Minutes of the Meeting of JGB Market Special Participants
(89th Round)

1. Date: Wednesday, June 24, 2020
2. Place: Held in writing
3. Gist of Proceedings:

1. Issuance size of Inflation-Indexed Bonds in the July - September 2020 quarter

▶ The Financial Bureau gave the following explanation about the issuance amount of Inflation-Indexed Bonds in the July - September 2020 quarter:

・ As shown on page 3, according to the JGB Issuance Plan for FY2020 (after the second supplementary budget), there will be issuance of Inflation-Indexed Bonds four times a year for the amount of ¥200 billion per each time while it is stated that "The offering amount may be adjusted in a flexible manner in response to market circumstances and investment demands, which will be determined based on discussions with market participants." In addition, as shown on page 4, it is stipulated about Buy-back program that "Buy-back program in FY2020 is planned to be implemented based on market conditions and through discussions with market participants." Today, we would like to hear your opinions about those amounts in the July - September quarter.

・ In the April - June quarter, as shown on page 5, we conducted an auction of issuance for the amount of ¥200 billion in May and decided to conduct Buy-back Auctions for the amount of ¥50 billion every month in order to balance the supply and demand in the Inflation-Indexed Bonds market. As shown on page 6, we believe that the result of the auction of issuance in May was broadly in line with the market conditions.

The results of the Buy-back Auctions and Outright Purchase of JGBs by the Bank of Japan (BOJ) are shown on page 7. Both the Buy-back Auctions and Outright Purchase of JGBs were settled at a price cheaper by ¥0.2 compared to the closing price of the prior day.

・ The situation of the secondary market is shown on pages 8-10. According to pages 8 and 9, global market sentiment has been improved and is currently more stable than some time ago.

See the details on page 10. With the novel coronavirus infection spreading and the declining crude oil prices, the BEI in Europe and the United States fell sharply in March to April, followed by the sharp fall of that in Japan. However, after the issuance of Inflation-Indexed Bonds in May, the BEI has almost remained within the positive range and stands currently at around 0 %.

・ In such circumstances, we asked for your opinions in advance and found that many of you were in favor of leaving unchanged the offering amount of Inflation-Indexed Bonds and the amount of Buy-back Auctions in the July - September quarter in view of the situation that unstable balance between supply and demand for the existing bonds would continue due to their replacement with the current bonds in the global risk-off sentiment, despite a rise, in particular, in the price of those current bonds.

・ In light of this situation, our proposal is shown on page 11. We are considering an auction for the amount of ¥200 billion and carrying out a Buy-back Auction in the amount of ¥50 billion every month in the July - September quarter, which is in the same amount as the April - June quarter.

We will keep watching the market environment and other factors closely and take appropriate actions flexibly.

・ As above, we explained the situation regarding the Inflation-Indexed Bonds market and our proposal on those amounts in the July - September quarter. We believe that the development of the Inflation-Indexed Bonds market is an important issue in Debt Management Policy. We will make a comprehensive decision based on the contents of today's meeting as to our proposal on Inflation-Indexed Bonds in the July - September quarter, and we will hear your opinions again.

▶ Summarized below are the views and opinions submitted:

・ We agree to the proposal of the debt management office. The external environment has not deteriorated as much as expected and the expected inflation in Europe and the US is showing a rebound. In the meantime, only the BEI in Japan remains at around zero percent, showing a sluggish environment. Therefore, we consider it appropriate to set the size of issuance at ¥200 billion and the Buy-back Auction in the amount of ¥50 billion every month in the July - September quarter.

・ With the CPI in negative territory due to the spread of the novel coronavirus infection, market participants are becoming more reluctant in participating in the market. While the demand and supply situation improved and prices rebounded temporarily due to a reduction in the amount of issuance and an increase in the amount of Buy-back Auctions, some funds are closing the positions of Inflation-Indexed Bonds and there still remains the situation where it is difficult to find new buyers. Since the current amount of each issue is small, the liquidity is deteriorating.

However, if the reopening rule issues are continued, liquidity is expected to gradually improve. We agree to the proposal of the debt management office of setting the size of issuance in August at ¥200 billion and conducting Buy-back Auctions for the amount of ¥50 billion every month.

