Minutes of the Meeting of JGB Investors
(86th Round)

1. Date: Tuesday, March 23, 2021
2. Place: Held in writing
3. Gist of Proceedings:

1. Reopening rule of nominal interest-bearing bonds in FY2021

▶ The Financial Bureau gave the following explanation about the reopening rule of nominal interest-bearing bonds in FY2021.

・ The reopening rule of nominal interest-bearing bonds for the following fiscal year is discussed at this round-table meeting to be held in March every year and decided based on your opinions. Today, we would like to hear your opinions on the proposal of the Financial Bureau regarding the reopening rule of nominal interest-bearing bonds in FY2021 which is presented in page 2.

・ Since FY2015, we have kept reopening rule of 10-Year Bonds in each case where bonds having the same redemption dates are issued and the difference between the coupon rate of its new issue and its market yield on the auction date is not wider than about 30 bps.
When we heard your opinions in advance in this regard, we learned that most of you support the current method. Since we are of the opinion that bond market liquidity can be enhanced by reopening the bonds in normal times while leaving room to stimulate demand of investors as a new issue bond in the event of a large market fluctuation, we are thinking of maintaining the current method also in FY2021.

・ Regarding the reopening rule of 20-Year Bonds, 30-Year Bonds, and 40-Year Bonds, we reopened four issues of 20-Year Bonds and 30-Year Bonds, and one issue of 40-Year Bonds in FY2020 (as a general rule, by way of reopening).
When we heard your opinions in advance in this regard, we learned that most of you support the current method. Therefore, we are thinking of maintaining the current method also in FY2021 from the perspective of enhancing bond market liquidity.

・ The reopening rule of nominal interest-bearing bonds in FY2021 will be comprehensively reviewed in consideration of the discussions in the meeting and we will hear your opinions on the matter again.

▶ Summarized below are the views and opinions submitted by the participants:

・ Regarding the reopening rule of 10-Year Bonds, we support the proposal of the debt management office to maintain the current status (in the case where bonds having the same redemption dates are issued and the difference between the coupon rate of its new issue and its market yield on the auction date is not wider than about 30 bps, bonds will be reopened). In the case where the gap between the bond issue price and the book value held widens, it is expected that the need for new bond issuance will increase from the perspective of the diversification of book value, etc. Therefore, we consider that the current reopening rule is appropriate.

・ Since there is no particular problem with the market liquidity in light of the current interest rate levels and the size of issuance, we consider that there is no problem in maintaining the status quo.

・ Although the occurrence of a deviation of more than 30 bps is extremely rare under the current monetary policy of the Bank of Japan (BOJ), since there is no denying the occurrence of a deviation of more than 30 bps due to any circumstance, such as a shock, and since it is preferable that the occurrence of such deviation is adjusted by coupon interest rate, we support the proposal of the debt management office regarding the reopening rule of 10-Year Bonds.

However, if bonds are issued with a new serial number, a disparity in liquidity is generated and the market is likely to be distorted with an increase of BOJ Buy-back operations, we would like the dept management office to fully discuss with the BOJ when issuing bonds with a new serial number.

Regarding 40-Year Bonds, since the amount of issuance is small and a significant disparity in liquidity is generated if a new serial number is used, we support the current status quo. On the other hand, regarding 20-Year Bonds and 30-Year Bonds, since their interest rates currently fluctuate repeatedly, we may consider it appropriate to issue them with a new serial number using the deviation from the prevailing market conditions as a signal in the same manner with 10-Year Bonds.

・ We support the proposal (current method) of the debt management office. Although the supply and demand balance of bonds with a remaining maturity of 10 years zone tends to be tightened by a large scale Outright Purchase of JGBs, since the size of issuance per issue is sufficiently secured by the current reopening rule, there is no problem with liquidity of current peripheral issues. In addition, regarding bonds with a remaining maturity of 20-years, 30-years and 40-years zone, since the effect of Outright Purchase of JGBs is relatively small and size of issuance per issue is sufficiently secured, there is no concern over their liquidity.

・ We agree to the proposal of the debt management office. When we take into consideration the current size of issuance and Outright Purchase of JGBs, we consider it appropriate to leave room to stimulate investment needs by maintaining the reopening rule of 20- to 40-Year Bonds to ensure liquidity and issuing current bond 10-Year Bonds when interest rates rise sharply.

