sized enterprises, and provide cash management support for medium-sized and large companies, among other measures. Therefore, we would like to hear your opinions on the increase in the issuance amount of JGBs on the assumption that the amount of additional JGB issuance, including FILP bonds, will be of considerable scale.

▶ Summarized below are the views and opinions submitted:

・ Although the liquidity of the JGB market has declined due to a decrease in the number of market participants with the introduction of remote work and split operations as measures against the spread of COVID-19 infection, the market volatility of the JGB market has been gradually restoring stability owing to the Yield Curve Control policy by the Bank of Japan (BOJ). In future, we will continue with the stance to purchase the 10-Year Bonds, government guaranteed bonds and local government bonds in short- to medium-term zone that have positive interest rates.

Regarding the increase in the issuance amount of JGBs associated with the second supplementary budget for FY2020, there is a room for a further increase equivalent to the changes in the amount of the JGB Issuance Plan associated with the first supplementary budget, provided that an appropriate Yield Curve Control policy is exercised to control sharp market fluctuations.

As a basic policy until the impact of COVID-19 infection becomes clear, the increase should be concentrated on T-Bills with the remaining maturities of shorter than 1 year. The issuance amount can be increased for interest-bearing bonds as far as the market can absorb them. Specifically, as an amount of additional increase per auction from the changes in the JGB Issuance Plan associated with the first supplementary budget, a further increase of ¥400 billion for the 2-Year Bonds, ¥200 billion for the 5-Year Bonds and 10-Year Bonds and ¥100 billion for the 30-Year Bonds will be possible. Further, an increase of ¥200 billion for the 20-Year Bonds per auction will be possible due to demand for absolute yield standard. The issuance amount of T-Bills should be adjusted according to the scale of the secondary supplementary budget.

・ With the implementation of split operations by securities companies and institutional investors for the prevention of the spread of COVID-19 infection, the market liquidity has been limited though the situation has slightly improved compared to that in April.

In the change in the JGB Issuance Plan associated with the compilation of the first supplementary budget for FY2020, the amount increase was focused on bonds in short to medium term maturities. Regarding the increase in the issuance amount of JGBs associated with the second supplementary budget for FY2020, an increase in the amount centered on bonds with remaining maturities shorter than 10 years will be favorably accepted by the market and sufficiently financed from the perspective of collaboration with the monetary policy of the BOJ. Regarding JGBs with ultra long maturities, we think that careful consideration will be required, when comparing with JGBs with a remaining maturity of shorter than 10 years, but we consider that an increase in the issuance amount of around ¥100 billion per auction will be financed as far as the 20-year and 30-Year Bonds are concerned due to the needs of banks and life insurance companies. On the other hand, regarding the 40-Year Bonds that has been decided already to be increased by ¥100 billion per auction, we believe it appropriate to maintain the issuance amount of ¥500 billion per auction and figure out the pros and cons of an increase based the demand and supply situation by investors. Regarding the medium- to long-term bonds, we consider that an increase in the amount of ¥200 billion per auction for the 10-Year Bonds, ¥300 billion per auction for the 5-Year Bonds and ¥400 billion per auction for the 2-Year Bonds will be financed stably and adequate for the increase in the amount. Further, although a large part of the increase in the additional JGB issuance associated with the first supplementary budget has been allotted to the 6-Month T-Bills with a considerable increase in the amount, since they can be stably financed due to the strengthening of the purchase of JGBs by the BOJ, we consider that, since an increase in the amount of a few trillion yen per year for the 6-Month T-Bills can be financed, they will serve as an item for adjustment in accordance with the scale of the second supplementary budget.

