

Minutes of the Meeting of JGB Market Special Participants (86th Round)

1. Date: Thursday, April 2, 2020
2. Place: Held in writing
3. Gist of Proceedings:

1. Latest JGB market situation and outlook for the future

2. Changes in the JGB Issuance Plan associated with the supplementary budget in FY2020

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

• As shown in Document 1, the Prime Minister instructed the formulation of economic measures and compilation of the supplementary budget for FY2020 at the 24th Meeting of the Novel Coronavirus Response Headquarters on March 28. They will be formulated and compiled in the next 10 days and it is expected that the scale of economic measures this time will exceed the scale of economic measures of ¥56.8 trillion at the time of the global financial crisis. Based on this assumption, we would like to hear your opinions on an increase in the issuance amount of JGBs, as Document 2.

• In addition, regarding the method of setting the coupon rate of interest-bearing bonds, although it was decided that the coupon rate would be basically set by rounding down fractions at the actual market price from the auction in January, 2020, it will be set by rounding off the fractions from the auction in April, 2020 from the perspective of mitigating the impact on the market due to the additional JGB issuance. In addition, the reduction of the lower limit of the coupon rate of interest-bearing bonds which was planned to be implemented from October this year in the JGB Issuance Plan for FY2020 will be implemented around April, 2021 by delaying implementation time.

▶ Summarized below are the views and opinions submitted:

• Compared to the situation at the time of this meeting on March 23, the prices have stabilized while liquidity has not improved. Since March 24 the trading volume of JGB futures has not exceeded ¥2 trillion. Also, the trading volume during the day time session on March 30 was only about ¥700 billion, falling to around the record low. In addition, the trading volume of physical bonds has dropped significantly from the same period, and there was no active trading even at the

fiscal year end and at the start of the new fiscal year. The spread of the new coronavirus infection has been gradually expanding also in Japan and there is a possibility of an urban lockdown. In addition, remote work has been introduced gradually by investors and a further decline in liquidity seems unavoidable. In the “Monthly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method)” for April 2020 published by the Bank of Japan (BOJ), the number of the purchase schedules in the short- to medium-term zone and the long-term zone has increased significantly, which would contribute to the market stability. However, the liquidity is unlikely to recover. It is likely that the situation where orders from investors are scarce will continue and it is possible that the JGB auctions in the next 1 to 2 months will be very unstable.

It is desirable to increase the issuance amount from July. In addition to the fact that the amount was increased from July with the compilation of the supplementary budget in April at the time of the global financial crisis and that the reopening will be applied to the issuance in July. An increase in the issuance amount per auction is appropriate in the amount of ¥500 billion (up to ¥600 billion) for the 1-Year T-Bill, ¥300 billion for the 2-Year Bonds, ¥100 billion (up to ¥200 billion) for the 5-Year Bonds, ¥200 billion for the 10-Year Bonds, ¥100 billion (up to ¥200 billion) for the 20-Year Bonds and ¥100 billion for the 30-Year Bonds. The 6-Month T-Bill may be increased by ¥3 to ¥6 trillion per year and its amount can be adjusted. Also, if a part of the 6-Month Financial Bill is changed into 3-Month T-Bills, it will be more easily financed.

For the short-term zone, since Refunding Bonds will decrease by about ¥ 10 trillion in FY2021 compared to FY2020, it is possible to increase the amount of T-Bill to around ¥10 trillion in this supplementary budget for leveling purposes. For the medium- to long-term zones, the 5-Year Bonds were increased by ¥300 billion and the 10-Year Bonds were increased by ¥200 billion per auction in FY2009. However, currently, the 5-Year Bonds bear highly negative interest rates and is very low in demand. In addition, when considering that there was a very long price-tail in the most recent auction and the yield curve has been constantly inverted around the maturity zone relative to JGB futures, the increase for the 5-Year Bonds only should be limited to ¥100 billion. For the super long-term zone, since the increase of the 40-Year Bonds has been decided already, an increase of ¥100 billion per auction, it is appropriate to increase the issuance amount by ¥100 billion per auction for both the 20-Year Bonds and 30-Year Bonds initially by confirming the demand. Further increase should be considered from the latter half of the fiscal year if necessary and possible.

Regarding the setting method of the coupon rate of interest-bearing bonds, we agree to the setting method based on rounding off the fractions. The situation is significantly different from that at a time when the decrease in the issuance amount was the discussed and an increase in the total planned issuance amount can be suppressed even just a small amount. As to the lowering of the lower limit of the coupon rate of interest-bearing bonds, the option of cancellation should be

left as an alternative. Although there will not be any problem in implementing it from April 2021, the situation is uncertain, considering tax revenue reduction and additional supplementary budgets.