・ We support the proposal of the debt management office. When we consider the scale of Outright Purchase of JGBs, we consider it appropriate to maintain the current method also from the perspective of maintaining the liquidity of the secondary market and repo market.

・ We agree to the proposal of the debt management office. We consider that the bond reopening is desirable not only to ensure the amount of outstanding government bonds per issue, but also to improve liquidity. On the other hand, from the perspective of stable JGB issuance, we consider it appropriate to stimulate investment demand by newly issuing 10-Year Bonds when interest rates fluctuate significantly.

・ We believe it desirable to maintain the current reopening rule for each maturity.

・ We believe it desirable to reopen ultra-long term bonds in the same manner as with 10-Year Bonds “as long as the difference between the coupon rate of current bonds and the market yield on the auction date is within a certain limit”

Since the book value yield is also important in the current accounting system, it is necessary to flexibly maintain the portfolio when interest rates fluctuate significantly. Specifically, when interest rates rise, issues with relatively low book value yields are sold (and issues with high interest rate levels are purchased) to improve the book value yield of the portfolio. Since it is possible to efficiently sell and change issues when more issues are held, we would like to see that bonds are issued at the same level as the actual market conditions, instead of the “reopening system in principle”.

Regarding 40-Year Bonds, we would like to see that a plurality of issues be issued in a year in order to use cash flow matching for debt and deal with the financing problems due to imbalance in months for redemption (it is extremely difficult for JGB investors whose fiscal year ends at the end of March when there is a concentration of redemption money to distribute dates for reinvestment). Ultimately, we would like to request the debt management office to consider dividing redemption months into four times a year in the same manner as with other ultra-long term bonds.

・ We agree to the proposal of the debt management office regarding the reopening rule of 10-Year Bonds, 20-Year Bonds and 30-Year Bonds. We consider that there is no problem in maintaining the status quo.

In addition, regarding 40-Year Bonds, although they are planned to be increased size of issuance in the next fiscal year, we consider it desirable to continue with the current method of 1 issue per year from the perspective of liquidity. In future, when the size of issuance has been increased and liquidity improved, we think that there is room to consider switching to monthly issuance, to begin with and to issuance of a plurality of issues per year later.

2. Issuance size of Inflation-Indexed Bonds in the April-June 2021 quarter

▸ The Financial Bureau gave the following explanation about the issuance size of Inflation-Indexed Bonds in the April-June 2021 quarter:

・ As shown on page 4, according to the JGB Issuance Plan for FY2021, it is stipulated that there will be issuance of Inflation-Indexed Bonds four times a year for the size of ¥200 billion per each time in the same manner as with the JGB Issuance plan for FY2020 after the supplementary budget while it is stated that “the size of issuance may be adjusted in a flexible manner in response to market circumstances and demands of investors and through discussions with market participants”. In addition, as shown on page 5, it is stipulated about Buy-back Auctions that “detailed methods will be determined by considering market circumstances based on discussions with market participants”. Therefore, we would like to hear your opinions about the size of issuance in the April-June quarter at today’s meeting.

・ In the January-March quarter, as shown on page 6, we conducted an auction of issuance for the size of ¥200 billion in February and decided to conduct Buy-back Auctions for the size of ¥50 billion every month based on market conditions and through discussions with market participants. The results of the auction of issuance and of Buy-back Auctions are shown in pages 7 and 8, respectively.

・ As shown on P9, according to the amount of Buy-back Auctions per issue, despite its small issuance seize in comparison with many other issues, the issue number 25 which is the current bond was bought back most throughout the year.

・ The situation of the secondary market is shown on page 10. The BEI of the current JGBs which dropped significantly between March and April last year and remained generally at around zero from May has risen since last autumn affected by the global movement and remains stable in the positive range. In addition, currently, the BEI of all off-the-run bonds from the issue number 17 and subsequent numbers has entered the positive range.

・ In such circumstances, we asked for participants opinions in advance and found that many of participants were of the opinion that although the balance of supply and demand has somewhat improved due to successful Buy-back Auctions by the debt management office, since it still lacks stability and may deteriorate again depending on external environment, it would be desirable that both the size of issuance and the size of Buy-back Auctions for the April-June quarter should continue to be kept unchanged.