・ We agree to the proposal of the debt management office in view of the situation that the current BEI is close to zero percent and that there is a great deal of uncertainty about the global economy and domestic price trends in the future due to the spread of the novel coronavirus infections. In such an environment, the investors' demand is scarce. Therefore, we consider it appropriate to keep the current level of issuance and Buy-back Auctions from the perspective of stable issuance.

・ We consider it desirable to continue conducting the issuance of ¥200 billion per auction and Buy-back Auctions for the amount of ¥50 billion every month. After the market adjustment phase seen in March, it is hard to say that the investors' demand has returned despite the policy measures taken by the debt management office and the BOJ, and the path to an increase in the inflation rate cannot be envisioned. In view of this situation, since it is expected that it will be difficult to give a sense of security to market participants other than by steadily improving the supply-demand balance for the time being, we will continue to support the current level of issuance and Buy-back Auctions.

・ The BEI of the current bonds has increased to the positive territory. However, since the on-the-run bonds are still in negative territory, we consider that there is no change in the situation that the market is being kept barely alive somehow through Outright Purchase of JGBs by BOJ and Buy-back Auctions by the Ministry of Finance. Although some investors are now showing some interests in Inflation-Indexed Bonds in Japan, there is still no demand from a wide range of investors, and we are of the view that the current level of issuance and Buy-back Auctions should be continued patiently.

・ The market of Inflation-Indexed Bonds continues to be unstable in terms of demand. Therefore, we support the same amount for issuance and Buy-back amount as in the April - June quarter.

・ There is a potential need for the sale of the off-the-run bonds of the issue number 23 and before, and we would like to see its stabilization through the issuance and Buy-back based on the proposal of the debt management office.

・ A rather large gap in supply and demand continues to be seen between the current bonds and the off-the-run bonds, and the situation in which the off-the-run bonds look relatively cheap continues in the market of Inflation-Indexed Bonds. Therefore, since it is considered that there is still a large amount of stocks of the off-the-run bonds in the market, we believe it desirable to continue conducting a large amount of buybacks and to maintain the status quo, accordingly. In addition, if there is a further deterioration in the supply and demand balance, we believe that it is desirable to temporarily conduct buybacks to respond to the situation.

・ We propose an issuance of ¥300 billion and monthly buybacks of ¥80 billion. While we could see a strong demand from investors in the auction in May, the results of Outright Purchase of JGBs and Buy-back Auctions were poor as a whole, and it can be said that the gap in supply and demand has increased between the current and the off-the-run bonds. We are of the view that the gap will be reduced by increasing both the amount for issuance and the buy-back amount, accordingly.

・ Although the deteriorating supply and demand environment continues, we think that we have left behind the worst time since March. For this reason, we would like to see the issuance of ¥300 billion per auction, moving forward from the auction in May in which the amount was reduced by half as an emergency measure. Our intension is that through this increase, the liquidity of the current bonds can be improved whose price movements were significantly different from those of the off-the-run due to the small amount of current bond issuance. On the other hand, there is a strong demand from the holders of the off-the-run bonds to increase the amount of buybacks. We are deeply concerned about leaving the market below par, which remains significantly far from the theoretical value. This may lead to the reduction in investors' demand in the future.

・ The results of the auction in May were better than expected, and since the BEI remains stable at the level of around zero percent since then, we would like that the size of the auction be increased by ¥100 billion to ¥300 billion in August. As far as Buy-back Auctions are concerned, since there has been no improvement in the supply and demand balance in the off-the–run bonds market and the BEI is significantly detached from that of the current bonds, we would like to see buybacks of ¥75 billion per month, increasing ¥25 billion.

・ Although a decrease in the amounts of supply outstanding in the market has a positive effect on the supply and demand balance, the BEI has risen already to around zero percent, and it is unlikely that it is at an abnormal level compared to economic fundamentals. Therefore, we believe that it is appropriate to aim at a moderate reduction in amounts of supply outstanding, decreasing the scale of Buy-Back. In addition, when considering the objective of the Buy-back program and of amounts outstanding in the market, we consider it appropriate to exclude the current bond issues from buybacks.