- Regarding the latest JGB market situation and outlook for the future, risk reduction has advanced in each market because of the global risk-off sentiment associated with concerns over the spread of the new coronavirus infection. Also, physical restrictions, such as split operations, has caused a drastic decline in the risk tolerance of market participants. Although the market has become somewhat stabilized due to temporary Outright Purchases of JGBs by the BOJ, we should be continuously wary of the market from the perspective of market liquidity and functionality degree because the ask-bid spread in the physical bond market continues to be wide and liquidity has been depleted as JGB futures do not function as a hedging tool. Since there is a possibility that more rigorous measures will be taken by the government depending on the spread of the new coronavirus infection and the number of market participants will decrease further in the future, we request the Financial Bureau to continue to maintain close communication with us including the revision of the JGB Issuance Plan in future.

As for the change in the JGB Issuance Plan associated with the compilation of the supplementary budget for FY2020, we have no request at the moment for a change in the issuance amount of the 40-Year Bonds and Liquidity Enhancement Auctions, considering that they have been adjusted already in the JGB Issuance Plan (initially) for FY2020. On the other hand, an increase of the amount of the 20-Year Bonds and the 30-Year Bonds by around ¥100 billion per auction will be financed without a large impact on the market since the demand of final investors seem to be vigorous though the BOJ has actively reduced the Outright Purchase of JGBs.

Regarding the 10-Year Bonds, the current issuance amount is appropriate because the issuance volume based on the duration is considerable compared to other term bonds and the amount of the Outright Purchase by the BOJ has been gradually reduced in this zone. However, an increase of around ¥100 billion per auction will be possible without a large impact on the market. In addition, as seen in the “Monthly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method)” for April 2020 published by the BOJ, an increase of about ¥200 billion per auction may be possible if a strong support by the BOJ is expected to continue for bonds with remaining maturities of 10 years in the future.

Regarding the 5-Year Bonds, an increase of around ¥100 to 200 billion per auction will be made without a large impact on the market since the ratio of Outright Purchase of JGBs by the BOJ has been high in this zone. Regarding the 2-Year Bonds and the 1-Year T-Bill, an increase of around ¥300 to 400 billion per auction may be possible since they have been absorbed by the market in a stable manner with a stable demand for collateral purposes. Regarding the 6-Month T-Bill, an increase of around ¥700 billion per auction may be possible since they are successfully purchased

by investors and there is a stable demand for collateral purposes.

- Regarding the latest JGB market situation and outlook for future investments, while there is a heightened concern over a global economic recession with the spread of the new coronavirus infection, there is also a growing concern over a large scale expenditure expansion and an increase in the issuance amount of government bonds due to the reduction in tax revenue as well as a concern over an interest rate rise due to the reduction in the risk tolerance of market participants, which has resulted in significant fluctuations in interest rates globally. Although the fluctuations have been restrained to some extent due to measures such as large scale asset purchase by central banks in each country, the volatility of JGBs has been high compared to before and their prices will continue to fluctuate for the time being.

As to the change in the JGB Issuance Plan associated with the supplementary budget for FY2020, an increase in the issuance amount for each term maturity should be well balanced. Although the high uncertainty over the future macroeconomic environment will continue for the time being, it will be possible to further increase the issuance amount in the short-, medium- and long-term zones in view of the current monetary policy and the stance of market operations by the BOJ, including Outright Purchases of JGBs.

In addition, we agree to the method of setting the coupon rate for interest-bearing bonds and the scheduled timing for lowering the lower limit of the coupon rate.

- It is appropriate to allocate most part of the additional issuance of JGBs associated with the supplementary budget for FY2020 to the 6-Month and 1-Year T-Bills for most of the part to level off the issuance amount between fiscal years because the issuance amount of Refunding Bonds in FY2021 will decrease by ¥10 trillion. In addition, on the assumption that the issuance amount is increased by about ¥16.9 trillion from July, which is similar to the case of the first supplementary budget for FY2009 at the time of the global financial crisis, the possible issuance amount for each term maturity is as follows. It is possible to increase the amount of ¥600 to 700 billion per auction for the 6-Month T-Bill. It is possible to increase the amount of ¥600 per auction for the 1-Year T-Bill. It is possible to increase the amount of ¥200 to 300 billion per auction for the 2-Year Bonds because of its tight balance of supply and demand for collateral purposes. It is possible to increase the amount of ¥200 for the 5-Year Bonds though we must be wary of a loosening in the balance of supply and demand because the number of market participants is small in this zone. Regarding the 10-Year Bonds, an increase of ¥200 billion per auction is acceptable since a large scale monetary easing has been continuing by the BOJ and there is hardly any concern over the absorption of the 10-Year Bonds to the market because it is under the Yield Curve Control policy. However, careful consideration is required when increasing the issuance

because a worsening in the balance of supply and demand may destabilize the market as a whole. As to the 20-Year Bonds, an increase in the amount of around ¥100 to 200 billion is possible since its demand has been high with positive interest rates and there is a considerable participation of investors in this zone. Regarding the 30-year Bonds, an increase in the amount of around ¥100 billion is possible as the demand for a duration extension has been high. However, due consideration is required for a further increase because the issuance amount for 30-Year Bonds has not exceeded ¥800 billion in the past.