・ We hold the view that the current size of issuance and size of Buy-back Auctions are the result of the measures undertaken in response to the significant deterioration of the market environment triggered by the COVID-19 pandemic and this situation should not become the norm. However, since there is still a sense of uncertainty over the balance of supply and demand, we are considering conducting issuance auction once for the April-June quarter in the same manner as with the January-March quarter and carrying out Buy-back Auctions in the amount of ¥50 billion every month, as shown on page 11.

・ However, regarding issues subject to Buy-back Auctions, we are considering excluding the issue number 26 to be current issued in May from the list for the time being and including it in the list from the latter half of the fiscal year (for example, October) in order to ensure the amount in market circulation of current bonds with small size of issuance to some degree and prevent current bonds from being bought immediately in a large amount.

・ In addition, regarding the reopening of Inflation-Indexed Bonds in FY2021, we are considering offering one reopening bond in a year in the same manner as with FY2021.

・ As above, we explained the situation regarding the Inflation-Indexed Bonds market and our proposal in consideration thereof.

We believe that the development of the Inflation-Indexed Bonds market is an important issue in Debt Management Policy. We will make a comprehensive decision based on the contents of today's meeting on the size of issuance in the April-June quarter and the adoption of the reopening rule in FY2021, and we will hear participants opinions again.

▶ Summarized below are the views and opinions submitted:

・ We support the proposal of the debt management office. Although the BEI remains stable in the positive range currently, since the balance of supply and demand continues to be unstable, we consider it desirable that the current size of issuance and Buy-back Auction size continue to be maintained.

・ Since the market is formed on the premise of the current size of issuance and Buy-back Auction size, we do not think it necessary to make any special change.

・ We agree to the proposal of the debt management office. Against the backdrop of the supply and demand gap, the BEI of Inflation-Indexed Bonds differs significantly by issue and the supply and demand environment is still on the way to recovery. Therefore, we consider that a further stabilization of the market will be needed through the current levels of size of issuance and Buy-back Auction size. As regards the prospect for the July-September quarter onward, we consider it necessary to discuss changes of the size of Buy-back and inclusion of current bonds for Buy-back based on the market environment.

・ We agree to the proposal of the debt management office. We believe that the size of issuance, the size of Buy-back Auctions and issues subject to Buy-back Auctions which have been proposed from the perspective of the development of the Inflation-Indexed Bonds market are reasonable.

・ Although we agree to the proposal of the debt management office for the April-June quarter, we believe it necessary to increase the number of investors for the development of the Inflation-Indexed Bonds market and supply sufficient liquidity. Although there is a possibility that the Inflation-Indexed Bonds market may deteriorate, since these are a floored product and there are investors who find them compelling in comparison with interest-bearing bonds, we believe technical rally is possible based on their relative value even if they are sold significantly. We believe that it should be considered to put back their size of issuance to ¥300 billion when the market improves.

・ We support the proposal (issuance amount of ¥200 billion/quarter, Buy-back Auctions of ¥50 billion/month and exclusion of current issues from Buy-back Auctions for the time being) of the debt management office. Although the BEI in Japan remains steady due to the rise in the BEI in US in expectation of US economic measures, we believe that this is caused significantly by the effect of Buy-back Auctions of the debt management office and Outright Purchase of JGBs, and the current situation is still unstable. Therefore, in addition to maintaining the size of issuance and the size of Buy-back Auctions, we agree to Buy-back Auctions focused on off-the run bonds because their BEI is not playing the role of index in a relatively cheap state in comparison with current bonds.

・ Investors of Inflation-Indexed Bonds continue to be limited and there still remains uncertainty over the balance of supply and demand. Since it is difficult to increase the size of issuance at the moment, we support the proposal of the debt management office to maintain the current size of issuance and amount size of issuance of Buy-back Auctions.

In addition, since the liquidity of Inflation-Indexed Bonds is limited, there is a possibility that it may further drop when the size of issuance per issue decreases due to an increase in the number of issues. As we consider that it is not appropriate to increase the number of issues, we support the proposal of the debt management office.

・ We support the status quo (annual issuance size of ¥200 billion x 4 times, Buy-back Auctions of ¥50 billion/month). In the wake of the spread of vaccines against the coronavirus and a heightened expectation for economic recovery, there are signs of recovery of the BEI and there may be a potentially growing need for investment in Inflation-Indexed Bonds. However, the current supply and demand environment is such that investors' demand is still limited. Therefore, it is desirable to maintain the current size of issuance and size of Buy-back Auctions.

