Minutes of the Meeting of JGB Market Special Participants

(84th Round)

1. Date: Thursday, December 12, 2019 (4 p.m. to 4:50 p.m.)
2. Place: Special Conference Room 1208, Central Common Government Offices No.4
3. Gist of Proceedings

1. Issuance amount of Inflation-Indexed Bonds in the January-March 2020 quarter

▸The Financial Bureau gave the following explanation about the issuance amount of Inflation-Indexed Bond in the January-March 2020 quarter:

・As shown on page 3, the JGB Issuance Plan for FY2019 announces issuance of Inflation-Indexed Bond four times a year with the amount of ¥400 billion each time while stating "the issuance amount may be adjusted in a flexible manner in response to market circumstances and demand of investors, which will be determined based on discussions with market participants."

Also, as shown on page 4, it is stipulated about Buy-Back Auction that "detailed methods will be determined by considering market circumstances based on discussions with market participants." Therefore, we would like to hear your opinions about the amounts of issuance and Buy-Back in the January-March quarter at today's meeting.

・In October-December quarter, as shown on Page 5, in consideration of the market situation and the opinions from market participants, we conducted an auction of issuance for the amount of ¥400 billion. In addition, we have implemented the Buy-Back Auction for the amount of ¥20 billion in November to improve the supply-demand balance for Inflation-Indexed Bond, while the Buy-Back Auctions had been conducted in even-numbered months. Also, the size of Outright Purchases of Inflation-Indexed Bond by the Bank of Japan (BOJ) was increased from ¥25 billion to ¥30 billion in November.

The result of the issuance auction in November, as shown on Page 6, was comparable with that of past auctions.

As shown on page 7, the results of both Buy-Back Auctions and Outright Purchases of JGBs by the BOJ have resulted in generally similar level as the market rates.

・The situation of the secondary market is shown on Page 8. After the issuance amount of Buy-Back Auctions and Outright Purchases of JGBs by the BOJ have increased, the movement of the BEI has become stabilized gradually and it has stayed in the lower 0.1% range, which was lower than 0.1% until then.

・In such circumstances, we asked for opinions from market participants beforehand. Many of the opinions supported the idea of maintaining the current amount of issuance and Buy-Back Auctions in the January-March quarter because the recent supply-demand balance shows a tendency toward improvement and it is important to examine the effects of the increases in the amounts of Buy-Back Auctions and Outright Purchases of JGBs by the BOJ.

・We presented our proposal as shown on Page 9. In the January-March quarter, we are considering conducting issuance auction in the amount of ¥400 billion and Buy-Back Auctions in the amount of ¥20 billion on each month, as in the October-December quarter. Also, we will keep watching the market environment and other factors closely to take an appropriate actions in accordance with the situation.

・This is the overall explanation of the market situation for Inflation-Indexed Bond and the proposal for the amounts of issuance and Buy-Back in the January-March quarter.

The development of the market of the Inflation-Indexed Bond is an important goal of the debt management policy. We would like to hear your opinions once again and decide the amount of issuance and Buy-Back Auctions in the January-March quarter following the discussion at today's meeting.

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

・We agree to the Financial Bureau's proposal. The supply-demand balance has remarkably improved because the Buy-Back Auction has been conducted every month and the amount of the Outright Purchases of JGBs by the BOJ has been increased. While the level of the BEI has not recovered sufficiently, it is stabilized at a low level. The Inflation-Indexed Bond might be sold in a large lot from the view point of the level of the BEI when trading in December becomes inactive. However, it would be a temporary movement, so it is appropriate to stay with the status quo and keep close watch on the situation.

・We agree to the Financial Bureau's proposal. While the volatility of the BEI has been decreasing, the supply and demand are well balanced supported by the increase in the amount of Outright Purchase and Buy-Back Auctions. Although the BEI declines toward the end of the year due to sales by hedge funds in usual years, it has not happened this year yet. As the amount of Buy-Back Auctions have just increased, it would be appropriate to monitor the market situation for a while and consider the issuance amount in the future.

・We agree to the Financial Bureau's proposal. It is appropriate to maintain the current issuance amount because the reduction of the issuance amount could send the wrong signal to the market. Although the movement of the BEI appears to be stable, an imbalance between supply and demand can cause the BEI to decline lower than the value of the deflation protection option, which has happened since the beginning of this year. Therefore, the current amount of Buy-Back Auctions and Outright Purchases should be maintained, with the market situation closely monitored.