We have no objection to changing the method of setting the coupon rate for interest-bearing bonds to the former way and to postponing the implementation of the lowering of the lower limit of the coupon rate.

- Regarding the latest JGB market situation and outlook for the future, the social and economic turmoil caused by the spread of the new coronavirus infection had a large influence on the market and the liquidity of the JGB market declined sharply. Although the liquidity is expected to recover gradually in April when the new fiscal year starts for domestic investors, it will be slow because each company will introduce measures to prevent the spread of the new coronavirus infection. In addition, interest rates are likely to decrease, despite expansionary expenditure by each country, since the downward pressure on macro economy has been getting larger.

As to the change in the JGB Issuance Plan associated with the supplementary budget for FY2020, we assume that the issuance amount of interest-bearing bonds with remaining maturities of 2 years or longer will be increased by around ¥7 trillion, considering that the scale of economic measures will supposedly exceed those at the time of the global financial crisis, which is around ¥17 trillion, and the amount of Refunding Bonds will decrease by around ¥10 trillion.

Considering the current low market liquidity, it seems desirable to put some time between the announcement and the actual increase of the issuance. Therefore, the total planned issuance amount should be increased in 9 months from July. Specifically, it is appropriate to increase the issuance during 9 months by ¥0.8-0.9 trillion per auction for the 30-Year Bonds, ¥1.1-1.2 trillion per auction for the 20-Year Bonds, ¥2.2-2.3 trillion per auction for the 10-Year Bonds, ¥2.0-2.1 trillion per auction for the 5-Year Bonds, ¥2.1-2.3 trillion per auction for the 2-Year Bonds, ¥2.0-2.3 trillion per auction for the 1-Year T-Bill and Bonds, and ¥900 billion for the 6-Month T-Bill in a year.

As a result, a total increase in the market issuance of ¥15.4–20.8 trillion is possible, including ¥5.4–10.8 trillion by increasing the issuance amount of interest-bearing bonds for FY2020 and ¥10 trillion procured with T-bill associated with the reduction in the amount of Refunding Bonds. Since the increase in the amount of the 40-Year Bonds in FY2020 has been decided already, no additional increase has been considered. However, if a further increase in the issuance amount is

necessary for a future additional economic measures or other reasons, the amount of the 40-Year Bonds and Liquidity Enhancement Auctions should be also increased. Regarding Liquidity Enhancement Auctions, there is a considerable room for increase in the medium- to long-term zones, in particular, for the remaining maturities of 1-5 years zone.

In addition, we agree to the method of setting the coupon rate for interest-bearing bonds in consideration of the current social situation and changes in the market environment.

- An increase in amount of Outright Purchases of JGBs by the BOJ by increasing frequency of the operation in the zone with remaining maturities of shorter than 10 years has been shown in the “Monthly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method)” for April 2020, which is expected to contribute to the market stability. However, the low liquidity and high volatility of the JGB market will unlikely to improve soon because many investors have increased the ratio of remote working under the contingency plan, considering the possibility of urban lockdown,

Regarding an increase in issuance of JGBs, an increase of about ¥100–200 billion for the 30-Year Bonds will be possible due to the stable demand by life insurance companies. Also, an increase of ¥200–300 billion for the 20-Year Bonds will be possibly financed due to a strong demand for JGBs with positive interests mainly by banks. As to the 10-Year Bonds, the balance of demand and supply changes significantly depending on whether the interest rate is positive or negative, and thus, ¥100–200 billion is the limit of the increase. Regarding the 5-Year Bonds, an increase of ¥200 billion is the maximum limit since its interest rates are considerably negative and there is hardly any demand for it except for Outright Purchase of JGBs by the BOJ. Regarding the 2-Year Bonds, although its interest rates are considerably negative, the demand would be stronger than 5-Year Bonds supported by foreign investors and banks, and thus, an increase of up to ¥300 billion will be absorbed. Further, we agree to the setting method of the coupon rate.

In addition, we propose to change the auction method to the Dutch-style method in preparation for a large scale increase in issuance amount in an environment of low liquidity and high volatility. The Dutch-style method is effective in restraining volatility before and after the auction. Also, it is adopted in the US bond market, where the scale of capital procurement is the largest in the world. When holding a large scale auction, the Dutch-style method provides investors with a certain sense of reassurance and contributes to a stable issuance of JGBs. It is worthwhile to revise the idea of transitioning the auction method from the Dutch-style to the conventional method when the market gets matured, especially in this fiscal year when the issuance of JGBs will be increased significantly.