・ Due to the spread of the novel coronavirus infection, market participants have reduced their transaction amount to the minimum requirement and the liquidity of the JGB market has declined significantly accordingly. On the other hand, since the yield curve control by the BOJ functions well, the low volatility in the JGB market has been maintained, and there is a general belief of an increase in government expenditure, there is no concern over stable JGB issuance. Under the circumstances, it is assumed that the financial funds will flow into deposit financial institutions in the future and it is expected that JGBs will be used as collateral for special financial support for the novel coronavirus infections of the BOJ. Therefore, there are potential investment needs for bonds in the short to medium term zone. In a situation that can be referred to as a national emergency, we consider that the stable JGB issuance is the top priority matter and we would like to make a certain contribution to the cause as an investor.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, the demand for T-Bills is high by deposit financial institutions to be used as collateral in response to an increase in special financial support for the novel coronavirus infections of the BOJ, and we consider that an amount similar to the planned issuance amount for June will be financed also in the future. We think that there is a room for an increase in the issuance amount of the 5-Year Bonds and the 2-Year Bonds because there is considerable demand for them as collateral by deposit financial institutions. However, since the number of main investors that participate in the auction under negative interest rates is limited, we consider that the maximum issuance amount in the past will serve as a yardstick for the amount increase. As far as the 10-Year Bonds are concerned, we believe that an issue amount that allows the interest rate to stay at zero or in the vicinity under the yield curve control policy of the BOJ will be desirable and the amount increase must be considered bearing this in mind. Regarding JGBs with ultra long maturities, since the interest rate risk amount supplied by the auction is relatively large in all maturity terms, we consider that a careful response in consideration of the supply and demand of investors will be required while taking into consideration the overall effect of the increase on the yield curve.

・ Due to the yield curve control by the BOJ, the interest rate levels continue to remain stable at low rates. However, each market participant is obliged to work under a telework or a split-working system for the prevention of the spread of the novel coronavirus infections, the liquidity in the JGB market continues to be low. There is no significant change from the last fiscal year in our management plan and we will conduct ALM by holding JGBs to match yen-denominated insurance liabilities.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, since we expect a large increase in the issuance of JGBs, we would like to expect a very careful handling of the plan in close cooperation with the BOJ so as to avoid market turmoil. Basically, we consider it appropriate that the increase in the issuance amount will be focused on bonds with a remaining maturity of shorter than 10 years which are under the yield curve control by the BOJ. We consider that an increase by ¥100 billion per auction for the 30-Year Bonds, by ¥100 billion for the 20-Year Bonds, by ¥100 - 200 billion for the 10-Year Bonds, by ¥100 - 200 billion for the 5-Year Bonds, ¥200 - 400 billion for the 2-Year Bonds and by ¥400 - 600 billion for the 1-Year T-Bills will be possible, respectively, while we consider that a monthly increase of ¥500 billion – 1.0 trillion for the 6-Month T-Bills is possible.

・ Owing to quick, flexible and audacious support by the government and the BOJ, we recognize that the financial market has been returning to normal and the market liquidity in the JGB market is showing signs of recovery. With a partial lifting of the lockdown across the world, the nationwide lifting of the State of Emergency is expected in May in Japan and we expect that the number of market participants will gradually increase. However, since a large scale increase in the JGB issuance will be held in a circumstance where a considerable time will be required for the market situation to return to the normal state before the spread of the novel coronavirus infections, there are many concerns, including an unexpected rise in interest rates, a complete difference in interest rates among bonds with different maturities, or non-functioning of long-term JGB futures as a hedging means, if a shock such as a poor auction result occurs. In light of such a situation, we plan to increase outstanding investment amount gradually when interest rates increase. Since it is not foreseen that the BOJ will dig deep into negative interest rates, and it is expected that the yield curve control will firmly function, we will focus on long-term maturity JGBs and ultra long-term JGBs with positive interests.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, the short-term JGBs are stably demanded as collateral and easily financed. In addition, since a buy-back by the BOJ is expected in view of the supply and demand situation of the market, an increase of around ¥1 trillion each for the 6-Month and the 1-Year T-Bills can be financed without any problem. Regarding bonds with medium-term maturities, the percentage of purchase by the BOJ is high, and since the demand for collateral purposes is expected particularly for the 2-Year Bonds, we think that a significant increase up to ¥400 billion per auction is possible. Regarding JGBs in the long-term maturity zone, since originally the issuance volume in terms of duration is large and there is an absence of steady investors, we are cautious about them. However, since a steady demand is expected when the interest rates are positive, we think that an increase of ¥100 billion per auction will be financed. Regarding JGBs in the ultra long-term zone, an increase of up to ¥100 billion per auction will be possible without any problem for the 20-Year Bonds which attracts a wider variety of investors than the 30-Year Bonds.