・Although the off-the-run issues of the Inflation-Indexed Bond were sometimes sold in a large lot, which caused a decline in the BEI, the movement of the BEI has been stable since the previous auction due to the effects of the increase in the amount of Outright Purchase and Buy-Back Auctions. A certain amount of demand from investors, including foreign investors, is expected under the current situation when the BEI rises. Therefore, the current issuance amount (¥400 billion) and Buy-Back (¥20 billion) should be maintained. While further consideration might be needed in light of the supply-demand balance in the future, we support the Financial Bureau’s proposal of maintaining the current amounts of the issuance and Buy-Back in the January-March quarter.

・The Inflation-Indexed Bond requires careful actions because demand from investors needs to be created at each issuance. Although the amount of Buy-Back Auctions and Outright Purchases increased in the October-December quarter, flexible actions will be required when the liquidity deteriorated rapidly.

2. Liquidity Enhancement Auctions in the January-March 2020 quarter

▶The Financial Bureau provided the following explanation regarding the Liquidity Enhancement Auctions in the January-March 2020 quarter:

・As shown on page 11, the JGB Issuance Plan for FY2019 states the following about Liquidity Enhancement Auctions:

(1) While the operating assumption is that the total annual amount of issuance will be ¥12.6 trillion (¥2.4 trillion for the remaining maturity of 1-5 years zone, ¥7.2 trillion for the remaining maturities of 5-15.5 years zone, and ¥3.0 trillion for the remaining maturities of 15.5-39 years zone)

(2) “The issuance amount and its allocation among each zone may be adjusted in a flexible manner in response to market circumstances and demand of investors, which will be determined based on discussion with market participants.”

Accordingly, we would like to hear your opinions about the amount of issuance for each zone in the January-March quarter.

・As shown on page 12, in the October-December quarter, we issued JGBs worth ¥400 billion in November (odd-numbered month) for the remaining maturities of 1-5 years zone and ¥600 billion in each month for the remaining maturities of 5-15.5 years zone, and ¥500 billion in October and December (even-numbered months) for the remaining maturities of 15.5- 39 years zone, as stipulated under the JGB Issuance Plan for FY2019.

・Pages 13 to 15 show the results of Liquidity Enhancement Auctions, which does not include the result of the auction for the remaining maturities of 15.5-39 years zone conducted today and the auction for the remaining maturities of 5-15.5 years zone scheduled next week. The results have been generally stable in each zone.

・When we heard opinions from market participants under these conditions about the Liquidity Enhancement Auctions in the January-March quarter in advance, many of them were supporting the idea of maintaining the current issuance amount because there has been no major change in the supply-demand conditions in each zone.

・As shown on page 16, in view of the situation, we have prepared our proposal for the amount of issuance for each zone in the January-March quarter. We are considering issuing ¥400 billion in January and March (odd-numbered months) for the remaining maturity of 1-5 years zone, ¥600 billion each month for the remaining maturity of 5-15.5 years zone, and ¥500 billion in February (even-numbered month) for the remaining maturity of 15.5-39 years zone, as we did in the October-December quarter.

・We would like to hear your opinions once again and decide the amount of issuance for each zone of the Liquidity Enhancement Auctions in the January-March quarter following the discussion at today’s meeting .

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

・We agree to the Financial Bureau's proposal. It was more apparent than the previous fiscal year that the bid-to-cover ratio of the Liquidity Enhancement Auction in the remaining maturity of 5-15.5 years zone declined to some extent and JGBs issued through the auction were tend to sold immediately to the BOJ through the Outright Purchase in the remaining maturity of 1-5 years zone. However, it is not necessary to change the issuance amounts in the final quarter because the issuance amounts in all three zones, which have been maintained so far, was generally well balanced.

・Basically, we agree to the Financial Bureau's proposal. Although the supply-demand balance were sometimes eased in the remaining maturity of 5-15.5 years zone, it is not necessary to reduce the issuance amount for the moment in the January-March quarter of the current fiscal year if it is going to be reduced under the JGB Issuance Plan for the next fiscal year as many of the attendees mentioned the room for reduction in that zone at the previous Meeting of JGB Market Special Participants. On the other hand, the supply-demand balance for some issues has been tight in the remaining maturity of 1-5 years zone (in particular, 2-5 years zone). While it is appropriate to maintain the current issuance amount of ¥400 billion in the zone for the moment, an increase in the issuance amount in the zone should be considered if the imbalance between supply and demand continues.

