Minutes of the Meeting of JGB Market Special Participants

(83rd Round)

1. Date: Monday, November 25, 2019 (4 p.m. to 4:50 p.m.)
2. Place: Special Conference Room 3, Ministry of Finance
3. Gist of Proceedings

1. Latest JGB market situation and outlook for the future

2. JGB Issuance Plan for FY2020

▸ The Financial Bureau gave the following explanation about the JGB Issuance Plan for FY2020.

(Introduction of the presentation by the Financial Bureau at the Advisory Council on Government Debt Management October 25, 2019)

・Issuance of JGBs based on market demand is crucial for stable and smooth issuance and minimization of funding cost in the medium to long terms. Since projected issuance amounts of JGBs remain at a high level far beyond 100 trillion yen, secure issuance based on assessment of demand trend over the medium to long term, rather than opportunistic issuance, leads to cost minimization and stable and smooth issuance.

・The issuance amount of JGBs has been declining, which has fallen below 150 trillion yen recently. This is because the attempt to extend the weighted average maturity has led to a decline in the issuance amount of Refunding-Bonds, despite an increase in the outstanding amount of JGBs. The net issuance, which represents the amount of issuance minus the amount of redemption, of super long-term bonds was higher than 20 trillion yen while that of medium- and long-term bonds has turned negative, resulting in the extension of the weighted average maturity on a stock basis. The weighted average maturity of JGBs has become the longest internationally except for the United Kingdom.

・The issuance amount of Refunding Bonds is projected to remain almost flat over the next 10 years. While projected net issuance in the super long-term zone stays positive, that in other zones remains flat or negative, which implies a continuous extension of the weighted average maturity on a stock basis for a while.

・Although the JGBs holdings by banks have been trending downward since the introduction of the Quantitative and Qualitative Monetary Easing policy by the BOJ, the pace of decline has recently been moderating due to demand for collateral use and other purposes. On the other hand, as the amount of their current account deposits at the BOJ has continued to increase, they have a potential for investments in JGBs.

・The outstanding amount of JGB holdings by life insurance companies showed an upward trend between 2008 and 2012, with their holdings of bonds in the super long-term zone also increasing. However, the amount has remained almost flat since 2013 while purchases of foreign bonds have been increasing instead. The reason behind this is the risk that duration matching of assets and liabilities under the low interest rates environment would fix losses. It suggests that their investment trend may change in the future depending on the movements of interest rates.

・It has been pointed out that there is the possibility that the changes in the population demographics in the future may lead to decrease in insurance premium revenues or development of needs for new insurance plans. Since the change in needs for insurance plans would have an influence on the investment style of life insurance companies, it is necessary to keep a close watch on the change in the composition of their liabilities from both sides of amount and quality.

・Accompanied by the discussions on the international regulations on insurance companies which will be newly introduced in 2025, an advisory panel was established at the Financial Services Agency in June 2019 and discussions on domestic regulation have started as well. Depending on the specifics of the regulations and the timing of introduction, the demand for JGBs is expected to change before or after the preparation for the regulatory compliance. Close observation on these developments are important for considering the JGB issuance plans in the future.

・Looking at a comparison of investors' funding sources and the duration between Japan and the United States, the share of banking sector is higher in Japan, which results in the shorter duration of funding sources. Close observation on the trend in entire funding sources is also necessary for considering the JGB issuance plans from the medium to long term perspective in the future.

・The transaction volume and turn-over ratio for JGBs have improved slightly since the latter half of last year. The improvement of the bond market functionality in Japan has been stalling due to the recent interest rate situation, according to the bond market survey conducted by the BOJ. On the other hand, the GC-SC spread and the amounts of bids accepted for Securities Lending Facility have stayed stable. It suggests that the supply-demand imbalance of specific issues was largely improved.