In addition, a revision of assumed coupon interest rate of 6% of the standardized bonds for 10-year JGB futures to the actual market rate will contribute to improvement of the market

liquidity and stable issuance of current bonds. By lowering the assumed coupon rate, the cheapest-to-deliver issue will be issues with remaining maturities closer to 10 years, which is now 7 years. By doing so, it is expected that both the 10-year JGB futures and the 5-year JGB futures will be actively traded and they will perform a hedging function even in a high volatility situation. If it is difficult to revise the assumed coupon rate, it is another option to create a futures product with an assumed coupon rate close to the actual market temporarily and list it in the market with other futures products.

- The liquidity of the market has declined due to the split operations and promotion of remote work in response to the spread of the new coronavirus infection as well as the possibility of the lockdown of Tokyo. Although the JGB market has subsided compared to before, the liquidity will decline drastically at the time of lockdown and we have concerns over the JGB auction when the lockdown occurs. It will be an option to change the auction method to the Dutch-style.

Regarding an increase in issuance of JGBs, an increase of about ¥200 billion for both the 20-Year Bonds and the 30-Year Bonds will be possibly financed due to the stable demand by investors. As to the 10-Year Bonds, the demand by investors changes significantly depending on whether interest rates are positive or negative, and thus, we must be cautious according the level at the time of the auction. Regarding the 2-Year Bonds and bonds with shorter maturities, an increase of up to around ¥400 billion will be possible because there is a demand by investors for collateral purposes. Regarding the 5-Year Bonds, although an increase in an amount of around ¥200 will be possible per auction, the yield curve will be distorted if the increase is too much since the demand by investors is weak. Eventually, the stance of the BOJ for Outright Purchase of JGBs will play an important role.

- Due to the concerns over the spread of the new coronavirus infection, interest rates fluctuated significantly until the middle of March. However, temporary Outright Purchases of JGBs by the BOJ has contributed to stabilize the market. On the other hand, considering a possibility of a lockdown in Japan, it is difficult to have a large position. As the market liquidity might be ensured in the future, the situation will continue to be unpredictable with possibilities of sudden fluctuations of interest rates in the future.

On the assume that the size of increase per month is ¥1.8 trillion and the size of increase of interest-bearing bonds is ¥0.8 trillion when considering that the increase in the increased issuance amount was around ¥16.9 trillion in the change of the issuance plan associated with the first supplementary budget in FY2009 and that the increase will be started in July, it is appropriate that the increase is applied to all term maturities from the 2-year Bonds to the 30-Year Bonds because the size of the increase is considerable. Based on that perspective, it is appropriate to increase

¥200 billion per auction for both the 20-Year Bonds and 30-Year Bonds in the super long-term zone, which are expected to continue to have positive interest rates in the future. On the other hand, the increase should be a maximum of ¥100 billion per auction for the 5-Year Bonds because the demand is low. The increase should be ¥100 to 200 billion per auction for the 2-year Bonds and the 10-Year Bonds. In addition, an increase in Liquidity Enhancement Auctions in the remaining maturities of 1-5 years zone should be considered from the perspective to increase the issuance in the short- to medium-term zone because there is a demand by investors for a part of off-the-run issues in this zone.

- After the crash of the market in March, liquidity has declined significantly and generated a difficult market-making environment. Despite such a situation, a strong demand by domestic investors demand has been confirmed and this situation will continue in the future.

In view of the scale of the supplementary budget for FY2020, the increase per auction for each maturity term will be around ¥200 billion on the assumption that an increase of about ¥1 trillion per month is evenly distributed among the 2-Year to the 30-Year Bonds. It is appropriate to amplify the amount of increase of the 10-Year Bonds and the 20-Year Bonds for which there is a strong need from investors. Regarding the 2-year Bonds and the 5-Year Bonds, although the demand by domestic investors is weak due to negative interest rates, a similar increase to that in the 10-Year Bonds and the 20-Year Bonds may be acceptable, considering a strong support by the Outright Purchase of JGBs. Regarding the 30-Year Bonds, an increase of around ¥100 billion per auction is appropriate. As regards the T-Bill, since demand and supply are not matched well in the 1-Year T-Bill, the issuance of 1-Year T-Bill should be increased.

There's no need to make any changes in the increase of ¥100 billion per auction for the 40-Year Bonds and the reduction of ¥100 billion per auction of Inflation-Indexed Bonds.