・Basically, we agree to the Financial Bureau's proposal. Although the bid-to-cover ratio declined slightly in the auction in the remaining maturity of 1-5 years zone in November, it still remains at a high level, indicating a robust demand. Therefore, it is appropriate to maintain the current issuance amount. On the other hand, while the bid-to-cover ratio declined in the auctions in the remaining maturity of 5-15.5 years zone in October and November, the decline was not so steep as to require a change in the issuance amount within the current fiscal year. However, there is a room for a reduction in the issuance amount in the zone in the future because the supply-demand balance for the cheapest-to-deliver issue has not become tight recently and the amount of Outright Purchases has been decreasing. In the remaining maturity of 15.5-39 years zone, the bid-to-cover ratio has become slightly higher than before in the recent auctions, indicating the continued presence of stable demand in zones with positive interest rates. However, reduction in this zone could be considered if the issuance amount of the 40-Year Bond, for instance, is going to increase under the JGB Issuance Plan for the next fiscal year.

・Some changes are observed in each zone. The issuance amount allocated to the remaining maturity of 5-15.5 years zone is bigger than other zones in order to meet demand for the cheapest-to-deliver issues for futures trading. However, the measures taken by the BOJ to prevent squeeze from happening, including the exclusion of the cheapest-to-deliver issue from the Outright Purchases, have been producing effects since the beginning of this year. The demand from investors and securities companies for short covering purposes has been declining. Therefore, we suggest a reduction of ¥100 billion, at least, in the remaining maturities of 5-15.5 years zone and an allocation of the corresponding amount of issuance to the remaining maturity of 1-5 years zone and 15.5-39 years zone, where demand is strong. There are differences between the yields on issues with the same redemption date in the remaining maturity of 1-5 years zone, particularly in the case of off-the-run issues with a remaining maturity of 3-5 years. In addition, some negative side effects are observed on closing rates. Therefore, one idea that may be considered is giving an allocation to this zone in the January-March quarter.

・In light of the supply-demand balance, we suggest a slight revision in the current proposal, in which the annual issuance amount is totaled to ¥12.6 trillion. We suggest reducing the issuance amount by ¥100 billion in the remaining maturity of 5-15.5 years zone, increasing the issuance amount by ¥100 billion in the remaining maturity of 15.5-39 years zone, and maintaining the current issuance amount or increasing the issuance amount by ¥100 billion in the remaining maturity of 1-5 years zone. The remaining maturity of 5-15.5 years zone is the candidate for reduction because the relaxation of the term and conditions for the Securities Lending Facility by the BOJ has mitigated the concerns over a squeeze of the cheapest-to-deliver issues significantly. Also, while the amount of Outright Purchases of JGBs by the BOJ was reduced substantially from the beginning of this year, the reduction was the largest in this zone. If possible, the issuance amount should be increased in the remaining maturity of 1-5 years zone to meet the demand for short-covering. There is substantial demand for the 2-Year Bond for collateral use and Outright Purchases by the BOJ continue to account for around 70% of the issuance amount in the case of the 5-Year Bond, resulting in the constantly high repo rates for issues other than the on-the-run issues. The issuance amount should be increased in the remaining maturity of 15.5-39 years zone, where interest rates are positive. Demand from investors, mainly life insurance companies, is considered to remain strong in this zone.

3. JGB Issuance Plan for FY2020

▸The Financial Bureau gave the following explanation about the current status and progress of formulating the JGB Issuance Plan for FY2020.

・The breakdown of the issuance amount by legal grounds is shown on the left side of page 18. It shows the outlays by purposes that need to be financed by JGBs. The size of issuance of Newly-issued bonds and Reconstruction Bonds will be decided in the budget formulation process while the size of issuance of Fiscal Investment and Loan Program Bonds (FILP Bonds) is decided in the process of formulating the Fiscal Investment and Loan Program plan. We cannot say anything certain about the issuance amount of those bonds at this moment.

・The issuance amount of Refunding Bonds, which account for most of the total JGB issuance amount, is expected to increase compared with the current fiscal year, as we have explained at the previous Meeting of JGB Market Special Participants based on the estimate of future JGB issuance amounts. However, it is expected to decrease in FY2021, which need to be taken into consideration.

・The breakdown of the issuance amount by financing method is shown on the right side of page 18. The amounts financed by “sales for households” and “Bank of Japan (BOJ) Rollover” are under careful examination. The effects of the implementation of measures to curb an increase in the front-loading Refunding Bonds, including lowering the upper limit on the bid amount in the Non-Price Competitive Auction II, are considered for deciding the amount “Non-Price Competitive Auction II, etc”. The amount of “JGB Market Issuance” will be determined in consideration of the above.