・Liquidity Enhancement Auctions have been conducted for the purpose of improving the supply-demand imbalance of specific issues. The issuance amount for Liquidity Enhancement Auction increased after the global financial crisis and when the BOJ introduced the Quantitative and Qualitative Easing policy. However, the total amount of JGBs issuance has turned to decrease. Also, the amount of Outright Purchases of JGBs by the BOJ has declined recently. Although reduction in the amount of on-the-run issues was mainly discussed when considering the issuance amount of JGBs thus far, Liquidity Enhancement Auction should be included into the discussions as well under these situations.

・In the estimate which was made in FY2013, the issuance amount of Refunding Bonds projected to increase by around 30 trillion yen over the following 10 years. At that time, it was intended to extend the weighted average maturity on a flow basis from the viewpoint of curbing the growth in the amount of Refunding Bonds. As a result, the latest estimates projects a roughly constant transition in the issuance amount of Refunding Bonds, which means the advantage of extending the weighted average maturity has been diminished. In addition, the discussion at the Advisory Council on Government Debt Management held three years ago included the need for a revision in such policy course of extending the weighted average maturity on a flow basis and a formulation of the JGB issuance plan in a flexible manner in light of investors' demand in the medium- to long-term.

・The outstanding amount of front-loading Refunding Bonds increased in the last fiscal year even though the initial plans had intended a certain amount of reduction for the past two years. The amount may increase in the current fiscal year as well, depending on the market circumstances because the financing need was reduced by 1.5 trillion yen in June this year and the amount of excess revenue from calendar-based market issuance is expected to surpass the amount estimated in the initial plan by one trillion yen or more under the current negative interest rate environment.

・Some measures were employed for curbing the issuance of front-loading Refunding Bonds recently. For example, the amount of issuance from non-price competitive auction II and excess revenues from calendar-based market issuance listed on the issuance plan have been increased in light of the results at the time of formulating the initial plan. However, introduction of further measures needs to be considered. For example, revising issuance plans in the middle of the fiscal year in accordance with the gap between the plan and the results, decreasing the maximum amount of bidding for the non-price competitive auction II from 15% to 10% and lowering the floor of the coupon rate on JGBs from 0.1% to 0.001% are under consideration. Examples of such revisions of issuance plans during the fiscal year can be seen in other major countries. Germany, the United Kingdom and France formulate government bonds issuance plans before each fiscal year and revise the plans during the fiscal year.

(Introduction of the discussion at the Advisory Council on Government Debt Management October 25, 2019)

・Some members stated that effective use of super long-term zone, active trading by foreign investors in short- to medium-term zone and employment of innovative technology are important for maintaining the market's functionality. On the other hand, others pointed out macro-prudential issues about investing in super long-term zone and the challenge that the super long-term zone lacks a hedging facility such as future trading.

・Some members noted the need for considering the appropriate target for weighted average maturity, taking into account that issuance of super long-term bonds leads to steepening of the yield curve. Others stated that the possibility that functionality of the market may remain existing only in the longer-term zone in the future should be considered while the lengthening of weighted average maturity is not necessary at this point.

・Some members asserted that it was necessary to optimize the issuance volume of front-loading Refunding Bonds in the medium- to long-term. Others stated that the front-loading Refunding Bonds should be used for leveling off the amount of JGB issuance, considering that there will be ups and downs in the estimated issuance amount of Refunding Bonds in the future.

▸ Summarized below are the views and opinions expressed by the attendees:

・The price movements have become smoother in the recent market, reflecting the effects of the reduction in the amount of the Outright Purchases of JGBs by the BOJ. However, the liquidity is not sufficient because jumps in price movements are still observed. Therefore, maintaining the level of outstanding amount in the market is important. In particular, investors' demand tends to concentrate on current issues, which are excluded from the eligible issues for the Outright Purchases of JGBs by the BOJ, when interest rates are rising. It leads to a tight supply-demand condition, particularly in the super long-term zone.