2. Liquidity Enhancement Auctions in the July - September 2020 quarter

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auctions for the July - September 2020 quarter:

・ As shown on page 13, according to the FY2020 JGB Issuance Plan (after the second supplementary budget) regarding Liquidity Enhancement Auctions,

(1) while it is assumed that a total of ¥11.4 trillion will be issued in a year, including ¥3.0 trillion for those 15.5 - 39 - remaining - year zone and ¥2.4 trillion for those with 1-5 - remaining - year zone, the same amount as in FY2019, and ¥6.0 trillion for those with 5-15.5 - remaining - year zone , a reduction of ¥1.2 trillion from FY2019, and

(2) finally, “the details may be adjusted in a flexible manner in response to market circumstances and demands of investors.”

Today, in response to this plan, we would like to hear your opinions regarding the amount for each maturity zone for the July - September quarter.

・ As shown on page 14, as assumed in the FY2020 JGB Issuance Plan, we issued ¥400 billion of bonds in the odd-numbered month of May 1 - 5 - remaining - year zone, ¥500 billion of bonds every month with 5 - 15.5 - remaining - year zone and ¥500 billion of bonds in the even-numbered month of April and June with 15.5 - 39 - remaining - year zone.

・ The results of the recent Liquidity Enhancement Auctions are shown on pages 15-17. The results have been generally stable in each maturity zone.

・ Under the circumstances, we asked your opinions about the Liquidity Enhancement Auctions for the July - September quarter in advance and found that many of you were of the opinion that since there is no significant change in the supply and demand situation in each zone, it was appropriate to maintain the current amount.

In response to this, we prepared our draft plan for the amount for each maturity zone in the July - September quarter, as shown on page 18. We are proposing the idea of issuing ¥400 billion of bonds in the odd-numbered months of July and September with 1 - 5 - remaining - year zone, ¥500 billion of bonds every month with 5 -15.5 - remaining - year zone and ¥500 billion of bonds in the even numbered month of August with 15.5 - 39 - remaining - year zone.

・ Regarding the amount for each maturity zone for Liquidity Enhancement Auctions for the July - September quarter, we will make a decision based on the broad contents including those from today's meeting, and we will ask your opinions again.

▶ Summarized below are the views and opinions submitted:

・ We agree to the proposal of the debt management office. Since the amount of each zone is distributed in a well-balanced manner and all JGBs are absorbed stably with the support from securities companies to cover their short positions and investors demand, we consider that the current distribution is appropriate.

・ We agree to the proposal of the debt management office. After entering the new fiscal year, there was a time in which the market liquidity dropped significantly temporarily, but the results of the Liquidity Enhancement Auctions were very stable in each maturity term. We believe that the current amount remains valid also for the July - September quarter.

・ Since no significant distortion is observed in the supply and demand for individual issues even in the current repo market, we are of the view that the Liquidity Enhancement Auctions are functioning properly. Therefore, we believe it appropriate to maintain the current amount.

・ We consider that the amount for all the three zones is appropriate and we agree to the proposal of the debt management office.

・ If there will be no change in the total annual amount in Liquidity Enhancement Auctions and the amount for each zone will be adjusted between zones, we would rather like to see that the status quo is maintained.

・ We consider that the current amount is well balanced. Even super long-term bonds are purchased by end investors and are absorbed without any problem. We are of the opinion that the impact of the increase in the amount of interest-bearing bonds since July onwards should be assessed for changing the amount of Liquidity Enhancement Auctions, and thus, we consider it reasonable to leave it unchanged at this moment.

・ We agree to the proposal of the debt management office. According to the auction results since April, the bid-to-cover ratio for the 5 - 15.5 - remaining - year zone increased to around 3.5 times due to the reduction in the amount of issuance, but we consider that all zones are well balanced.

Although there is a room for an increase in the amount in the 1 - 5 - remaining - year zone because there are many off-the-run bonds which are constantly tight in supply and demand balance, we consider that there is no need for a change in the July - September quarter because the JGB amount will be increased significantly since July.

・ We support the same amount for the July - September quarter as that for the April - June quarter. Regarding Liquidity Enhancement Auctions, we are of the opinion that there is no particular need for a change because there is a corresponding demand in each zone. However, it is expected that a gradual distortion in the distribution balance between the current and off-the-run bonds will occur since July when the size of each issuance will be increased. Therefore, we are of the view that it will be necessary to transfer part of the volume of issuance of current bonds to an issuance through Liquidity Enhancement Auctions in order to form an appropriate yield curve in the future.