・On pages 19 and 20, we summarized opinions presented at the previous Meeting of JGB Market Special Participants and the previous Meeting of JGB Investors held last month relating to the maturity composition of the JGB market issuance amount.

・There were many opinions from the JGB market special participants and investors which supported maintaining or increasing the issuance amount of the super long-term bonds. Many of them requested increasing the issuance amount of the 40-Year Bond in particular.

・Some of the attendees mentioned that the issuance amount of long-term bond may be reduced while others were wary of reduction because a positive interest rate on the long-term bond would spur the demand.

・Some attendees mentioned that a certain degree of reduction in the issuance amount of short-and medium-term bonds is possible while many attendees argued that the Financial Bureau should give due consideration to a vigorous demand from banks, for collateral use, and foreign investors.

・In light of the market situation, the attendees generally agreed that a certain degree of reduction is possible for the Liquidity Enhancement Auctions. Attendees generally agreed that a certain degree of reduction is possible. In particular, many of them agreed that there is a room for reduction in the remaining maturity of 5-15.5 years zone.

・The Page 21 was also presented at the meeting of the Advisory Council on Government Debt Management on October 25. As explained there, the Financial Bureau will consider revising the JGB Issuance Plan during the fiscal year in accordance with the gap between the plan and the actual results from the viewpoint of promoting appropriate debt management. The Financial Bureau also plans to revise the system that is causing the gap.

・Specifically, the limit on the bid amount for the Non-Price Competitive Auction II will be lowered from 15% to 10% of the total amount of successful bidding, starting with auctions in January next year. Also, the coupon rate, which has been set by rounding off the decimal points of the market rate, will be basically set by rounding down the decimal points.

In addition, the Financial Bureau will consider reducing the lower limit on the coupon rate from 0.1% to an integer multiple of 0.001 percentage points. The Financial Bureau plans to implement it in October next year in accordance with the status in the preparation process of each company. The exact number of the lower limit on the coupon rate will be informed later based on later of a specific lower limit on the coupon rate in consideration of the preparation of the system.

・On Page 22 shows the Financial Bureau's proposal for the revision of the Principal Terms and Conditions for JGB Market Special Participants Scheme concerning the lowering of the limit on the bid amount for the Non-Price Competitive Auction II. The revised version of the Principal Terms and Conditions will be published on our website by the end of this year. It will be effective from January 6 next year.

・The detail of the JGB Issuance Plan for FY2020 will be decided following opinions at this meeting and published with the budget for FY2020 in late December.

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

・We agree to the proposals of (1) setting a coupon by rounding down the decimal points of the market rate to issue bonds below par-value and (2) lowering the maximum amount of bidding for the Non-Price Competitive Auction II from 15% to 10%. Those changes are acceptable if a further reduction of the market issuance amount of interest-bearing bonds can be avoided. Also, market demand for the 40-Year Bond is expected to remain high because it seems a certain amount of 40-Year Bond has been issued in the Liquidity Enhancement Auction in the remaining maturities of 15.5-39 years zone, which was held today. On the other hand, the Liquidity Enhancement Auction in the remaining maturities of 5-15.5 years zone has a room for reduction, depending on the market circumstances, because the bid-to-cover ratio has recently been declining and the price tail has been long. When deciding the reduction in the issuance amount of the 10-Year Bond, careful consideration should be given to the opinions from investors that the rise in interest rates in the super long-term zone would not happen unless the interest rate on the 10-Year Bond rises. In other words, it is risking a flattening of the yield curve in the super long-term zone if the interest rate on the 10-Year Bond remains low.

・We agree with the results of the discussions and the direction indicated at the previous Meeting of JGB Market Special Participants. Regarding the JGB Issuance Plan for the next fiscal year, the issuance amount in the super long-term zone should be maintained at the current amount at least because the demand from investors for the positive interest rates remains strong. Increasing the issuance amount of the 40-Year Bond would be welcomed too. On the other hand, there is a room for reduction in Liquidity Enhancement Auction in the remaining maturity of 5-15.5 years zone. The second candidate for reduction is the 10-Year Bond. If a further reduction is necessary, it will be appropriate to reduce the issuance amount of the 2-Year or 5-Year Bond.

・We agree to the proposal of lowering the maximum amount of bidding for the Non-Price Competitive Auction II from 15% to 10%. It would have some effects on the entire market because the issuance amount will be reduced. However, it would be favorable for the market if the reduction of the market issuance amount can be suppressed by the measure or even its increase can be considered.