In light of the recent market trends, we request the Financial Bureau to consider maintaining, at least, or increasing the amount of issuance in the super long-term zone. In addition to the increasing purchases by life insurance companies, the domestic investor base has been broadening as well. According to the outlook for investments in the next fiscal year, demand for the super long-term zone is growing. Also, demand from foreign investors is increasing substantially. Furthermore, the supply-demand balance in the market remains tight despite the reduction in the amount of the Outright Purchases of JGBs by the BOJ in the super long-term zone, particularly in the remaining maturities of more than 25 years zone. This means that there is a strong demand from investors and it is essential to maintain the outstanding amount of JGBs in the super long-term zone. Considering the recent yield curve and investors' demand of JGBs, an increase in the issuance amount of the 40-Year Bond, which was reported in the media, will meet investors' expectations and contribute to the maintenance of the market's functionality by improving liquidity.

On the other hand, there may be room for reducing the issuance amounts of the 5-Year and 10-Year Bonds. Following the announcement of the relaxation of the requirements regarding the BOJ's Securities Lending Facility in April this year, concerns over a short-squeeze of cheapest-to-deliver issue for JGBs futures trading have significantly receded. In addition, the reduction in the amount of the BOJ's Outright Purchases of JGBs with a remaining maturity of 5-10 years has had substantial effects, leading to higher liquidity. Although we have requested an increase in the issuance amount of the 10-Year Bond so far since the 5-Year and 10-Year Bonds play the central role in the market and it is imperative to secure the liquidity for those bonds, there is room for reducing the issuance amount of the 10-Year Bond at this point, considering the positive effects of the measures introduced by the BOJ. While there is room for reducing the issuance amount of the 5-Year Bond due to a scarcity of investors, there is demand for 2-Year Bond or bonds with shorter maturities to use as collateral.

・Improvement of the market's functionality in the remaining maturities of less than 10 years zone has been limited given the Yield Curve Control policy by the BOJ. On the other hand, market's functions in the super long-term zone have been working more effectively because various global factors are reflected to the trades while the supply-demand balance sometimes become tight. As reported in the media, investors holding liabilities with long durations, mainly life insurance companies, have substantial demand for on-the-run issues with positive interest rates, particularly 30-Year and 40-Year Bonds. Therefore, we request the Financial Bureau to maintain the current issuance amount of the 20-Year, 30-Year and 40-Year Bonds, whose interest rates have remained positive until now.

On the other hand, it is necessary to consider a certain amount of reduction in the total amount of issuance because of the accumulation of the front-loading Refunding Bonds. The role of the Liquidity Enhancement Auction can be scaled back because the amount of the Outright Purchases of JGBs has been reduced in the current fiscal year, considering that the amounts of issuance for the auction have been adjusted responding to an increase in the amount of the Outright Purchases of the JGBs by the BOJ due to the expansion of QQE and an additional issuance of JGBs following the global financial crisis. In particular, the amount of issuance for the remaining maturities of 5-15.5 years zone can be reduced. The issuance amount of 10-Year Bond can be reduced as well if further reduction is necessary. Even if the issuance amount of 10-Year Bond per auction is reduced by 100 billion yen, the amount of issuance will be 2 trillion yen, which is sufficient for using the interest rate on 10-Year Bond as an appropriate benchmark rate.

If an increase in the issuance amount of the 40-Year Bond were under consideration, the issuance amount for the Liquidity Enhancement Auction in the remaining maturities of 15.5-39 years zone could be reduced from the point of curbing the extension of the weighted average maturity on a stock basis.

・The movements of the JGBs market are sometime led by futures trading since the cheapest-to-deliver issue for futures trading is the issue with the remaining maturity of 7 years. However, movements of the JGBs market as a whole are being led by the super long-term zone, which is the only zone where market’s functionality remains in view of the recent market situation and liquidity. Under these circumstances, it is essential to at least maintain the current amount of issuance in the super long-term zone under the JGB Issuance Plan for the next fiscal year. There are strong demands from life insurance companies and other real money investors for the 30-Year and 40-Year Bonds in particular, and they are overvalued on the yield curve. Under the circumstances where the significant decrease in the amount of the Outright Purchases of JGBs by the BOJ has not realized the yield curve’s steepening, it is difficult to decrease the amount of issuance in the super long-term zone. If the issuance amount of the 40-Year Bond would increase as reported by media, we would strongly welcome it.