・ Due to the increase in the issuance of JGBs associated with the second supplementary budget for FY2020, there is a heightened expectation of an interest rate rise centered on JGBs in the ultra long-term zone. However, we consider that there will be hardly any risk of a sharp interest rate rise for the time being under the circumstances that aggressive monetary easing policies continue to be adopted by the BOJ. Provided, however, that there is a possibility that the interest rates of JGBs may be corrected upward with an increase in interest rates overseas. Although we continue to restrict the number of staff going to work in the office due to the spread of the novel coronavirus infections, we have developed a system to avoid any adverse effect on the participation in the auction, and we will continue to manage our bond portfolio with the focus on JGBs in the long-term zone and ultra long-term zone with positive interest rates to perform interest rate risk control in yen from the perspective of ALM.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, as stated earlier, we believe that its effect on the JGB market is limited for the time being. Premised on the assumption that the current interest rates are maintained, we consider that the allowable increase in the JGB issuance amount will be about ¥100 - 200 billion per auction for the 20-Year Bonds and about ¥100 - 200 billion per auction for the 10-Year Bonds if interest rates are positive. We will not make an aggressive investment in bonds with a maturity shorter than 5 years including T-Bills unless interest rates turn positive. However, regarding the 6-Month T-Bills, we consider that an issuance of around ¥5 trillion per month can be financed in the market due to the demand for collateral in response to an increase in corporate financial support and an increase in T-Bills purchase by the BOJ.

・ While there is a concern over the increase in the issuance amount, the current JGB market has settled down with a confidence in the monetary policy of the BOJ. Even the effect on bonds in the ultra long-term maturity zone which are less affected by the yield curve control is limited and no significant increase in interest rates is expected in the market. In terms of supply and demand, we expect that the demand for JGBs will continue to be considerably strong due the possibility that the deposit will increase through payment of Special Cash Payments. Regarding our bond portfolio management in the future, we plan to continue to buy a certain amount of JGBs to plug the funding gap between loans and savings. However, we consider it necessary to carefully and flexibly select maturities in consideration of their respective risks.

Regarding the increase in the issuance amount in the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, we are of the opinion that a considerable increase in the amount can be absorbed based on the expectations towards the BOJ and considering the response to the increase in deposits. In particular, we consider that the impact of the increase in the issuance amount of bonds with a maturity shorter than 10 years which are likely affected by the yield curve control will be limited.

・ Although a significant decline in the market liquidity and the decline in basis to JGB futures were in a critical situation temporarily, we recognize that currently the situation has been considerably calmed down since the announcement of additional monetary easing measures by the BOJ. Regarding our investment management this fiscal year, we will be cautious in particular about the investment in JGBs due to a variety of factors, including (1) continuous high levels of public spending, (2) ensuring liquidity against an increase in market volatility, and (3) suppression of investment in domestic bonds due to changes in the asset composition ratio by major investors, among other factors.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, we consider that the allowable increase by maturity in the JGB issuance amount will be ¥100 billion per auction for the 30-Year Bonds, ¥100 billion for the 20-Year Bonds, ¥100 billion for the 10-Year Bonds, ¥400 billion for the 5-Year Bonds and ¥400 billion for the 2-Year Bonds. Although we consider that the 30-Year Bonds and the 20-Year Bonds are relatively favored by domestic investors, since they are less controlled by the BOJ than bonds with a maturity shorter than 10 years when liquidity is prioritized by the market, we think that an excessive increase will likely to increase the market volatility.

・ The liquidity in the JGB market declined temporarily at the beginning of spring due to the market turmoil and an expansion of working from home in response to the spread of the novel coronavirus infections, but currently the market has regained stability to a certain extent. Regarding the outlook for the future, although it seems that the effect of the spread of the novel coronavirus infections on the financial market has been suppressed to a certain extent by the measures taken by the central bank of each country, we think that the effect on the real economy such as an increase in corporate bankruptcies will materialize in various forms in the future. In addition, since there is an uncertain outlook for the termination of the spread of the novel coronavirus infections, there remains heightened uncertainty in the real economy and financial situation of each country in the world. For the time being, we will continue to manage our portfolio in awareness of the liquidity and asset quality while bearing in mind the arrival of the second wave of infections and of entering the correction phase in the wake of pandemic in developing countries. We will pay close attention to the effect of the increase in the issuance amount of JGBs associated with the supplementary budget under the BOJ's yield curve control and we will invest when they become relatively cheap in consideration of our portfolio situation.