・ We believe it desirable to maintain the current size of issuance and size of Buy-back Auctions. We have no particular view on issues subject to Buy-back Auctions.

・ We agree to the proposal of the debt management office. We also agree to the proposal that the issue number 26 to be current bond is excluded from the list of issues subject to Buy-back Auctions for the time being and including it in the list from the latter half of the fiscal year (for example, October). We would like to request the debt management office to consider increasing the size of issuance of current bonds as an option in the future from the perspective of increasing the size of issuance per issue, provided, however, that an increase in the size of Buy-back Auctions will be considered in consideration of the overall supply and demand balance at that time.

3. Liquidity Enhancement Auctions in the April-June quarter 2020

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auctions for the April-June 2021 quarter:

・ As shown on page 13, according to the FY2021 JGB Issuance Plan regarding Liquidity Enhancement Auctions,
(1)while it is assumed that a total of ¥11.4 trillion will be issued in a year, including ¥2.4 trillion with remaining maturities of 1 to 5 years zone, ¥6.0 trillion with remaining maturities of 5 to 15.5 years zone and ¥3.0 trillion with remaining maturities of 15.5 to 39 years zone in the same manner as in FY2020, and
(2) finally, "the details will be flexibly adjusted in view of the market environment and investment

needs”.
Today, in response to this plan, we would like to hear participant’s opinions regarding the size of issuance for each maturity zone for the April-June quarter.

・ As shown on page 14, in the same manner as assumed in the FY2020 JGB Issuance Plan, we decided to issue bonds with remaining maturities of 1 to 5 years zone in the size of ¥400 billion in the odd-numbered months of January and March, bonds with remaining maturities of 5 to 15.5 years zone in the size of ¥500 billion every month, and bonds with remaining maturities of 15.5 to 39 years zone in the size of ¥500 billion in the even numbered month of February in the January-March quarter. These results are as shown on page 15 to 17.

・ In the circumstances, we asked participant’s opinions about the Liquidity Enhancement Auctions for the April-June quarter in advance, and some members indicated strong investment demand for specific issues and maturities. However, since no significant change in the supply and demand situation has occurred in any maturities, we found that many of participants were of the opinion that it was appropriate to maintain the current issuance amount.

・ In response to this, we prepared our draft for the size of issue for each maturity zone in the April-June quarter, as shown on page 18. We are contemplating the idea of issuing bonds with remaining maturities of 1 to 5 years zone in the size of ¥400 billion in the odd-numbered month of May, bonds with remaining maturities of 5 to 15.5 years zone in the size of ¥500 billion every month and bonds with remaining maturities of 15.5 to 39 years zone in the size of ¥500 billion in the even numbered months of April and June.

・ Regarding the issuance size for each maturity zone for Liquidity Enhancement Auctions for the April-June quarter, we will make a comprehensive decision based on the contents of today’s meeting, and we will ask your opinions again.

▶ Summarized below are the views and opinions submitted:

・ We support the current status quo. Currently, the spread of the novel coronavirus vaccine and rising expectations for economic recovery are putting upward pressure on interest rates globally and the supply and supply and demand trends are in an unstable situation. Therefore, we are of the view that the amount of the Liquidity Enhancement Auctions with remaining maturities of 15.5 to 39 years which are exposed to a high interest rate risk should be decided in a balanced manner in light of supply and demand trends.

・ From the last meeting onwards, the rise of interest rates of JGBs with an ultra-long maturity is limited when compared to the rise of interest rates of 10-Year Bonds. In addition, we are of the view that the bid-ask-spread has particularly widened in the ultra-long term zone and liquidity has dropped in the situation where interest rate fluctuations have grown larger from February.

Further, although the investment demand for off-the-run issues in the ultra-long term zone mainly by life insurance companies is high in order to highly implement cash-flow matching with debts is high, since liquidity of these issues is extremely low, such an investment behavior is not plausible.

In light of these, we consider that there is room to consider increasing the issuance size of JGBs with remaining maturities of 15.5 to 39 years zone.

・ We agree to the proposal of the debt management office when considering that although issues with special repo rates continue to be found, they are not concentrated in a specific zone. Currently, interest rates are on the upward trend due to a rise in overseas interest rates. Since we believe, however, that Outright Purchase of JGBs also supports the market, there will be no problem in the proposal of the debt management office.