On the other hand, the Liquidity Enhancement Auction is a candidate for reduction under the JGB Issuance Plan for the next fiscal year to deal with the accumulation of the front-loading

Refunding Bonds. Squeeze of the cheapest-to-deliver issue has not been seen recently due to the measures introduced by the BOJ. The Liquidity Enhancement Auction in the remaining maturities of 5-15.5 years zone, in particular, has a room for reduction in its amount because bids are concentrated in undervalued issues, rather than issues with low liquidity at the recent auctions. If further reduction is needed, there is more room for reduction in the amount of the 2-Year and 5-Year Bonds than 10-Year Bonds because demand for the 10-Year Bonds is expected to grow in a phase where the interest rate rises though it might be scarce in the current situation of negative interest rate.

・Despite the steady reduction in the amount of the Outright Purchases of JGBs by the BOJ since September this year, the steepening of the yield curve has been limited. 10-20 Year JGBs spread, for example, has expanded by only 5bps. In light of such situation, it is desirable to maintain or increase the issuance amount of the 20-, 30- and 40-Year Bonds. If the issuance amount of 40-Year Bond would increase, as reported by media, we would welcome it.

On the other hand, if certain amount of reduction is unavoidable, the 10-Year, 5-Year Bond or the Liquidity Enhancement Auction for the remaining maturities of 5-15.5 years zone can be counted among candidates. The impact of a reduction in the issuance amount of the 10-Year Bond would be limited, considering that the interest rate on the bond stayed below zero while the relaxation of the requirements for Securities Lending Facility is actually functioning as a deterrent against a squeeze. Moreover, given the possibility of alteration in the JGB Issuance Plan during the fiscal year, the issuance amount of 10-Year Bond may be changed as necessary when the interest rate on the 10-Year Bond turns positive and it changes the market environment drastically.

・It is appropriate to maintain or increase the current amount of issuance in the super long-term zone. In addition to the necessity of maintaining the market's liquidity, bonds in the super long-term zone can provide market participants with positive carry, assuming that the recent global low interest rate situation and the BOJ's monetary easing will continue for a long period of time. It is also appropriate to maintain a certain amount of issuance for the 1-Year T-Bill and the 2-Year Bond for meeting the demand for collateral management.

・The amount of issuance of the 30-Year and 40-Year Bonds should be at least maintained. If possible, an increase in the amount is desirable. It is also desirable to maintain the current issuance amount of the 20-Year Bond because the issuance amount was just reduced in the current fiscal year.

On the other hand, if reduction is necessary, reducing the amount of issuance for the Liquidity

Enhancement Auction may be considered to be an option. There is also a room for reduction for the remaining maturities of 5-15.5 years zone because the needs have decreased due to the relaxation of the requirements for the Securities Lending Facility. A reduction in the issuance amount for the remaining maturities of 15.5-39 years zone can contribute to curbing the issuance of front-loading Refunding Bonds because the amount of bonds issued at a premium is the largest in the zone. The 10-Year Bond has a room for reduction, while there is demand for the 1-Year T-Bill and 2-Year Bond for collateral use. Although the investor base for the 5-Year Bond is limited, we are negative about further reducing in the issuance amount because it has already been reduced significantly and the interest rate movements have become volatile, with a small amount of buying causing a squeeze and a small amount of selling triggering an interest rate rise.