Regarding the increase in the JGB issuance amount associated with the second supplementary budget for FY2020, we think it necessary to give consideration to bond maturities bearing in mind that there has been an increase in supply of bonds globally in response to the spread of the novel coronavirus infections and there will be changes in investment behavior in accordance with changes in the market environment. The reaction of the market to the increase in the issuance amount of JGBs associated with the first supplementary budget was restrained, supported by the yield curve control of the BOJ. Regarding the planned increase in the issuance amount in the future, we consider it appropriate to focus the increase on the short to medium term zone under yield curve control by the BOJ and the long-term zone while bearing in mind the supply and demand environment of each term maturity. We are of the opinion that there is a room for increase similar to the last time in the short to medium term zone which will attract a certain demand for collateral and there is also a room for increase similar to the last time in the long-term and ultra long-term zone for which it has been confirmed that there is a certain demand by investors when interest rates increased. Regarding T-Bills, we consider that there is a room for considerable increase due to a favorable supply and demand environment, including collateral demand in the same manner as in the short to medium term zone.

- The market continued to be unstable since the spread of the novel coronavirus infection. However, supported by the adoption of measures to enhance purchase of JGBs at the Monetary Policy Meeting of the BOJ in the last month, investors who had restrained trading in April have been coming back to the market, and although the trading volume remains low, the supply and demand situation has restored calm. Since the market will continue to move within a narrow trading range for the time being, we will conduct transactions flexibly in light of changes in the yield curve.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, we are of the opinion that the appropriate increase in the amount of issuance per year and per maturity will be ¥900 billion for the 20-Year Bonds, ¥1.8 trillion for the 10-Year Bonds, ¥2.7 - 3.6 trillion for the 5-Year Bonds, ¥3.6 - 5.4 trillion for the 2-Year Bonds and ¥5.4 trillion for the 1-Year T-Bills. We think it reasonable to focus the increase on the short to medium term zone when considering the extent of the effect on the JGB market and the policy direction. We think it desirable to maintain the status quo as much as possible when considering the types of investors and market size as far as the 6-Month T-Bills are concerned. In addition, we think that it is worthwhile to increase the issuance amount of the auction for enhanced-liquidity from the perspective of improving liquidity.

・ Since April, the liquidity of the JGB market is on a recovery track. However, when comparing the current situation with that before the spread of the novel coronavirus infection, we consider that the liquidity remains low including the ultra-long-term zone. We are of the view that although interest rates for bonds in the ultra-long-term zone have risen slightly since last month when investors were aware of the increase in JGBs due to the change in the JGB Issuance Plan associated with the first supplementary budget, the range of rise is limited and the supply and demand environment is good. Although the current situation does not call for a comprehensive investment at the current interest rate levels to match the debt, there is a need for the ultra-long-term zone from the ALM perspective. Therefore, we plan to make a certain level of investment in consideration of the liquidity and market situation.

In the event that the increase in the amount due to the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020 is around ¥24 trillion which is similar to the increase due to the change in the JGB Issuance Plan associated with the first supplementary budget, we recognize that an increase in a wide variety of term maturities will be necessary in light of the scale. In particular, we consider that against the backdrop of the long-term needs from the perspective of ALM and yield hunting, the demand for JGBs in the ultra long-term zone mainly by life insurance companies is high and an increase to a certain extent can be stably financed. We would like that the issuance amount be increased focused on JGBs with long-term maturities compared to the current issuance amount. Specifically, we consider that an increase in the amount of ¥100 billion per auction for the 40-Year Bonds, and an increase in the amount of ¥200 billion per each auction for the 30-Year Bonds and 20-Year Bonds are appropriate, respectively. We also consider it appropriate to increase the amount of ¥100 billion per auction for the zone with remaining maturities of 15.5 - 39 years of the auction for enhanced-liquidity and to increase the amount of ¥200 billion per auction for other interest-bearing bonds including the 10-Year Bonds.