- Although there is a risk that the trading in the market become inactive, the volatility has been decreasing due to various measures taken by the central banks of each country. Similarly, the JGB market has also been stabilized due to measures related to Outright Purchase of JGBs by the BOJ. Also, the effect of the increase in the issuance amount of JGBs on the market will be basically offset by measures taken by the BOJ to some extent. Therefore, the market will not likely be affected significantly. In the meantime, if the effect of the spread of the new coronavirus is prolonged and risk avoidance continues, there is a possibility that funds will flow back to JGBs with the decline in volatility in the future. In this case, a concentration of demand on the super long-term zone with positive interest rates is expected.

Considering the reduction in the issuance amount of refunding bonds for FY2021, the ratio of short-term bonds should be high for the increase in the issuance amount. On the other hand, there

is also a room for an increase in amount for the super long-term zone due to a vigorous demand for this zone. Therefore, on the assumption that the increase will start in July, it is appropriate to increase by ¥0.9-2.7 trillion for both the 20-Year Bonds and the 30-Year Bonds, ¥0.9– 4.5 trillion for both the 2-Year Bonds and the 10-Year Bonds, ¥0.9–3.5 trillion for the 5-Year Bonds, and ¥1.8 –7.2 trillion for the 6-Month and 1-Year T-Bill in terms of the annual increase. Regarding the 40-Year Bonds, a further increase will have an adverse effect on the market since the amount of increase has been decided already. Regarding the 5-Year Bonds, negative interest rates has been continuing and there demand by foreign investors is scares. Therefore the room for an increase is smaller than the 2-Year Bonds and 10-Year Bonds since the demand for them is relatively weak.

- Following the market turmoil, the market liquidity is likely to continue to be low because the market environment has been changing. Many market participants have adopted a working system in which they work in separate places from the perspective of Business Continuity Planning. Market makers tend avoid taking risks. Also, Investors will meet their needs with auctions and the Outright Purchases of JGBs by the BOJ. However, once the need for liquidation has settle down, interest rates will be unlikely to fluctuate significantly even in such an unstable market because a strong demand for positive interest rates by domestic investors would lead to a steady trading in the zones with positive interests including the 10-Year Bonds.

Comparing the current situation with the time JGB issuance amount was increased in FY2009, the short- to medium-term interest rates were in the positive range and JGBs in this zone were absorbed as the core portfolios by depository financial institutions. On the other hand, currently, interest rates in his zone have been in the negative range under the Yield Curve Control. Compared to the zone with the remaining maturities of 0-2 years, for which there is a demand for collateral or a demand produced by converting other currencies into yen, the 5-Year Bonds have been less attractive and it is difficult to increase the issuance amount. On the other hand, there is still an actual demand for JGBs with positive interest rates. Therefore, if necessary, an increase of ¥100 billion per auction is possible for the 40-Year Bonds. An increase of up to ¥200 billion per auction for the 30-Year Bonds, an increase of up to ¥400 billion per auction for the 10-Year Bonds, an increase of up to ¥100 billion per auction for the 5-Year Bonds, and an increase of up to ¥400 billion per auction for the 2-Year Bonds are possible, respectively. In addition, regarding T-Bills, an increase of up to ¥800 billion per auction, including the 1-Year and the 6-Month T-Bills, is possible.

- The risk tolerance of market participants has declined due to the dispersion of the workplace and remote work, increasing the burden on dealing with auctions. As this situation is likely to continue a few months in the future, the auction should be transitioned to the Dutch-style method,

especially for T-Bill which have shown unstable price movements.

In addition, it is appropriate to increase the issuance amount in the similar manner as the case of the global financial crisis. In consideration of the possibility that the size of the budget may expand further in a near future, the amount of front-loading Refunding Bonds should be reserved as much as possible at this moment. Instead, it should be dealt with an increase in the issuance amount to the market. An increase of ¥300 billion per auction for the 2-Year Bonds, an increase of ¥200 billion per auction for the 5-Year Bonds, the 10-Year Bonds and the 20-Year Bonds and an increase of about ¥100 billion for the 30-Year Bonds from July will be possible.

- The volatility of the JGB market remains high and varies in a limited range under the powerful Yield Curve Control policy. The increase in the issuance amount will not likely lead to a significant fluctuation in a near term since the surplus in the market will be ultimately absorbed by the BOJ. Although inflationary pressure may result from global monetary measures, this will not be appear until the current crisis has subsided.

It is possible to increase the issuance amount for each term maturity premised on the involvement of the BOJ. In addition, it is desirable that the size of the increase for the 20-Year Bonds is amplified because the supply and demand are well balanced compared with other bonds. On the contrary, the 5-Year Bonds tend to lack demand. Most part will be filled by front-loading Refunding Bonds and T-Bills. However, this suggests an increasing risk of refinancing. Since T-Bills and the 2-Year Bonds depend largely on unstable factors of foreign investors, it is desirable to extend the maturities due to the low interest rate environment and strong demand.