・We agree to the proposal of lowering the maximum amount of bidding for the Non-Price Competitive Auction II. Securing the total market issuance amount of interest-bearing bonds on the initial plan is more favorable.

4. Latest JGB market situation and outlook for the future

▶Summarized below are the views and opinions presented by the attendees:s

・As a strong linkage was observed between Japanese and U.S. interest rates until September this year, movements of Japanese long-term interest rate could be explained based on that of U.S. interest rates. However, the gap between Japanese and U.S. interest rates has become apparent since October. For example, Japanese long-term interest rates have reached around zero percent despite the absence of rising U.S. long-term interest rates. One of the factors behind this was the BOJ Governor Kuroda's remarks ahead of the Monetary Policy Meeting on October 31, in which he emphasized the possibility of an interest rate cut. Market players reflected the interest rate cut to prices, assuming that the remarks were indicating that the governor was trying to engage in dialogue with the market. However, the BOJ left the rates steady eventually. In addition, it is hard to expect additional easing in the near future under the current economic situation, which might affect the idiosyncratic movements of Japanese interest rates. Looking at the whole picture of the yield curve, interest rates in the short- and medium-term rates are rising because of such factors. In particular, foreign investors, who are the major investors in the short- and medium-term zone, tend to refrain from investment toward the end of the year. Moreover, the technical movement, including a reduction in the positions by foreign investors and speculative funds just before the last trading day of the contract month of the futures market, affected the medium-term zone, leading to an unexpected rise in interest rates.

We are facing uncertainty for the moment when considering the future trend in the market. For example, there will be the U.K. general election today, and the U.S. is scheduled to introduce the fourth round of tariff hikes against China on December 15. Although the prevailing view among market participants is that the U.S. will avoid implementing the tariff hike, it is still unforeseeable, judging from President Trump's behavior this year. After these events, it is expected that demand from foreign investors would return next year, putting downward pressure on the interest rates. Considering the market situation in the further future, President Trump's behavior will continue to be a focal point of discussion, which has swayed the movements of Japanese and U.S. interest rates, which were closely tied. The U.S.-China dispute is considered to be a long-term issue. However, President Trump's policy could be supportive of the market, which would promote a risk-on market mood rather than risk-off mood, assuming that his goal of winning in the presidential election would affect his behavior. The bond market might face a slight rise in the interest rate level as a trend of next year if the BOJ and ECB refrain from additional easing based on the expectation that the slowdown of the global economy would be limited. However, we should always keep in mind the possibility of shocks happening caused by unpredictable factors as we have never seen such a year in the past when no disturbance happened. One of the foreseeable events is the U.S. presidential election. The prevailing view is that President Trump will win reelection, but nothing is certain if we consider what happened three years ago. If a Democratic left-wing candidate wins the election, stock prices could drop and interest rates could become volatile. Therefore, it is important to be vigilant about such factors while our main expectation is the market would stay stable.

・Looking back at the past year, the flattening of the yield curve was impressive. It flattened the most around August, with the spread between the yields of the 10-Year and 30-Year Bonds narrowing to around 40 bps. At that point, BOJ Governor Kuroda commented that interest rates in the super long-term zone were a little too low, while the BOJ reduced the amount of Outright Purchases of JGBs, which led to a temporary steepening. Later, the bear-flattening occurred in October and the following months, confirming that demand in the super long-term zone is very strong. One background factor, which was discussed at the meeting of JGB Market Special Participants in November, is the introduction of international regulation on life insurance companies scheduled for 2025. Life insurance companies are preparing for the regulation in conjunction with the proceeding discussion on the introduction of economic value-based solvency regulation on domestic companies at the panel of experts under the Financial Services Agency in light of the international trend. Although there are still five years of time to spare, it is expected that the demand for bonds in the super long-term zone will remain strong for a while because the large amount of risks held by the life insurance companies continue to be a supply-demand factor.

The other remarkable thing was the strong demand for bonds in the super long-term zone, seeing the financial results of banks. It clearly indicated that demand for the positive interest rate is evident, which explains the reason why 10-Year Bonds were not easily bought even when the long-term interest rate approached zero percent, with purchases concentrated in the super long-term zone. Of course, the supply-demand environment of 10-Year Bonds may change when the long-term interest rate rises to positive.