- Under the declaration of the state of emergency, the activities of the JGB market dwindled temporarily due to the fact that some securities companies and investors have adopted a different operating system from usual such as working from home. However, with the operating system in place, the market has gradually calmed down. Regarding the interest rate level, we consider that it will continue to remain stable at low rates against the backdrop of a strong and prolonged monetary easing by the central banks of each country. Regarding our asset management and investment in the future, we plan to continue to buy and hold JGBs in light of the market trends.

Regarding the increase in the JGB issuance amount associated with the second supplementary budget for FY2020, we believe that it is desirable to increase the issuance amount of JGBS, not for specific maturities, but for a wide variety of maturities from T-Bills to the 40-Year Bonds. Although demand for JGBs with remaining maturities of 10 years and longer with positive interest rates by investors is expected to be strong. Since purchase by the BOJ of JGBs with remaining maturities of less than 10 years is also expected, however, we do not think there is any problem in financing them in the market. On the assumption that the increase in the issuance amount will start in July and the number of auctions will remain the same, we consider that a possible increase in the issuance amount per auction will be ¥100 billion for the 30-Year Bonds, ¥100 billion for the 20-Year Bonds, ¥100 - 300 billion for the 10-Year Bonds, ¥300 - 500 billion for the 5-Year Bonds and ¥500 - 700 billion for the 2-Year Bonds. When considering the purchase of the BOJ and collateral needs by investors, we believe that an increase in the amount of ¥10 trillion per year for T-Bills is possible, specifically, ¥3 trillion or more per month for the 1-Year T-Bills and ¥6 trillion or more per month for the 6-Month T-Bills. Regarding the 40-Year Bonds, although we need to check the situation when the amount of the 30-Year Bonds is increased, we consider that there is a room for a further increase in view of the situation of the market after the increase.

- With the spread of the novel coronavirus infections, the market sentiment has dwindled to a low level, but currently it has been returning to normal. Since the number of market participants will continue to decrease due to a split working system and remote work and the market liquidity is lower than before the crisis, we believe that the range of fluctuations in interest rates of JGBs will continue to be wide. Under these circumstances, we will continue our investment stance based on the purchase of JGBs from the perspective of ALM and ERM, provided, however, that when the current environment including the ultra low interest rates become harsher, we will be forced to review the capital allocation from the perspective maintaining and improving the profitability of the portfolio in order to respond to the mandate of the contractors.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, many investors prioritize interest rate above all other factors for JGBs with ultra long maturities, and since the movement of the yield curve in response to the increase in the issuance due to the change in the JGB Issuance Plan associated with the first supplementary budget in April was limited, we consider that an increase of around ¥100 - 200 billion per month per maturity can be financed without significantly affecting the market. In addition, for JGBs with a maturity shorter than 10 years, since the BOJ has set the target for yield curve control, we are of the opinion that the impact on the market due to the increase in the issuance amount can be suppressed to a certain extent. If the timing for the increase is delayed, the issuance amount per auction will increase. Therefore, we believe that the amount should be increased as soon as possible in view of the market situation.

・ A full-fledged recovery from the deterioration in the global economy due to the spread of the novel coronavirus infection will not be easy until vaccines or treatment drugs have been sufficiently supplied, and a long time will be required for the economic activities to be fully restored. The majority of market participants have the view that interest rates will continue to stay low globally for a long period of time, the demand for JGBs is strong even at the current low interest rates. A large-scale fiscal mobilization is foreseen in each country in the future. However, since the increase in the issuance amount of government bonds is unlikely to cause a significant rise in interest rates globally due to aggressive monetary easing measures taken by the central banks of each country, we are of the opinion that interest rates will basically remain stable at low levels. Regarding the outlook for our bond management in the future, although hedged foreign bonds with a decreased cost of currency hedging are compelling, such as credits, sovereigns, and international institution bonds, we will basically invest in assets with stable interest rates in yen focused on JGBs from the perspective of ALM.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, we consider that an increase per maturity and per month of ¥100 - 300 billion will be possible, in addition to an increase in the issuance of T-Bills. According to the above view by market participants and the investment behavior of life insurance companies to respond to restrictions, the demand for interest-bearing JGBs with a maturity of over 10 years and the 30-Year Bonds with a lengthened duration is strong. In addition, there is hardly any concern that an increase in the issuance amount in JGBs with a maturity of shorter than 10 years and T-Bills will trigger a sharp rise in interest rates due to careful changes in Outright Purchase of JGBs.