・ In view of the bid-to-cover ratio and the stability of the tail, we propose that the size of JGBs with a remaining maturity of 1 to 5 years zone to be increased to ¥500 billion each time and JGBs with a remaining maturity of 15.5 to 39 years zone to be decreased to ¥400 billion each time.

・ Since the demand for 30-Year Bonds and 40-Year Bonds is strong for duration lengthening purposes by life insurance companies to comply with regulations, we would like to see an increase in the size of off-the-run issues in the ultra-long term zone.

・ Since the need to buy JGBs with a remaining maturity of 15.5 to 39 years zone by life insurance companies to comply with regulations has been significantly increasing, we consider that the size of JGBs with that maturity needs to be increased.

・ We have no objection to the proposal of the debt management office to be maintained the current size of issuance, because it has unseen imbalance between the supply and demand in each maturity.

・ Since it is confirmed that there is a sufficient need for all kinds of maturities and it is considered that the current size distribution should be maintained, we support the proposal of the debt management office.

・ Since we consider that the investment needs for JGBs with negative interest rates are limited to overseas investors, etc., we believe it desirable to reduce their amount.

There is a potentially strong need for JGBs in the ultra-long term zone in accordance with interest rate levels and remaining periods from the perspective of ALM and/or ERM. However, since the circulated quantity is relatively small and transaction costs are high, we consider it desirable to increase the size of issuance in order to improve liquidity.

・ We support the proposal (current system) of the debt management office. Since there is no distortion in the balance of supply and demand in individual issues because of additional issuance of issues in all zones which are in a short position of market participants, we consider that the current size of issuance contribute to maintaining and improving market liquidity which is the aim of the Liquidity Enhancement Auctions.

4. Latest JGB market situation and outlook for future investments

▶ Summarized below are the views and opinions submitted:

・ We expected that the functionality of the JGB market would recover through monetary policy review by the BOJ. However, as a result of the review results that the volatility of the interest rates of 10-Year Bonds has been clarified to be plus or minus 0.25%, we are of the opinion that no significant recovery of the functionality and improvement in linkage with overseas interest rates can be expected, and the market continues to be deadlocked.

・ From the last meeting onwards, despite interest rate rise, the rise rate of interest rates of 30-Year Bonds and 40-Year Bonds is limited when compared to the rise rate of interest rates of 10-Year Bonds when compared to main overseas countries. We believe that this reflects very strong investment needs in JGBs with an ultra-long term maturity of life insurance companies from the perspective of ALM. Incidentally, we are of the view that although there may be a lack of bidding interest by auction depending on the timing of investments by investors, the supply and demand balance is still very tight according to the daily situation of the secondary market.

Regarding our operational prospect in future, we believe that a significant interest rate rise will be hard to materialize for the time being in light of the yield curve control by the BOJ and the strong investment needs in JGBs with an ultra-long term maturity by life insurance companies. Although the current interest rate levels still do not allow us to conduct extensive investments, since there is a constant need for investment in JGBs with an ultra-long term maturity from the perspective of ALM, we plan to make a certain extent of investment also in the next fiscal year.

・ The current market environment is such that, in addition to the heightened expectations for the normalization of economic activities due to the decrease in the number of newly infected people, progress in vaccinations and receding concerns over novel coronavirus infections, expectations for further increase of economic activities by large-scale financial support measures of the US and normalization of monetary policies by central banks, we are of the view that both interest rates and stock prices are rising. We believe that although there is still uncertainty over the situation surrounding vaccinations and novel coronavirus infections, the economic recovery trend will continue globally and interest rates will continue to rise gradually due to the emergence of pent-up demand through the relaxation of restrictions on economic activities. However, since it will take a considerable amount of time for the US to raise interest rates, we believe that there will be a certain amount of demand for US Treasuries when long and short spreads are different. Since it is expected that the monetary support by BOJ will continue for the time being after the publication of the review results of the BOJ's policy management, we believe that there will be also a certain investment demand for JGBs while there is a difference in long and short spreads in the same manner as with overseas interest rates.

・ We are of the view that although the Japanese yen long-term interest rates have been on the rise since the beginning of the year due to the rise in overseas interest rates, the liquidity of the money market is sufficient and auctions will be digested generally smoothly. While it is expected that the BOJ's monetary easing will be prolonged, we recognize that the supply and demand situation will continue to be tight in the ultra-long-term zone with an increase in the number of investors. We plan to continue to hold and buy JGBs while keeping an eye on market trends.