- We suggest an increase in the issuance amount in all maturities, including the 40-Year Bonds. An increase by ¥100 billion per auction for the 40-Year Bonds and the 30-Year Bonds, by ¥200 billion per auction for the 20-Year Bonds and the 10-Year Bonds, ¥300 billion per auction for the 5-Year Bonds and the 2-Year Bonds, and ¥300-500 billion per auction for the 6-Month and the 1-Year T-Bill will be desirable. As long as there is the Yield Curve Control policy of the BOJ, the zones with remaining maturities of the 10 years and shorter are secured. In addition, a strong demand is expected for the 30-Year Bonds and the 40-Year Bonds due to purchases by life insurance companies and global flattening pressure. Therefore, a balanced increase in all zones will be desirable. While we have no strong opinion on the issuance amount for the Liquidity Enhancement Auctions, there is a concern of resulting in a weak auction because included in the calculation of the amount of successful bids for the League Table of JGB Market Special Participants. Therefore, there is no need to make a change. Also, we have no objection to the method of setting the coupon rate.

Regarding the outlook for the future JGB market, a long lasting economic downturn will be

unavoidable. In such situation, we will do our best to continue our business in a similar way as usual. In addition to the introduction of working in an alternative office, we are considering a variety of working styles including split operations and remote work. By doing so, we will try to deal with auctions as usual.

- Considering the increase in the amount of current Outright Purchase of JGBs and in light of the discussions so far at the Meeting of JGB Market Special Participants and the Advisory Council on Government Debt Management, we present our proposal for the increase in JGB issuance on the assumption that the increase will start in July as following: an increase per auction of ¥100 billion with a total increase of ¥900 billion for the 30-Year Bonds; an increase per auction of ¥100 billion with a total increase of ¥900 billion for the 20-Year Bonds; an increase per auction of ¥300 billion with a total increase of ¥2.7 trillion for the 10-Year Bonds; an increase per auction of ¥300 billion with a total increase of ¥2.7 trillion for the 2-Year Bonds; an increase per auction of ¥500 billion with a total increase of ¥4.5 trillion for the 1-Year T-Bill; and an increase per auction of ¥500 billion with a total increase of ¥2.5 trillion for the 6-Month T-Bill, resulting in a total increase of ¥16.9 trillion in all term maturities.

As stated in the last meeting, the idea of transitioning the auction method from Dutch-style to the conventional method when the market is matured should be revised. We agree to the opinion in the last meeting that the Dutch-style auction provided market participants with a sense of reassurance at the interviews before and after the issuance auctions when the market volatility was high. In addition, the Dutch-style auction method is adopted in the US market which is reputed to have the best liquidity and functionality. Therefore, the assessment that the conventional method is superior to the Dutch-style auction method is not necessarily reasonable. If the auction method is changed to the Dutch-style auction method, an increase in investment in dollars, particularly from US customers who are used to the Dutch-style auction method, can be expected, leading to price stability and cost reduction for issuer in the long term. This is a good opportunity to transition to the Dutch-style method when the increase in the issuance amount is planned. For secure and stable issuance and stable financing, it is important to take this opportunity to attract investments, even in a small amount, from those investors who have abstained from participating in the primary market because of the conventional auction method. The auction system will be more easily accepted by foreign investors if it is clarified. We suggest the following idea as an example: As for JGBs with a maturity shorter than 10 years, the Dutch-style auction method will be applied if the issuance amount is ¥1.5 billion or more; as for JGBs with a maturity of longer than 10 years, the Dutch-style auction method is applied if the issuance amount is less than ¥500 billion.

- Liquidity has been low. Although it seems that the worst period has passed, liquidity will fall drastically again in case a capital blockade or an urban lockdown takes place.

On the other hand, there is a room for increase in the issuance amount for all term maturities because there is a vigorous demand for the super long-term zone by final investors, including life insurance companies, and the amount of the Outright Purchase of JGBs have increased, which has been centered on the remaining maturities of 10 years or less zone. Regarding the 2-Year Bonds, there is a room for increase of around ¥300 billion per auction because there would be a heightened demand for collateral purposes around the fiscal year end. Regarding the 5-Year Bonds, there is a room for increase of around ¥200 billion per auction because of the increase in Outright Purchase of JGBs, despite a lack of demand by final investors. However, it has to be well balance with that of the 10-Year Bonds and the 2-Year Bonds. Regarding the 10-Year Bonds, there is a room for increase of around ¥200 billion per auction because they will be purchased by final investors when interest rates are in the positive range. Regarding the 20-Year Bonds, there is a room for increase of around ¥100-200 billion per auction because of a high demand for positive interest rates though the long-term interest rate have been moving in the vicinity of 0%. Regarding the 30-Year Bonds, there is a room for increase of ¥100-200 billion per auction since the demand has been exceeding the currently supplied amount due to the constant purchases even after the rush purchase at the fiscal year end. Further, it is possible to procure around ¥10 trillion per year through the 1-Year and the 6-Month T-Bills. In addition, there is a further room for increase in the 40-Year Bonds and Liquidity Enhancement Auctions in the remaining maturities of 1-5 years zone. Therefore, when a further increase is necessary in the future, an increase in these should be considered

