Minutes of the Meeting of JGB Market Special Participants
(101st Round)

1. Date: Tuesday, October 25, 2022, 4:00 p.m. - 4:40 p.m.
2. Place: Special Conference Room 3 at the Ministry of Finance
3. Contents: JGB Issuance Plan for the Second Supplementary Budget for FY2022

1. Issuance size of Inflation-Indexed Bonds in the October-December 2022 quarter

▶ The Financial Bureau gave the following explanation about the JGB Issuance Plan for the second supplementary budget for FY2022.

・ According to the material, at the cabinet meeting held on September 30, the Prime Minister instructed that comprehensive economic measures be prepared by around the end of October, and the Cabinet is going to submit the second supplementary budget for FY2022 to the National Diet based on those contents.

・ In response to this supplementary budget, we believe that it may be possible to maintain JGB Market Issuance (Calendar Base) by the government making internal adjustments to funds the same as with the first supplementary budget of FY2022.

・ On the other hand, the scale of this supplementary budget and required government bond funding are unknown. Therefore, the possibility to increase JGB Market Issuance (Calendar Base) cannot be ruled out. Assuming this case, we would like to hear your opinions including about maturities where the size of issuance for JGBs can be increased along with the priority and reasons.

・ If it is decided that the JGB Market Issuance (Calendar Base) will increase, we are considering doing so in January 2023, and we believe it is necessary to keep in mind that the period until the end of the fiscal year is short. We would also like to hear your opinions on the timing for increasing the amount.
Moreover, although we have already received some opinions from a part of participants regarding Liquidity Enhancement Auctions, we typically hear your opinions in the meeting on a quarter basis. Therefore, if necessary, we would like to hear your opinions at the future meetings as well.

・ We also have included material on the status of overseas IRs, which we were asked about at the previous meeting.

▶ Summarized below are the views and opinions from attendees:

・ If it needs to be increased, we believe it would be best to increase the issuance centering on T-Bills. The need for collateral with T-Bills is declining because Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) are reduced and recently an adjustment in interest rate levels has occurred. However, 6-month T-Bills, which used to be issued twice a month, are currently once a month at 4 trillion yen. We believe it is possible to increase the monthly issuance by going back to issuance twice a month. Although further level adjustment may occur, stable issuance should be possible if they are attractive for overseas investors.

・ We believe there is little room to increase the issuance of interest-bearing bonds. For increasing issuance, we believe the priority should be on 10-year bonds followed by 2-year bonds, and then 5-year bonds. In any case, our opinion is based on an increase of Outright Purchase of JGBs by the BOJ and demand by Fixed-Rate Purchase Operation. Therefore, we believe it is not clear whether stable issuance based on(actual) investor demands will be possible.

・ Regarding the ultra-long-term zone, we do not believe it is immediately necessary to reduce the issuance in the current fiscal year. However, when we look at recent interest rate hikes and the high volatility, it seems difficult to further increase the issuance.

・ As for interest rate risk, I personally feel that it would be better to increase the issuance with as short a duration as possible. It is currently said in the market that, in Japan, the procedure for reviewing and modifying monetary policy is to first raise YCC target and then change the short-term policy interest rate. Since the short-term policy interest rate hike is not expected to happen soon, we believe that increased issuance in shorter zones is desirable.

・ First, regarding T-Bills, we believe it is possible to increase the issuance by 1-2 trillion yen a month mainly for 6-month T-Bills. Compared to before, the current size of issuance is decreasing, and even if speculation on revising monetary policy grows, 3-month and 6-month T-Bills will not be affected much. At the same time, if the size of issuance increases, adjustments can be made to increase the frequency of implementation to issue twice a month. Therefore, we request debt management office to consider mainly increasing the issuance of 6-month T-Bills.

・ Based on current trends before/after auctions, we believe it is very difficult to increase the issuance of interest-bearing bonds in the ultra-long-term zone. After the auction for 40-year bonds in September, adjustments of at least 5bps to 10bps were being made prior to the auction including for today's Liquidity Enhancement Auction. As we commented at the meeting in September, the speed of interest rate hikes is too fast, resulting in selling by investors, and the flow for cutting losses has especially been seen for remaining maturities in the 11-year to 18-year zones recently. Therefore, we believe that it is very difficult to increase the issuance in such circumstances.