・ It is highly likely that the yield curve control by the BOJ will continue for a long time to come. Therefore, we plan to make investments focused on bonds in the long and ultra-long term zones which are relatively attractive in terms of carry and roll. However, we are wary of the risk of the downgrading of JGBs. Due to the business recession caused by the global spread of the novel coronavirus infection, the Federal funds rate has fallen to nearly zero and the difference in long-term interest rates between Japan and United States has significantly shrinked. From July onwards, the issuance of JGBs will be increased significantly. Since the target of the monetary policy of the BOJ has been shifted from maintaining price stability at 2% to not allowing interest rates to rise, that is, what was a means before has been turned now into an end, we expect that an increase in the purchase matching the increase in the issuance will be made. If the interest rate on 10-Year Bonds continues to remain at around zero %, investors will prefer bonds with longer maturities in pursuit of positive interest rates. We consider that there will be a strong demand by investors for the 20-Year, 30-Year and 40-Year Bonds.

Regarding the change in the JGB Issuance Plan associated with the second supplementary budget for FY2020, we believe that an increase up to ¥6 - 7 trillion per month in the issuance amount for the 6-Month T-Bills is possible. In addition, we think it possible to increase per auction of ¥100 - 200 billion for the 30-Year Bonds, ¥100 - 200 billion for the 20-Year Bonds, ¥200 - 300 billion for the 10-Year Bonds, ¥200 - 300 billion for the 5-Year Bonds, ¥300 - 400 billion for the 2-Year Bonds and ¥400 - 600 billion for the 1-Year T-Bills. In the future, if there is a need for increase, we would like to see an increase in the auction for enhanced-liquidity. If the purchase by the BOJ increases and the liquidity of newly issued bonds with a relatively large issuance per issue is maintained, it is expected that the liquidity of existing bonds which are owned largely by the BOJ will further decrease, disallowing the purchase in the market.

・With the stabilization of the US dollar LIBOR, the financial markets of the major countries which were extremely unstable in March have restored calm. Due to an extremely serious effect caused by the spread of the novel coronavirus infection, companies have faced not only problems of liquidity and short-term cash position, but also problems of financial soundness. Under the circumstances, the BOJ has placed emphasis on the purchase of corporate bonds and CPs as measures to support corporate finance in addition to the purchase of JGBs. At the Monetary Policy Meeting of the BOJ today, the introduction of the "New Funding Sources" aimed to support cash position of small and medium companies was adopted, and in particular, the significant additional purchase of CPs and corporate bonds are in line with this policy.

In the midst of the market turmoil in March, the liquidity in the bond market in the United States contracted and the spread between the on-the-run and the off-the-run of the 30-Year Bond which hardly exists in normal times fluctuated wildly. It has been pointed out that this was caused largely by the contraction of economic activities in excess of expectations and unwinding occurred in the rapidly-growing repo market, and the Brookings Institution points out, "in the situation where algorithmic traders withdrew in the midst of the market turmoil, human traders should have played their roles, but they could not do so working from home". In this meeting also, some members referred to the problem of the JGB market liquidity in a working environment of remote work and split working. In order not only to prevent the second wave of the spread of the novel coronavirus infections, but also to respond to the new normal, we may need to study the development of facilities and systems for the purposes of working from home.