Although the external environment, including overseas economic conditions, would affect the interest rates, I am paying the most attention to the upward pressure on short-term interest rates, which influence the absolute level of interest rate in the future. Various factors have been affecting short-term interest rates, including the BOJ's decision to pass the interest rate cut after suggesting the possibility. However, I believe active arbitrage trading is worth attention recently. Investors are procuring funds with negative interest rates and put them into the Macro Add-on Balance in current account balances at the BOJ which zero percent interest rate is applied. As a result, the repo rate in today's tomorrow-next transactions recorded minus 0.003%, the highest level since February 2016. Investors may be engaging in such trading because of the prospect that the negative interest rate policy will continue for a long period of time. This situation would not change easily unless the BOJ applies negative interest rates to the Macro Add-on Balance, which is difficult to implement. Therefore, interest rates in the short- and medium-term zones remain liable to receive upward pressure. The interest rate rise caused by redemption and pension benefit payment will finish by today and interest rates will become stable for a while from tomorrow, when the Designated Reserve Maintenance Period for December starts. However, if the pressure on short-term interest rates pushes up the interest rate on the 10-Year Bond to positive, demand for positive interest rates on bonds in the super long-term zone, including the 20-Year Bond, may decline, resulting in a slight steepening of the yield curve though the situation might be different with the case of 30-Year and 40-Year Bonds.

・From a standpoint of a market-maker, what impressed us the most this year is the fact that prices and interest rates started to move in terms of the trading environment, liquidity and trading volume in the market. The whole yield curve started to move, including the short- and medium-term zones and the super long-term zone. In addition to the vivid movement of the interest rates in the super long-term zone, interest rates in the short- to medium-term zones have been moving by reflecting expectations for monetary policy and their fading.

On the other hand, the prolonging Outright Purchases of JGBs by the BOJ created a situation where the remaining volume of bonds in the market was too limited to cover the strong demand from customers, particularly in the first half of this year, when demand was very strong, including from foreign investors. The volume of bonds traded in the market is smaller than it appears in various maturity zones, including the super long-term zone, where demand from life insurance companies becomes strong when interest rates have risen, as well as the medium-term zone. We request the BOJ to reduce its purchases of JGBs as much as possible and the Financial Bureau to avoid reducing the issuance amount.

It is expected that the macroeconomic environment will not significantly change suddenly. It is hard to expect such a situation where a one-sided risk-on market reduces the demand for bonds. Instead, I believe that the demand for bonds as an investment target from investors will continue, especially when interest rates rise. Therefore, in addition to the support for liquidity in the super long-term zone, we request the Financial Bureau to take measures to improve the market liquidity in the medium-term zone, which is crucial for the liquidity of the whole yield curve, including increasing the issuance amount of Liquidity Enhancement Auctions for the remaining maturities of 1-5 years zone. We would like to continue our efforts to maintain or increase the liquidity of the market.

As higher interest rates promote investment activity of customers in general, we would like to avoid creating a market environment where the supply-demand balance is too tight from a business point of view.

・The apparently strong demand for bonds in the super long-term zone is expected to continue next year, especially when the interest rates rise. On the other hand, the deviation of closing rates and the yield curve has been observed in the medium-term zone, particularly in the remaining maturity of 3 years zone. While a gap of 0.5 bps or 1 bps is not a problem, closing rates are sometimes deviating from the yield curve by 3 to 4 bps, which are left unadjusted. We request the Financial Bureau to consider increasing the issuance amount for the Liquidity Enhancement Auctions, particularly in the remaining maturities of 1-5 years zone, depending on the circumstances.

・The market has started to move compared to the previous fiscal year as interest rates have become more volatile in various zones besides the super long-term zone, while this is only a partial improvement of the market's functions.

On the other hand, though it might be attributed to the insufficiency of our efforts to provide liquidity, the liquidity of the market has declined. In addition to the super long-term zone, where demand is strong, interest rates in the remaining maturity of 3 years zone sometimes deviate from the yield curve by 3 to 4 bps. Previously, a flow of large-lot purchases by relative value investors was seen when such a deviation occurred. However, such activity has disappeared recently. While the repeated reductions in the amount of Outright Purchases of JGBs by the BOJ this year have mitigated the effects of the policy on a flow basis, the effects on a stock basis are outstanding in some zones, as analyzed by the BOJ as well. That should be one of the reasons why the yield curve in the remaining maturity of 6 years zone has been inverted for a prolonged period of time. Such an excessive distortion of the yield curve in a particular zone is a problem.

As higher interest rates invigorate the business activity in the bond market and increase the choice of customers, we request the Financial Bureau to minimize the reduction in the calendar-based issuance amount through some measures, including reducing the lower limit on the coupon rate.

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