・ As for zones of 10 years and less, from the perspective of the size of issuance, we believe that 5-year bonds have the highest priority. Currently, positive yield issuance is being performed and interest rates are not negative, which is different from the last fiscal year. Therefore, we believe it may be possible to stimulate demand for 5-year bonds depending on the interest rate adjustment range. Second is 10-year bonds. Assuming the current yield curve control policy, we believe it is possible to increase the issuance of 10-year bonds. Although it is said that the short-to-medium-term zones are more affected by the monetary policy, when we consider the current market impact, an increase of 100 billion yen in the ultra-long-term zone would have a much greater impact on the market than an increase of 100 billion yen in the short-to-medium-term zones. Assuming that the yield curve control is lifted, we honestly believe it would be difficult to have an increase in any zone. However, with the short-to-medium-term zones, we do not believe that the whole yield curve control will immediately be lifted or that Outright Purchase of JGBs by the BOJ will stop. Therefore, in the event of some shocks, in some aspects, it will be easier to respond to shocks flexibly in the short-to-medium-term zones. If the debt management office will increase the issuance this time, we believe they should mainly focus on zones of 10 years and less based on current market conditions.

・ In the ultra-long-term zone, the issuance of 30-year bonds has increased from 700 billion yen to 900 billion yen a month since July 2020 due to the pandemic response, which is the current size of issuance. Similarly, the issuance of 40-year bonds has increased 400 billion yen every other month to 500 billion yen in FY2020, then to 600 billion yen every other month in FY2021, and to 700 billion yen every other month in FY2022. Until now, the issuance has been increased by taking investor demand balance into consideration, especially with 40-year bonds. However, regarding the current supply and demand, the balance between supply and demand has worsened considerably. Although the supply and demand situation did not worsen immediately after the increased issuance, we believe that the increase of issuance is gradually affecting supply and demand in some aspects as a stock effect. Of course, expectations of policy modification by the Bank of Japan (BOJ) and overseas interest rates hikes are also factors. However, we also recognize that the current situation is the result of the gradual effect of the increased issuance from the past and the outstanding which has been increased.

・ In that sense, regarding maturities of 10 years and less, the issuance has increased due to measures for the pandemic over the last two years, and some of the stock effect should be realized. For example, we believe that about 9 years ago, in 2013, the size of issuance was about the same as the current size of issuance for 2-year bonds and 5-year bonds. On the other hand, interest rate levels were higher at that time, and we remember there were positive interest rates even for 2-year bonds.

・ If we consider whether the short-to-medium-term zones will be able to endure when the monetary policy changes, investor demand and Outright Purchase of JGBs by the BOJ are factors that must be considered. On the other hand, we recognize that there could be buy situations due to the increased attractiveness from increased interest rates. In this sense, there is more room to increase in the medium-to-long-term zone than increase in ultra-long-term zones. The same can be said for T-Bills. Although it is necessary to keep in mind the possibility of policy modification by the BOJ, investment trends of overseas investors due to this, and changes in demand for domestic collateral, etc., from a short-term perspective, we believe the shock is smaller than increasing the same issuance amount in the ultra-long-term zone.

・ We assume there will be a heavy burden on T-Bills when considering the JGB Issuance Plan. Some 6-month T-Bills have been issued as Treasury Bills (TBs). Therefore, we believe that principally, the issuance of 6-month T-Bills will be increased, however if the issuance of 3-month Financial Bills (FBs) will reduce due to exchange intervention in the future, there will be room to consider increasing issuance of 3-month TBs for the frame.

・ Regarding interest-bearing bonds, we believe that there is basically little difference among 2-year bonds to 10-year bonds. Currently, issuance with this low interest rate is incorporated in the market based on the assumption of BOJ involvement. Therefore, we believe that the size of Outright Purchase of JGBs by the BOJ will basically increase even if the issuance is increasing, and effectively the maturity of government debt will be overnight. Regarding the ultra-long-term zone, while there is still a bit of market functions, the interest rate level and volatility is high, and we do not believe it is a suitable maturity for increase under the current situation. In any case, looking at the overall yield curve, it will depend on the extent of the involvement by the BOJ. Also, based on current interest rate levels, we believe that there is not enough demand from investors for all maturities. When we consider a potential exit from current monetary easing, we believe that future interest rate levels that are incorporated in the current Japanese Government Bond Market is higher than current yield curve. Therefore, we believe that short-to-medium-term zones are better for increasing the issuance by the debt management office although we don't know whether such interest rate levels will actually be reached. In addition, at the time of interest rate hikes, we believe the main investors who have surplus funds will be the banking sector. The life insurance sector has already accumulated durations toward 2025, and if the population levels off, the duration demand will also be limited to some extent. Therefore, at this moment, we believe that it would be good to have increase mainly in the shorter zones.