・We request the Financial Bureau to increase the issuance amount of the 40-Year Bond if possible. If reduction is necessary, it is appropriate to reduce the issuance amount for the Liquidity Enhancement Auction in the remaining maturities of 5-15.5 years zone or the 10-Year Bond. On the other hand, reduction in the amount of issuance for the remaining maturities of 15.5-39 years zone is not preferable for meeting the market demands. Although the bid-to-cover ratio is low or the price tail is long at some auctions, which is associated with reductions in the amount, a substantial portion of the issuance amount is occasionally purchased by investors.

・Although the market's functions are maintained in zones with positive interest rates and the amount of Outright Purchase of JGBs by the BOJ has decreased steeply since the beginning of the year, the yield curve has not steepened at all. It indicates that certain amount of the funds that shifted to foreign bonds in the past are returning to JGBs. As there is demand from real-money investors in the super long-term zone, it is desirable to maintain the current amount of issuance for the 20-Year, 30-Year and 40-Year Bonds. Basically, we would strongly welcome an increase in the issuance amount of the 40-Year Bond though the news report about that was a surprise as we were assuming a reduction.

While there is not much demand for either of the 10-Year, 5-Year or 2-Year Bond, those among options for reduction are 10-Year, 5-Year and the Liquidity Enhancement Auction for the remaining maturities of 5-15.5 years zone from the point of levelling off the redemptions of Refunding Bonds. If the amount of bonds with shorter maturities is decreased, it might be necessary to increase it again in the future.

・There is demand for zones with long remaining maturities but it is limited for zones with short remaining maturities. Although the Liquidity Enhancement Auction is helpful, reducing the amount to some extent may be unavoidable because around half of the amount issued at the auction is sold to the BOJ. In addition, there is room for reducing the issuance amount of the 2-Year and 5-Year Bonds equally.

While some market participants would welcome an increase in the issuance amount of the 40-Year Bond, the fundamental reason for the current situation is that the negative interest rate environment has driven investors to shift their funds to zones with long maturities. While other factors may be supporting demand for the 40-Year Bond, the demand for the 20-Year Bond, in particular, is supported by such trend. Given the recent relatively strong demand for the 20-Year and 40-Year Bonds on the yield curve, the certain amount of increase in the issuance will not provide a fundamental solution at all. In consideration of the point that the yield curve of yen interest rate have flattened following the global flattening of the yield curve, the reflection of foreign demand to the market rate will have a fairly large impact.

It was in the second half of 2016 that the issuance amount was increased significantly for the last time, followed by the substantial steepening of the yield curve in 2017. Although it might be desirable if similar change would happen in the current situation, it is not necessarily supportive of the increase in the issuance amount when formulating the JGB issuance plan from a medium- to long-term perspective.

・Demand is scarce in zones with negative interest rates in the current situation. In the past, the amount of the Outright Purchase of JGBs by the BOJ in the remaining maturities of 5-10 years zone was sometimes larger than the amounts of on-the-run issues. However, as the amount of the Outright Purchase of JGBs has been reduced, particularly since around September, the issuance amounts of on-the-run issues have exceeded that of the Outright Purchase. Combined with the scarce demand in such zone, there is room for reducing the issuance amounts of the 2-Year, 5-Year and 10-Year Bonds. Among those bonds, the room for reduction is larger for the 2-Year and 10-Year Bond because the 5-Year Bond is overvalued seeing the shape of current yield curve, with its issuance amount lower than 2 trillion yen—1.9 trillion yen—per auction. Also, the issuance amount for the Liquidity Enhancement Auction in the remaining maturities of 5-15.5 years zone can be reduced given the BOJ's response to the squeeze for issues around the cheapest-to-deliver issues. On the other hand, a certain amount of issuance should be maintained for super long-term zone because continuous demand for the zone is expected from real-money investors and life insurance companies, which need to meet regulatory requirements.

Among bonds in the super long-term zone, the 40-Year Bond is a candidate for an increase. Looking at the shape of the yield curve in the past six months to one year, the significant flattening of the yield curve, especially in the remaining maturities of 10-40 years zone, indicates the strength of demand for issuance. Therefore, there may be room for an increase in the issuance amount of the 40-Year Bond.