・ Currently, the JGB market has been volatile in anticipation of the review results of the BOJ’s monetary policy. We are of the view that in the future the degree of influence and involvement in the market will gradually decrease due to measures aimed to maintain and improve the market functionality to be taken by the BOJ, and the degree of sensitivity to overseas interest rates will somewhat increase. From the perspective of ALM, we will continue to mainly accumulate ultra-long term yen interest rate assets.

・ Since interest rates of JGBs with long and ultra-long maturities are on the rise and the investment environment is relatively good.

・ Although the JGB market has been volatile due to speculations over the review results of the BOJ’s monetary policy and the rise in overseas interest rates, it has restored stability currently. Regarding our investment prospect in the future, we will continue to buy JGBs focused on 10-Year Bonds when interest rates remain over a certain level in this situation.

Regarding 15-year floating rate JGBs whose Buy-back Auctions have been temporarily been suspended, it is seen according to the bidding situation for Outright Purchase of JGBs that their outstanding amount exceeds ¥10 trillion and the selling needs by holding investors continue amid the situation in which liquidity in the secondary market continues to be depleted. Therefore, we would request the debt management office not only to continue to grasp the market trends, but also to review the possibility of restarting Buy-back Auctions as a means for selling.

・ We will continue to conduct investment management of JGS mainly with a view to using them for collateral purposes.

・ Before the BOJ’s Monetary Policy Meeting in March, liquidity was low because it was difficult for market participants to take positions due to uncertainty over the policy review results. Under these circumstances, as a result of the review results, a policy with an awareness of the problem of the deterioration of the market functions was set out in the policy review (the volatility of the long-term interest rates has been clarified to be plus or minus 0.25%). Now, we are keenly interested in how the BOJ will manage the new system by balancing the market functionality and the securing of low interest rates.

・ The liquidity of the secondary market remains low as the economic outlook continues to be uncertain due to the effects of the novel coronavirus infection. At present, the uncertainty over the purchase amount of JGBs as a result of the BOJ’s monetary policy review has increased and the situation does not allow optimism about stable JGB issuance. Under such circumstances, we will keep a close look at the supply and demand trends and continue to manage investment in JGBs focused on long and ultra-long term zones from the perspective of ALM.

・ Yen interest rates rose as US interest rates rose. Since there was no significant change in the current monetary policy framework after the monetary policy review at the BOJ’s Monetary Policy Meeting in March, however, interest rates have come to a halt. We expect that interest rates will remain at the current levels for the time being. We continue to make yen interest rate risk adjustment based mainly on JGBs in the long and ultra-long term zones from the perspective of ALM.

・ Interest rates have largely fluctuated up and down affected by the report on monetary policy due to the approaching end of the fiscal year, and the risk tolerance of market participants and the liquidity of JGBs have declined. Although we expect that the environment will gradually improve from April onwards, we will take a cautious stance on new purchases.

・ The rise in overseas interest rates against the backdrop of the expansionary fiscal policy and the spread of corona vaccines are acting as an upward pressure on yen interest rates. However, we consider that since the BOJ has decided to continue the yield curve control at the last Monetary Policy Meeting and is strongly determined to prevent interest rate rise by newly introducing a continuous limit price operation, there is limited room for future yen interest rate rises. On the other hand, since it is unavoidable that the book value yield will decline as JGBs held are redeemed every year on a certain scale, a more efficient investment operation is looked after.

Specifically, interest rate risk hedging using derivatives such as swaps, increase in risky assets such as stocks, and shift from leveled investments to investments based on active risk taking can be considered. Due to the characteristics of debt instruments, however, we believe that leveled investments in JGBs with an ultra-long term maturity will continue to be the main instrument. We would request the debt management office to continue to pay attention to the formation of a stable market for JGBs in the ultra-long term zone.

・ At the US FOMC in March, the GDP growth rate was revised upward for this year and next year compared to those at the same meeting at the end of last year, and both the PCE and core PCE price indexes (median value) are expected to exceed 2% from this year to 2023. On the other hand, the expected average value of the benchmark interest rate for 2023 rose to 0.403%, an increase of 15 bp from the previous time, while the medial value remained at the same level of 0.125% as the previous time until the end of 2023.