・ If JGB Market Issuance (Calendar Base) increase becomes necessary, we believe the debt management office should primarily increase the issuance of T-Bills. When we consider the decrease of collateral demands due to the reduction of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus, it is better to increase the issuance of 6-month T-bills than for 1-year T-bills. When we consider the fact that a relatively large issuance of 6-month T-Bills was performed at the beginning of this year, we believe it will be possible to increase the size by about 1 trillion yen based on the assumption that 6-month T-bills will return to be issued twice a month.

・ Regarding interest-bearing bonds, if we consider dividing these into the ultra-long-term zone and other shorter zones, we believe the shorter zone should be the target zone for increased issuance. As mentioned earlier regarding the future outlook for the monetary policy, while uncertainty will increase next year, we believe that the market will incorporate gradual adjustments for yield curve control instead of full cancellation of yield curve control or withdrawal of negative interest rates. Based on such assumptions, since frames for Outright Purchase of JGBs by the BOJ remain, we believe there is room to increase the issuance of 10-year, 5-year, and 2-year bonds. On the other hand, as we mentioned at the previous meeting, when it comes to the ultra-long-term zone, the market currently moves sharply without price movements, which puts stress on the market every time when there is an auction. We assume that increasing the issuance in this situation would cause even greater impact and stress on the market compared to increasing the issuance of the short-to-medium-term zone.

・ We believe that it would be good to increase the issuance of mainly 6-month T-Bills. The 6-month T-Bills auctions have already changed to once a month. If it were twice a month, it would be possible to increase the amount by ¥1-2 trillion a month.

・ As for interest-bearing bonds, we believe the order of priority is 2-year bonds, 10-year bonds, and then 5-year bonds. Although this applies to all zones, for 10-year bonds in particular, it can be said that there is room for absorption due to Fixed-Rate Purchase Operations by the BOJ, and when it comes to cost, it can be suppressed compared to lower maturities. If the movement goes toward the lifting of monetary policies in the future, there will be some doubts about whether for the 10-year zone is desirable to increase the issuance. Additionally, regarding Liquidity Enhancement Auctions, we believe there is room to increase the issuance for bonds with a remaining maturity of 5 to 15.5 years. However, it means that there is room to increase the issuance if it is implemented in conjunction with a reduction in the issuance of 30-year bonds, or some other measures.

・ We believe increasing the issuance mainly in the short-term zone would have the smallest market impact. In addition, the 10-year zone is still the zone where most supported by monetary easing by the BOJ, and the shape of the yield curve indicates there is a burden. Therefore, if, for example, the 10-year bonds issuance is increased and the Fixed-Rate Purchase Operation increases, there may be other side effects. Based on this, we believe that increasing the issuance in the medium-term zone is more appropriate than the issuance of 10-year bonds since there is less of such a burden.

・As for the ultra-long-term zone, for example, although the interest rate level of 20-year bonds seems very high, we believe it has relatively good consistency compared to overseas interest rate trends. Therefore, it would seem appropriate to understand that interest rates in the ultra-long-term zone are not unreasonably high but are in harmony with overseas interest rates, and that interest rates in zones of 10 years and less are suppressed as a result of the BOJ's policy. In this sense, liquidity has decreased recently including with overseas markets, and this has made the market highly uncertainty. In other words, we believe that if overseas markets stabilize, JGB markets will also become more stable. However, since it has recently been unclear whether this will happen before January, at this moment, we believe it is difficult to say there is room to increase the issuance in the ultra-long-term zone.

・ When interest rates hikes occur, it is expected to see demand in zones of 10-years and less by the banking sector, and for this reason we believe the debt management office should increase the issuance in zones of 10 years and less rather than in the ultra-long-term zone.

・ We believe the highest priority should be on increasing the issuance of T-Bills. As for whether the debt management office increases the issuance of 1-year T-Bills or the issuance of 6-month T-Bills, the issuance of 6-month T-Bills has decreased gradually since April of this year. Therefore, there should be considerable room for increasing the issuance. With 1-year T-Bills, if the issuance is increased, it would have an impact on the current balance between supply and demand, and we believe that the debt management office should increase issuance mainly of 6-month T-Bills.