・There is no differences between the super long-term zone and the short- to medium-term zones in terms of liquidity or functionality when trading. Trading with a large volume is equally difficult. Since the previous meeting of JGB Market Special Participants, interest rates have been rising, reflecting global factors, and JGBs have underperformed compared with U.S. Treasuries. One major factor is the policy measures taken by the BOJ. While the BOJ's policy course was inclined to further monetary easing at the time of the Monetary Policy Meeting in September, such expectation receded in October. As expectations for further easing had been high, their fading had a strong impact, leading to sales in the short- to medium-term zones, mainly by foreign investors. Moreover, the Outright Purchases of JGBs by the BOJ have had an impact as well. As there have been various technical changes, including the implementation of the Outright Purchase in an anomalistic way at an unexpected timing and the exclusion of on-the-run issues from the eligible issues for the Outright Purchases, which makes difficult to take positions with a firm stance. Such factors are also influencing the recent situations of liquidity and functionality, which requires the market participants to be patient, unwinding their positions. The volatility in the market will remain high unless new trends emerge abroad or the interest rate on the 10-Year Bond overshoots the border of zero percent.

As for the JGB Issuance Plan for the next fiscal year, it is necessary to at least maintain the current issuance amount of the 30-Year and 40-Year Bonds, regardless of whether or not the amount should be increased, in light of the strong demand from investors, which is supported by the basic needs and funds shifting to the zone with positive interest rates. On the other hand, a reduction in the issuance amount of the 10-Year Bond by around 100 billion yen per auction is acceptable to the market because the current issuance amount is fairly large on a duration basis and there is ample room for reducing the amount of the Outright Purchases. The reduction in the issuance amount by around 100 billion yen for the Liquidity Enhancement Auction in the remaining maturities of 5-15.5 years zone can also be absorbed since the supply-demand balance for the issues around the cheapest-to-deliver issue has been eased.

・If reduction is necessary, it is appropriate to reduce the issuance amount for the Liquidity Enhancement Auction in the remaining maturities of 5-15.5 years zone. The 10-Year Bond comes to a second candidate for reduction. If increase is possible, the 40-Year Bond may be a candidate. Although an increase for the super long-term zone may be acceptable under the continued yield curve control policy by the BOJ, there has been no change in our view that shortening of weighted average maturity on a flow basis in accordance with the duration is preferable in the medium to long term.

・The market's liquidity and investors' demand are concentrated in the super long-term zone, where interest rates are positive. Therefore, maintaining the outstanding amount in the market and trading volume in that zone is crucial for the market. In other words, further decline in the liquidity and interest rates in that zone would make both securities companies and investors face difficulties from the viewpoint of the investment environment. In addition, the room for reducing the amount of the Outright Purchases of JGBs by the BOJ is fairly small in the zone. We request the Financial Bureau to refrain from reduction from the point of maintaining the outstanding amount in the market. The fact that the share of JGBs purchase by the public sector, namely the Outright Purchases by the BOJ, is small in the super long-term zone means that conventional funding is realized in the zone. Although, controlling the duration of bond issuance on a flow basis, in particular, will be needed eventually in the long term, it is appropriate to consider the shortening of the duration when the interest rates rise and the investment environment for investors improves, considering the schedules of the introduction of regulations.

The amount of issuance may be reduced for bonds with the remaining maturity of 10 years and around, including the Liquidity Enhancement Auction, for which reduction has been avoided for a long period of time because of the expected impact on the liquidity of futures trading. Some room for reduction in the amount of issuance exists since disadvantage of the reduction has been diminished by those measures of excluding those issues from eligible issues for the Outright Purchases of JGBs and decreasing the amount of purchase by the BOJ.

