

# JAPANESE GOVERNMENT BONDS

Monthly Newsletter of the Ministry of Finance, Japan

Jan. 2015

## This Month's Special!

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2 Holding of the 34th Advisory Council on Government Debt Management  
3 Plan for expanding sales of JGBs for retail investors
- Monthly Topic** ⇒ Breakdown by JGB and T-Bill Holders (Sep.2014, Q3)

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## WHAT'S NEW

### 1. The summary of minutes of the Meeting of JGB Market Special Participants (59<sup>th</sup> Round)

On December 18, 2014, the MOF held the Meeting of JGB Market Special Participants (59th Round). The summary of the meeting was as follows:

1) As the Financial Bureau asked for additional opinions of the attendees about the amount of market issuance in the JGB Issuance Plan for FY2015 (excluding opinions on Inflation-Indexed Bonds (JGBs)), the following is the summary of opinions expressed by the attendees.

- As for 40-Year Bonds, the issuance of ¥500 billion 5 times would be acceptable. 30-Year Bonds may be issued at ¥700 billion in months when 40-Year Bonds are issued and at ¥800 billion in other months. Considering that the liquidity of 40-Year Bonds has been improving owing to the BOJ's JGB purchases, the amount of 40-Year Bonds could be significantly increased along with 30-Year Bonds.
- Given that the impact of increasing the amount of 40-Year Bonds on the market is bigger than that of 30-Year Bonds, there is the possibility of an unsuccessful auction for 40-Year Bonds. Taking this into account, we believe the authority should mainly increase the amount of 30-Year Bonds.

2) The Financial Bureau gave the following explanations about the issuance amount of JGBs in January 2015 and FY2015.

- The issuance amount in January 2015 will be ¥500 billion.
- In FY2015, the authority will maintain the issuance amount per auction at ¥500 billion and issue the bonds 4 times a year as in FY2014.
- We will flexibly consider an additional issuance depending on investment needs.

The following is the summary of opinions expressed by the attendees.

- The issuance amount per auction in January 2015 and FY2015 may be ¥500 billion. A certain demand exists for the current issue of JGBs from investors such as index investors.
- In the Issuance Plan for FY2015, it is advisable that the authority basically set the issuance amount per auction at ¥500 billion, while articulating the possibility of not only an increase in issuance, but also a decrease. By doing so, the authority would be able to flexibly address various situations.

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### 3) The method of reopening 10-Year Bonds in January and February 2015

As the Financial Bureau made a proposal to continue the current method of reopening 10-Year Bonds, many of the attendees were of the opinion that the idea proposed by the authority would present no problem, while some expressed the following opinions:

- We request the authority adopt the general reopening method. Assuming that the current monetary easing will be continued, market liquidity would decline day by day. Therefore, it is desirable to increase the issuance amount per issue before the liquidity is lost.
- The general reopening method would be preferable for securities companies from the viewpoint of reducing gaps between issues. On the other hand, there is a need for investors, especially local ones, to market bonds with different book values as separate issues. Therefore, in order to strike a balance between the two, we request that the current method be continued.
- Considering that there have been no cases where the bonds were not reopened under the current method, we request the authority maintain the current method.
- We have no objection to the idea of taking measures against the lowering liquidity. However, we believe it is necessary to take stock of factors behind it, before coping with the issue. There could be a factor that valuation gains and losses deriving from large market swings have made it difficult for market participants to trade JGBs, in addition to the fact that an excess reduction in yields has reduced their motivation for trading. Besides, it could also be a factor that the global trend of strengthening financial regulations has made it difficult for them to enlarge their balance sheets, which would lower their ROE (Return on Equity). In a situation where these various factors contribute to the lowering liquidity, we consider it is necessary to assess carefully whether increasing the issuance amount per issue under the general reopening method will be the solution for the lowering liquidity or not.

### 4) Auctions for Enhanced-Liquidity in the Jan.-Mar. 2015 quarter

As the Financial Bureau made a proposal to maintain the current method, most of the attendees had no objection to such proposal. There was also an opinion that the authority could consider extending the scope of the auction to cover the zone of less than 5 years remaining to maturity.