・ Regarding interest-bearing bonds, considering the current volatility, liquidity, and interest rate levels, if the issuance is increased in the ultra-long-term zone in the January-March quarter of next year, this would have a significant impact on the market. Therefore, we believe that this should be avoided this time. Market speculation about to BOJ monetary policy modification is expected to peak in the January-March quarter of next year. Therefore, we believe the issuance should be increased in zones of 10 years and less this time. Among these, we believe 2-year bonds have highest priority.

・ We believe the market consensus is yield curve control modification first and then changes to the short-term policy interest rate. Therefore, it is not assumed that interest rates in the short-to-medium-term zone will move much in the early part of next year. It would be better to consider first increasing the issuance of 2-year bonds. In terms of risk, the issuance of 2-year bonds is obviously less than that of other maturities. Therefore, we believe there is a relatively large room for increasing the issuance.

・ 10-year bonds are also in the yield curve control zone of the BOJ, and are also where interest rates have the most strain. if yield curve control is modified in the future, there are continuous investment demands for 10-year bonds by banks, etc., from the perspective of ALM. Therefore, we believe that it is easiest for 10-year bonds to have demand even when interest rate hikes occur, and there is room for increasing the issuance of; 2-year bonds and then 10-year bonds.

・ Regarding T-Bills, increasing the number of auction times would allow more room for increasing the issuance.

・ Regarding interest-bearing bonds, there should be room for increasing the issuance in the 10-year zone if the current monetary policy continues. However, from a different perspective, since this is the most suppressed maturity, it is likely to more volatile volatility than the ultra-long-term zone if the monetary policy is expected to be changed. We would like you to please consider carefully about increasing the issuance.

・ On the other hand, although interest rate levels will need to be adjusted, even if there are changes in monetary policy, including yield curve control cancellation, and the elimination of negative interest rates, there should be room for increasing the issuance in the short-to-medium-term zones including 5-year bonds and 2-year bonds because there are demands for funds management and for collateral due to foreign currency procurement and other reasons. Although interest rate level adjustment is necessary, we believe that adjusting the interest rate level one time would considerably stimulate demand.

・ As for the ultra-long-term zone, there is currently no liquidity. However, we believe this is largely a reaction to the suppression of the 10-year zone, and therefore, if yield curve control is cancelled, we believe it is more likely to flatten for 10-30 year zones.

・ The issuance of 6-month T-Bills used to be twice a month, and has currently been reduced to once a month. Based on past issuance results, we believe that stable issuance is possible if it returns to twice a month and it is increased by ¥1-2 trillion a month.

・ In addition, we believe there is room to increase the issuance of 1-year T-Bills to some extent, although not as much as 6-month T-Bills.

・ Overall, since the yield curve is relatively unstable, we believe that suppressing the supply duration volume is an appropriate response to this supplementary budget from the perspective of stable issuance of JGBs.

・ The issuance plan for the next fiscal year is extremely difficult, and there are varying opinions on how stable issuance can be achieved. If the direction of the formulation of JGB Issuance Plan for next fiscal year changes greatly from this fiscal year, it will impact the shape of the yield curve. If this becomes obvious as a risk and liquidity decreases temporarily, it would not be good from the perspective of stable issuance of JGBs during the next fiscal year. For this supplementary budget, we believe it would be good to increase mainly the issuance of T-Bills to reduce the gap between fiscal years.

・ As for interest-bearing bonds, we believe that it is extremely difficult to increase the issuance even taking into account external facts such as the current trading status at over-the counter and interest rate hikes.

・ However, since 2-year bonds, 5-year bonds, and 10-year bonds are zones well supported by the BOJ's monetary policy, we believe it will be possible to increase the issuance to a certain degree.

・ When we consider priority, we believe it is important to consider the probability of monetary policy modification, and the order and pattern for changing the policy in advance. Personally, I believe lifting or modification of yield curve control will be considered first, and then negative interest rates will be lifted. Hypothetically, in order to respond to the risk that the monetary policy will be revised during the current fiscal year, it would be desirable to consider prioritizing 2-year bonds and 5-year bonds over 10-year bonds from the perspective of stable issuance since there is the possibility that the volatility of 10-year interest rates will increase sharply.

・ In summary, considering the possibility of changes in the monetary policy, we believe that the priority for increasing the issuance of interest-bearing bonds should be 2-year bonds and 5-year bonds viewed equally, followed by 10-year bonds. We believe that it is difficult to increase the issuance of the ultra-long-term bonds.

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