・It is necessary to maintain the current amount of issuance in the super long-term zone, or zone with positive interest rates, where investor’s demand is strong. It is expected that foreign central banks will keep their accommodative monetary policy stance. The BOJ is also likely to continue its large-scale monetary easing and yield curve control policy for a long period of time. For providing liquidity to the market and implementing market making, we request the Financial Bureau to be prudent about planning the issuance in the super long-term zone. There is a strong demand for the 30-Year and 40-Year Bonds in particular, even after the BOJ decreased the amount of the Outright Purchases of JGBs, with hunting for yield continuing. On the other hand, it is acceptable to reduce the amount of issuance in the zones where interest rates have been chronically below zero. However, it should be noted that the 10-Year Bond will be used as the cheapest-to-deliver issue in the futures trade, for which liquidity should be secured, and a substantial demand is expected to arise when the interest rate turns positive. As for the Liquidity Enhancement Auction, there are substantial needs for short covering in the remaining maturities of 1-5 years zone. On the other hand, reduction is possible in the remaining maturities of 5-15.5 years zone as the market's needs for short covering has been weaker than before because the BOJ has taken measures such as reducing the amount of Outright Purchases, excluding issues for which the share of the BOJ's holdings is large from the eligible issues for Outright Purchases, and improving the Securities Lending Facility, in addition to the fact that the Liquidity Enhancement Auction for that zone is conducted every month. Constant needs for short covering is expected in the remaining maturities of 15.5-39 years, considering the potential demand from investors, as in the case of the 30-Year and 40-Year Bonds.

・The movements in the market have been returning to normal over the past several months because the BOJ has been implementing the Outright Purchases of JGBs in a flexible way, reducing its amount and frequency. Therefore, frankly speaking, we hope that the issuance amount for each maturity will be maintained. Although today's news report about an increase in the issuance amount of the 40-Year Bond was a surprise, the number of investors buying the 40-Year Bond has clearly increased significantly since the beginning of the current fiscal year. That is clear both from the movements of the yield curve in the remaining maturities of 30-40 years zone and the details of the bonds issued at the Liquidity Enhancement Auction in the remaining maturities of 15.5-39 years zone. In a comparison of the results of the Liquidity Enhancement Auction in the remaining maturities of 15.5-39 years zone, about 300 billion yen of bonds in total were issued in the remaining maturities of 35-40 years zone at the auctions (in April, June, August and October) in the current fiscal year while the 40-Year Bond was not issued except for the auction in August in the previous fiscal year, where around 100 billion yen of bonds were issued in the remaining maturities of 35-40 years zone. This indicates that demand from investors for the 40-Year Bond has become very strong. The impact of an increase in the issuance amount of the 40-Year Bond can be absorbed in the market, considering the powerful demand from investors for the 40-Year Bond and bonds in the super long-term zone, which can be seen from the issuance of 50-year corporate bonds immediately before the previous meeting of JGB Market Special Participants.

On the other hand, there is room for reduction for the Liquidity Enhancement Auction in the remaining maturities of 5-15.5 years zone. The concern about tight supply-demand condition for the cheapest-to-deliver issue has receded. Also, demand from investors for bonds in the remaining maturities of around 15 years zone has almost disappeared since the beginning of the current fiscal year though such demand had existed until the previous fiscal year, when the bonds in such zone provided the highest return from carry and roll-down with around 20 bps of interest rate. The 2-Year, 5-Year, and 10-Year Bonds are candidates for reduction. However, the amount of issuance for the 2-Year and 10-Year Bonds should not be reduced easily because there is demand for the 2-Year Bond for collateral use and the 10-Year Bond may be the target of the unlimited purchases of JGBs at a specified yield if the interest rate rises under the Yield Curve Control policy by the BOJ. That leaves the 5-Year Bond as the only candidate for reduction.

▸The Financial Bureau stated as follows regarding the news report about an increase in the issuance amount of the 40-Year Bond: “Although some of attendees mentioned the news report, nothing has been decided at present."

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