### 5) Auctions for Buy-backs in the Jan.-Mar. 2015 quarter (regarding JGBs)

The Financial Bureau proposed that they maintain the current buy-back amount in February and March 2015 and reduce the amount of buy-backs for the auction to be held in the morning of the issuing date in January to ¥20 billion. Most of the attendees had no objection to such proposal. The following were other opinions expressed by the attendees. In addition, Auctions for Additional Buy-backs (switch auctions) is to be terminated next January.

- In light of the recent auction results, we believe that the authority can decrease the buy-back amount to ¥10 billion in Auction for Buy-backs to be held in the morning of the issuing date in January.
- We believe that the authority should terminate Auctions for Buy-backs in and after February.
- We request the authority extend the scope of Auctions for Buy-backs to cover off-the-run issues of the new JGBs, whose prices are relatively rapidly declining.

### 6) Auctions for Buy-backs in the Jan.-Mar. 2015 quarter (regarding the 15-year Floating-Rate Bond)

The Financial Bureau proposed that they maintain the current frequency of the buy-backs and decrease the buy-back amount per auction to ¥100 billion. Most of the attendees had no objection to this, and there was an opinion that the authority should decrease the buy-back amount more significantly.

## 7) Bidding limitation and bidding responsibility

The Financial Bureau gave the following explanations about bidding limitation and bidding responsibility:

- From the viewpoint of restraining oligopolistic purchases by some participants, we are going to set the maximum amount of bidding at one-half of the planned issuance amount and raise the level of bidding responsibility for JGB Market Special Participants from “at least 3% of the planned issue amount” as currently required to “at least 4% of the planned issue amount” in each auction from April 2015.

The Financial Bureau further asked the views of participants regarding the latest JGB market situation and its future outlook, although this is omitted due to lack of space.

## ○ Auction Schedule for January - March 2015

On December 24, 2014, the MOF made the press release about the auction schedule for January-March 2015.

### **【Issuance of the 10-year and Inflation-Indexed Bonds】**

#### 1) 10-year Bonds

- The January issue will be a reopening issue of the December issue unless the gap between the market interest rate on the auction day and the coupon rate of the December issue is more than 0.20%.
- The February issue will be a reopening issue of either the December or the January issue unless both of the gaps between the market interest rate on the auction day and the coupon rate of the December and the January issue are more than 0.20%.
- The issuance method after April will be determined following the discussions at the Meeting of JGB Market Special Participants and the Meeting of JGB Investors on a quarterly basis.

#### 2) Inflation-Indexed Bonds

- The issuance amount in January 2015 will be about 500 billion yen.

### **【Issuance amount for the Auctions for Enhanced-liquidity】**

	Jan. 2015	Feb. 2015	Mar. 2015
1. Issues with remaining maturities from 5 to 15.5 years 【January · February · March】 -10-years(issue number 306 to 335) -20-years(issue number 44 to 120) -30-years(issue number 1 to 3)	Approx. 400 billion yen	Approx. 400 billion yen	Approx. 400 billion yen
2. Issues with remaining maturities from 15.5 to 39 years 【January · February · March】 -20-years(issue number 121 to 150) -30-years(issue number 4 to 44) -40-years(issue number 1 to 6)	Approx. 300 billion yen	Approx. 300 billion yen	Approx. 300 billion yen

Details: [http://www.mof.go.jp/english/jgbs/topics/press\\_release/20141224-01e.htm](http://www.mof.go.jp/english/jgbs/topics/press_release/20141224-01e.htm)

### **【The Auction Schedule for the Buy-back Program】**

Auction Month	Issue		
	2,5,10,20,30 and 40-year	15-year Floating-rate	10-year Inflation-Indexed
January 2015	-	Approx.200 billion yen	Approx.10 billion yen 【Additional】 Approx.500 billion yen
February 2015	-	Approx.100 billion yen	Approx.10 billion yen
March 2015	-	Approx.200 billion yen	Approx.10 billion yen
Total	-	Approx.500 billion yen	Approx.530 billion yen