The need for restraining an issuance above par value for controlling the issuance amount of front-loading Refunding Bonds has decreased because of the increase in the issuance amount this time. We agree to the change of the method of setting the coupon rate of interest-bearing bonds from rounding down to rounding off and to the postponing of implementation of the lowering of the lower limit of the coupon rate. In addition, we request the Financial Bureau to raise the maximum bidding amount of Non-price competitive auction II from 10% to 15% again.

Also, it is reasonable to start the increase in the issuance amount of interest-bearing bonds in July from which the second quarter of FY2020 starts. However, the method of setting the coupon rate of interest-bearing bonds may be changed earlier. Once the introduction of the method is decided, it is important to implement it as soon as possible.

- The markets overseas and in Japan has been volatile by being unable to discern the effect of the spread of the new coronavirus infection. The JGB market has also been unstable, showing low

liquidity. Drastic changes in prices were observed though it was temporary. The BOJ has responded to the situation and involved quickly in the market, which has contributed to the gradual recovery of the market stability.

Although there are a number of unstable factors for the market, including the possibility of a lockdown, the market will stabilize in the future, carefully dealing with auctions to the end of the month.

Regarding the change in the JGB Issuance Plan, we request the Financial Bureau to increase mainly the issuance amount in the medium- to long-term zone in the formulation of the JGB Issuance Plan. Specifically, it is desirable to increase the issuance amount by ¥200 billion per auction for the 20-Year Bonds and by ¥100 billion per auction for the 30-Year Bonds to ease the supply and demand constraints. In addition, regarding the 10-Year Bonds, an increase of around ¥200 billion per auction is possible since its liquidity is high. Regarding bonds in the short- to medium-term zone, it is appropriate to limit the increase in the issuance amount of the 5-Year Bonds to ¥200 billion per auction because of concerns over the balance of supply and demand. On the other hand, an increase of ¥300 billion can be financed for the 2-Year Bonds because they would be supported by the collateral needs by financial institutions. In addition, a large-scale increase is possible for the 1-Year T-Bill. An increase of ¥300-500 billion per auction can be absorbed by the market.

The increase should be started in July so that the market can incorporate the information.

- Regarding the latest JGB market situation and outlook for the future, concerns over the spread of the new coronavirus infection continue to be the main issue. Although the risk tolerance of market participants will recover to some extent, there are a number of uncertain factors surrounding the issue, such as an adverse effect on the global economy, economic measures of each country, split operations and remote work by market participants, and increase in issuance of JGBs. It is inevitable that the market liquidity will remain low and the unstable market will continue.

However, regarding the increase in JGB issuance, the market is prepared to some extent in view of the experience of FY2009. The monetary policy by the BOJ will provide a reliable support. The long-term interest rate will remain in the range of 0-0.2% under the Yield Curve Control policy through the Outright Purchases by the BOJ as a powerful measure. There is an ample room for increased the amount of the Outright Purchase of JGBs due to the past reduction, which can be described as “turn a misfortune into a blessing”. Concerns over the increase in JGB issuance and financial deterioration will be generally offset by the quantitative easing by the central banks of each country. When the market restores calm correspondingly and the publication of deteriorated economic data continues, the long-term interest rate will likely drop further in

negative ranges. Under the circumstances, the possibility of an additional easing by the BOJ, including an interest rate cut to a lower rate in the negative range, is still high.

However, as stated in the last meeting, we have to continue to be wary of the situation of “If the mountain is high the valley is deep”. It is unclear whether the spread of the new coronavirus infection subsides, when a vaccine or a medicine will be developed, or we have to wait for some time for the situation to recover. However, concerns over economic deterioration will eventually be eased with the recovery of the movement of people and goods. At such a time, long-term interest rates that have dropped significantly may rise sharply. However, there is high expectation in Japan that such a pressure will be controlled by the monetary policy of the BOJ and it is highly probable that the rise of interest rates will be limited.

As for the change in the JGB Issuance Plan associated with the compilation of the supplementary budget for FY2020, it is desirable that the increase will start in July in the same manner as in FY2009. In addition, it is possible to increase the issuance amount by ¥200 billion per auction for the 2-Year Bonds, 5-Year Bonds, 10-Year Bonds and 20-Year Bonds and by ¥100 billion for the 30-Year Bonds, resulting in a total increase of ¥8.1 trillion. In the meantime, a total increase of ¥8.4 billion will be possible for the T-Bills, including an increase of ¥400 billion per auction (¥3.6 trillion in a year) for the 1-Year T-Bill and an increase of ¥4.8 trillion in a year for the 6-Month T-Bill which will be redeemed in the following fiscal year. In total, an overall increase of ¥16.5 trillion will be possible.