We believe that this dot chart reflects the launch of the large scale fiscal stimulus and the implementation of monetary policy by President Biden in view of the increase in the Covid vaccinations. Although the speculation that there will be discussions about tapering in immediate future depending on a slight gap between the inflation outlook and the outlook for the bank rate cannot be denied, the market was not affected significantly by the adoption of the decision to end the easing of leverage rules. However, we will keep a close look at how the increase of the dollar forward bank rate at the OIS market will be discounted and how it will approach the bank rate (in the long term).

On the other hand, according to the publication of the review results of monetary policy by the BOJ, we believe that the clarification of fluctuations of long-term interest rates through yield curve control and the implementation of the continuous limit price operation were emphasized. Since this is not intended to steepen the yield curve, we may suspect that fluctuations in US interest rate will have a larger effect on fluctuations in the dollar-yen rate than yen interest rates.

Under these circumstances, the issuance of JGBs in the new fiscal year will start. We believe that the issuance auctions should proceed in a business way within the framework of regular and predictable issuance according to the calendar. Since it has been indicated that there is a large disparity in the BEI of Inflation-Indexed Bonds、we believe that it is necessary to improve liquidity of Inflation-

Indexed Bonds and develop the market. We expect that the demand for Inflation-Indexed Bonds in the market will expand amid the expectations for economic recovery from the Covid-19 epidemic. In addition, we believe it necessary to have the viewpoint to mechanically select issues subject to Liquidity Enhancement Auctions based on the deviation from the theoretical yield curve.

・ In a situation in which there is an increasing concern over inflation, particularly in the US, due to huge fiscal spending and monetary easing amid the Covid epidemic, we believe that the importance of continuously, appropriately and stably calculating the BEI index in Japan will be increased when the fiscal policy and monetary policy are suitably revised in the future. On the other hand, if the ensuring of liquidity contributes to the development of the market of Inflation-Indexed Bonds at the present moment, it may be also an option in a short-term perspective to adopt the same method as in FY2020.

A general policy expenditure of about ¥106.6 trillion is budgeted in the FY2021 budget plan. If a supplementary budget is programmed to deal with the novel coronavirus infectious disease in the future, it may be necessary to take into consideration the possibility that the JGB issuance amount will be higher than the initial budget. In FY2020 and FY2021, the financial resources for dealing with the novel coronavirus infectious disease were mainly covered by the issuance of JGBs. If the situation in which serious discussions about securing financial resources including the tax system have not been held lasts for a long time, concerns about financial sustainability may emerge. We consider that it will be important to adjust the balance of maturities to allow the debt management office to catch the warning signs from the market as soon as possible even under the yield curve control by the BOJ.

・ It is desirable that Buy-back Auctions of Inflation-Indexed Bonds continue to be conducted so that its market may not be depleted for the time being. We consider at the same time, however, that the scale of the auctions may be small as long as the market can be maintained. On the contrary, there is a possibility that the demand for Inflation-Indexed Bonds will rapidly increase if inflation expectations emerge in the market, and in such a case, it will become an important issue to balance ensuring fiscal soundness and issuance of Inflation-Indexed Bonds.

In light of the increased needs for JGBs with an ultra-long term maturity, it is desirable that 40-Year Bonds are issued to meet the demand. We suspect that issuance of a JGB with a longer term maturity, say for example, 50-Year Bonds, will need to be considered when the issuance of 40-Year Bonds becomes more frequent.

The rise in overseas interest rates affects domestic interest rates. Therefore, we would request the debt management office to introduce measures to control violent fluctuations even if the market should play the central role as the adjustment mechanism.

5. Communication from the Financial Bureau

・ Since we plan to lower the lower limit of the coupon rate of interest-bearing JGBs to 0.005% from JGBs issued in FY2021, we remind you of the fact as a matter of precaution. Specifically, this measure will start to apply to the auction of 2-Year Bonds (to be issued on April 1) to be conducted on March 30, to begin with.

・ Regarding the manner to set the coupon rate, the rate is currently determined by setting 0.1% as the minimum interest rate and by setting in 0.1% increments based on the interest rate rounded to the second decimal place of the actual yield of the JGB market on the auction day. After the lowering of the lower limit of the coupon rate, only the minimum interest rate will be added to this (not in 0.005% increments as a whole). In other words, the following basic interest rate shall apply:
(1) When the actual level is less than 0.05% (when rounded, 0% or less), the coupon rate will be set to 0.005%.
(2) When the actual level is more than 0.05% (when rounded, 0.1% or more), the value rounded to the second decimal place is set as the coupon rate.

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