Details: [http://www.mof.go.jp/english/jgbs/topics/press\\_release/20141224-02e.htm](http://www.mof.go.jp/english/jgbs/topics/press_release/20141224-02e.htm)

## 2. Holding of the 34<sup>th</sup> Advisory Council on Government Debt Management

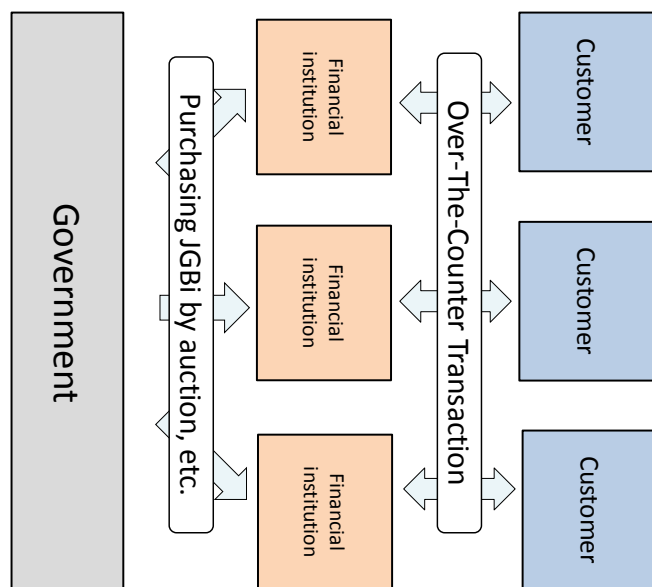
On December 19, 2014, the MOF held the 34th Advisory Council on Government Debt Management. The content of the proceedings was as follows:

- (1) The Government Pension Investment Fund (GPIF) reported on revision to the portfolio of GPIF.
- (2) The Bank of Japan (BOJ) reported on the current state of BOJ's Monetary Policy.
- (3) The MOF explained FY2015 Debt Management Policies and the JGB Issuance Plan.

## 3. Plan for expanding sales of JGBis for retail investors

Under the integration of financial income taxes in January 2016, retail investors will be able to hold JGBis from January 2015.

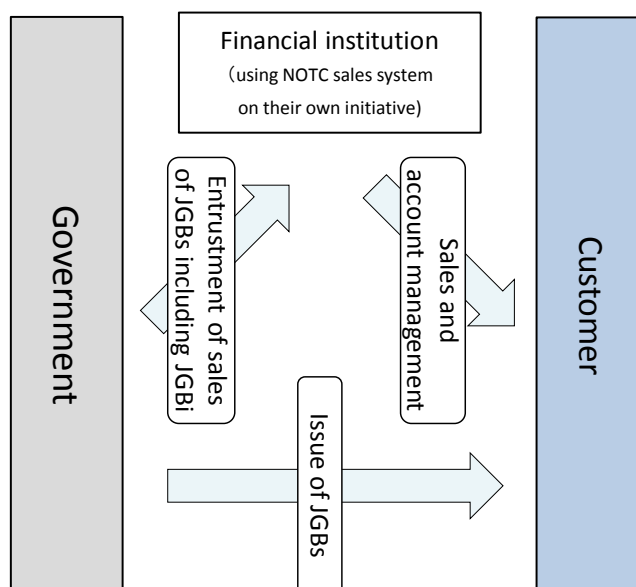
【 Sales by Over-The-Counter Transaction※  
(from January 2015)】



- Major securities companies that currently offer JGBi to corporate customers by an Over-The-Counter Transaction can start to sell to retail investors from January 2015. In such case, they are expected to prepare their sales system in a short period by adjusting their existing sales system.

※Their redemption date must come after January 2016.

【 Sales by “New Over-The-Counter sales system”  
(from the second half of FY2016 (under consideration))】



- Financial institutions using the “New Over-The-Counter sales system” could start to sell JGBi through that system from the second half of FY2016 (under consideration). In such case, it takes time to develop a new sales and management system and to train staff as well as to adjust the existing financial and taxation system.