Further, since a highly volatile market is expected to continue, we suggest the possibility of applying the Dutch-style auction method to bonds other than the 40-Year Bonds.

- A strong need for investment from both domestic and overseas investors can be expected for the super long-term zone also in FY2020. Although there is a possibility that the pressure on interest rate rise will increase in the super long-term zone due to the effect of the new coronavirus dwindles, the rise in interest rates will attract more demand. There would not be any problem in financing JGBs. It is desirable to increase the issuance amount by ¥100 billion per auction for the 30-Year Bonds, and ¥200 billion per auction for the 20-Year Bonds. The issuance amount of the 40-Year Bonds, which has been increased by ¥100 billion per auction from FY2020, should remain unchanged.

Regarding JGBs with remaining maturities of 10 years or shorter, a considerable increase in the amount is possible since the supply and demand will be balanced in the framework of the monetary policy of the BOJ. It is desirable to increase the issuance amount by ¥300 billion per auction for the 10-Year Bonds, 5-Year Bonds, 2-Year Bonds and 1-Year T-Bill, respectively. As the needs for the 6-Month T-Bill are strong from foreign investors, the issuance amount should be increased by around ¥3 trillion per year, or around ¥500 billion per auction.

In addition, the issuance amount per auction for Liquidity Enhancement Auctions in the remaining maturities of 5–15.5 years zone, which was reduced in the current fiscal year, may be increased again to ¥600 billion. The start of the increase should be in July.

Regarding the auction method, in view of the recent high volatility, we request again the Financial Bureau to continue with the Dutch-style auction method for the 40-Year Bonds because it is very effective in an unstable market.

- Due to a large-scale supplementary budget associated with the spread of new coronavirus infection, a huge amount of increase in JGB issuance is expected. However, its effect on the market is likely to be controlled by the increase in the amount of Outright Purchase of JGBs. If the increase in amount is evenly distributed among a wide variety of term maturities, it would not cause a surprise. However, speculations of deepening negative interest rates by the BOJ have been receding while concerns over an increase in the issuance amount of T-Bill have been growing. Therefore, the room for short-term interest rates to decline has been limited more than before. On the other hand, due to the deterioration of the macroeconomic environment, interest rates are unlikely to rise and the volatility is likely to fall for the time being. Although the liquidity of the JGB market has been low, this does not pose a big problem compared to the US market where the liquidity has fallen due to the turmoil of the short-term credit market.

For these reasons, the increase in issuance of JGBs associated with the compilation of the large supplementary budget should be evenly distributed among a variety of term maturities. Specifically, an increase of ¥100 billion per auction for the 6-Month, 1-Year T-Bills and interest-bearing bonds from the 2-Year Bonds to 30-Year Bonds, resulting in a total increase of ¥600 billion, can be sufficiently absorbed under the current market environment. However, the increase for the 40-Year Bonds, which has been decided to be increased in the JGB Issuance Plan for FY2020, should remain unchanged. In addition, Inflation-Index Bonds whose issuance amount has just been decided to be reduced in response to the current deterioration of the market will not be a candidate for the increase. If a further increase is required, it is appropriate to deal with the situation by further increasing the issuance amount of 1-Year T-Bill or the 2-Year Bonds, using the example of the increase in the JGB issuance associated with the first supplementary budget in FY2009 as a reference. In addition, the amount of Liquidity Enhancement Auctions in the remaining maturities of 1–5 years zone may be increased.

- The unstable condition will continue due to the spread of the new coronavirus infection.

Regarding the 30-Year Bonds, the room for increase in amount is limited, considering that the amount of the 40-Year Bonds will be increased. As an image, the central value of the annual increase is a zero trillion. Regarding the 20-Year Bonds whose balance of supply and demand is

more stable than the 30-Year Bonds, there is a room for annual increase in the amount of ¥0.9 trillion. Regarding the 10-Year Bonds which is under the Yield Curve Control policy, there is a room for annual increase in the amount of ¥1.2 trillion, considering demand for positive interest rates. The room for annual increase for the 5-year Bonds is more limited than the 10-Year Bonds due to negative interest rates and instability. Regarding the 2-Year Bonds, there is a room for annual increase in the amount of ¥1.2 trillion due to collateral demand despite negative interest rates. An annual increase of ¥12 trillion is appropriate for T-Bill for which there is a demand around the short-term policy interest rate, considering the amount of Refunding Bonds as well.

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