According to the minutes of the FOMC meeting held at the end of April, a few people proposed to buy a sufficient amount of bonds to control the interest rates for the short to medium term zone at a specific level for a certain period of time as measures to strengthen the forward guidance instead of introducing negative interest rates. This is precisely the method introduced during the "wartime" in the period ranging from the Pearl Harbor Attack to the armistice of the Korean War, and we remember that the US T-Bills interest rate at the time was fixed at 0.375% and the upper limit of the interest rate on US 25-Year Bonds was 2.5%. It can be said that the yield curve control by the BOJ to set the interest rate on the 10-Year Bonds at around zero % follows this example in the US.

Under the situation where an extremely huge amount of government bonds must be issued for the so-called “war against the spread of the novel coronavirus infection”, the government must implement a government bond management policy so that interest rate rises may not adversely affect measures against the spread of the novel coronavirus infection as a whole, including corporate financial support measures. In addition to the additional JGB issuance amount of ¥24 trillion associated with the first supplementary budget for FY2020, additional JGB issuances will be required in association with the second supplementary budget for FY2020 and a significant decrease in tax revenue due to recession, in an amount not so much as US$3 trillion in the second quarter in the US. Regarding the huge increase in the issuance of JGBs, we are of the opinion that it is necessary to suppress the issuance of bonds in the ultra long-term zone as much as possible and increase the issuance of high liquidity bonds in the short term zone, using bonds that can be issued before the fiscal year while complying with the principle of “periodical and predictable issuance,” in order not only to suppress the adverse effect on the JGB market, but also on the financial market as a whole.

・When institutional investors and other market participants execute operations through telework and shift work under the continued declaration of the state of emergency associated with the spread of the novel coronavirus infection and at the initial stage of its lifting, it must be taken into consideration that there is the possibility that they cannot perform flexible investment activities compared to before the spread of the infection and the liquidity of the JGB market may decrease. In the future, even if the declaration of the state of emergency is lifted in Tokyo and the three prefectures in the metropolitan area as well as Hokkaido, there is a concern over the spread of the infection again in Japan and a further spread of the infection of the novel coronavirus infectious disease in emerging countries and developing countries. Therefore, we should keep a close eye on a decrease in liquidity and its effect on the market while bearing in mind the possibility that restrictions on economic activities both in Japan and overseas may be imposed again.

In order to respond to the worldwide spread of the novel coronavirus infection and to deal with the domestic economic losses, there is a possibility that additional supplementary budgets may be compiled after the second supplementary budget for FY2020. Therefore, we think it necessary at the present moment to reduce the effect of the additional issuance of JGBs including FILP bonds on the JGB market as less as possible. For this reason, we believe that the change in the JGB Issuance Plan on this occasion should be limited to JGBs with a maturity shorter than 10 years which are under an effective yield curve control by the BOJ, while the issuance of government bonds in the ultra long-term zone such as the 20-Year Bonds and the 30-Year Bonds should be given a careful consideration.

・ For the additional issuance of JGBs associated with the second supplementary budget for FY2020, there is a view that the length of the period on the expenditure side should be taken into consideration in principle, and the maturity of JGBs to be issued し should correspond to the number of years over which the measures against the spread of the novel coronavirus infection will be effective. However, the change in the JGB Issuance Plan on this occasion will be made under the circumstance where the restrictions on the JGB purchase by the BOJ have been lifted and the amount and maturities of JGBs to be purchased from the market by the BOJ are uncertain. On the assumption that the Outright Purchase of JGBs will be focused on the 10-Year Bonds and bonds with a maturity shorter than 10 years in a state of emergency, it is possible to think that the issuance of bonds in the medium to long-term zone will be increased mainly.

In the circumstances where a large amount of government bonds are issued worldwide, it is most important that the expenditure allocated to measures against the spread of the novel coronavirus infection be spent on those fields capable of promoting a V-shaped economic recovery in order to aim at an economic recovery before other countries. In the middle of difficulty lies opportunity. It is essential for the revival of the Japanese economy to urge more rapid structural reform, including work style reform and promotion of efficiency as well as educational reform, etc., in all fields including companies, the governments, and schools, with a view to achieving an efficient society. We believe that this will help reduce the amount of the JGB issuance and generate the stability of the JGB market in the future.

Contact:

Financial Bureau, Market Finance Division

03-3581-4111 (ext.5700)