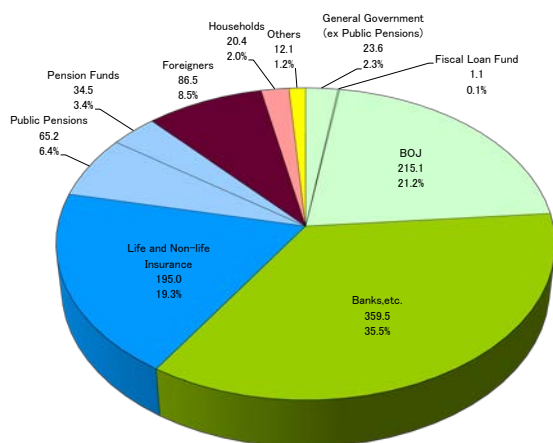
# MONTHLY TOPIC

## Breakdown by JGB and T-Bill Holders (Sep.2014)

The Bank of Japan (BOJ) released Flow of Funds Accounts of 3rd Quarter 2014, and the share of JGB and T-Bill holders was updated as follows:

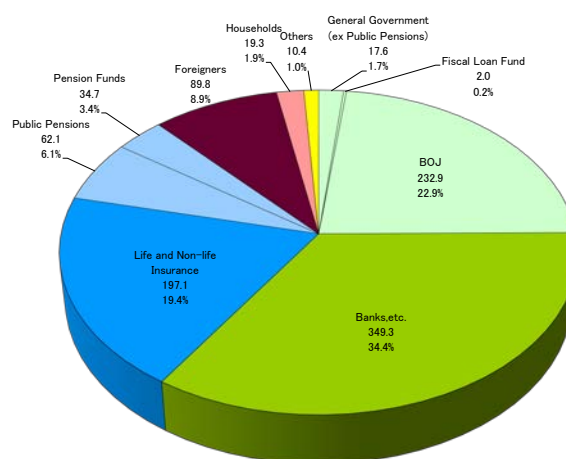
- Foreigners raised the ratio of their holdings of JGBs in Q3 by 0.3% to 8.9% and the BOJ raised its holdings by 18 trillion yen to 233 trillion yen.
- The balance of JGBs held by domestic Banks and Public Pensions in Q3 fell, respectively, by 10 trillion yen to 349 trillion yen and by 3 trillion yen to 62.1 trillion yen.
- The balance of JGBs held by Insurance in Q3 was nearly unchanged from that in Q2.

(The end of Jun. 2014)



Total ¥1,013.1 trillion

(The end of Sep. 2014)



Total ¥1,015.1 trillion

Source: Bank of Japan "Flow of Funds Accounts (Preliminary Figures)"

- In December 2014, the IR Special Office undertook an overseas IR tour to Montreal, Toronto and New York to interview local investors. **Mr. Kanamori**, Director for Debt Management and JGB Investor Relations, and **Mr. Watanabe**, Researcher, held active discussions mainly about recent debt management and Japanese economic matters, e.g., revision of GPIF's policy asset mix, expansion of Quantitative and Qualitative Easing, dissolution of the House of Representatives and downgrading by a rating agency.

After the tour, on the way back to Japan, unfortunately, the airplane was delayed because of technical problems and we had to postpone our return day. In Japan, there are two international airline companies and each company's on-time departure rate is over 90%, so we seldom face delays caused by technical problems.

We always think that "to proceed on time" and "to go ahead with something as planned" are a matter of course. This is sometimes pointed out to be a weakness of Japanese people, but we deeply feel the importance of these things and can re-realize our strengths through this occurrence.



- In Japan, we had a first video conference with a certain overseas investor who subscribes to this Newsletter. At the beginning of the interview, we received an evaluation stating that this Newsletter was very detailed, logical and useful. The picture of this conference is posted on the left.

- **Mr. Fujishiro**, Deputy Director-General of the Financial Bureau, attended a forum for foreign investors interested in the Japanese economy. He mainly talked about the "Challenge for Aging Society in Japan" as a theme. The picture of this forum is posted on the right.



If you have any questions regarding the contents of this newsletter, please do not hesitate to contact us at: [JGB-IR@mof.go.jp](mailto:JGB-IR@mof.go.jp)

***[TBA] JGB Issuance Plan for FY2015 shall be released and sent soon.***