・ Basically, we agree to the proposal of the debt management office. We can see from the latest auction results that both the amount and frequency of issuance for each maturity term are generally in line with the current supply and demand environment. If a further increase in the JGB issuance becomes necessary, we consider that by increasing the amount in the 1 - 5 - remaining - year zone of Liquidity Enhancement Auctions, instead of increasing the 2-Year Bonds or the 5-Year Bonds, the excessive widening gap in the supply and demand can be prevented and thus the functionality and liquidity of the market be maintained.

・ There is an increasing investment demands for the short-to-medium-term zone from overseas investors. For this reason, we consider it desirable to reduce the amount of JGBs with 15.5 - 39 - remaining - year zone to ¥400 billion and to increase the amount in the 1 - 5 - remaining - year zone to ¥500 billion.

・ Since many bond with the 1 - 5 - remaining - year are tight in supply and demand balance due to the increase in Outright Purchase of JGBs by the BOJ and collateral needs, we would like to see an increase in the issuance amount. On the other hand, we consider it possible to reduce the amount of the 5 - 15.5 - remaining - year zone because there are hardly any bonds that are tight in supply and demand balance since the implementation of the measures against squeeze of the cheapest bonds.

3. Latest JGB market situation and outlook in the future

▶ Summarized below are the views and opinions submitted:

・ Market participants are gradually coming back to the normal working shift, but there is hardly any impression that the number of risk-takers has increased. In addition, although the domestic and overseas economies that experienced a sharp drop have started to see good economic indicators mainly in the US, there is a doubt about their continuity and there exists also the risk of the re-spread of the novel coronavirus infections. While the interest rate of 10-Year Bonds has continued to remain around the BOJ's policy stability target of zero percent, the supply and demand balance in the super long-term zone are relatively relaxed due to the increase in the JGB amount of issuance from July and the lack of willingness for purchase by the BOJ, resulting in the steepener of the yield curve. In light of these current conditions, unless there is a global economic recovery or an improvement in the supply and demand balance in the super long term zone since July, we expect that the interest rate rise and the bear steepener of the yield curve will continue. However, even in this case, the BOJ will play its role eventually to prevent this from happening. Since concerns about the supply and demand balance seem too excessive, we believe that the buying order will precede actually in the JGB market in July. When considering various structural changes in economy could bring about by the spread of the novel coronavirus infections, we consider that the level of the interest rate of 10-Year Bonds which has been moving in the positive range is too high and there is a high likelihood that the level will be adjusted sometime soon.

・ Although there are differences among countries in the response to the spread of the novel coronavirus infections in terms of economic measures and in terms of hygiene measures, tendency of the yield curve steepener continues globally against the common backdrop of the slackening in supply and demand balance due to the increase in the bond issuance and expectations for economic recovery with various economic stimulus measures. There is a view that the BOJ is reluctant to buyback JGBs in the super long-term zone, but the potential demand for JGBs in the super long-term zone from life insurance companies is not small at all. According to the investment trends by investor category of the volume of the over-the-counter bond sales in May, it can be confirmed that their purchases exceed sales at a high level of ¥400 billion or more. When considering that it is highly likely that the current low interest rate situation will continue for a long period of time, we consider that the stance of the BOJ aiming at giving high regard to the market function is appropriate. However, there still remains a variety of risks such as decreased liquidity due to an increase in work from home due to the spread of the novel coronavirus infection, and we consider it necessary for the BOJ to increase the amount of Outright Purchase of JGBs including bonds in the super long-term zone when interest rates rise sharply. The increase in the

JGB issuance since July onwards could pose a risk for a sharp rise in interest rates. However, we consider that it is important that buying order preceded in the behavior of investors even when the increase in issuance was decided and we expect that real money from life insurance companies, etc., will play a certain role when interest rates rise sharply.

In addition, depository institutions with low amount of loans might have potential needs of demand. While financial institutions that have increased their lending in response to the spread of the novel coronavirus infections can significantly increase their Macro Add-on Balance by participating in the BOJ's Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus, the BOJ needs to lower the benchmark ratio in order to keep the Policy-Rate Balance constant. As a result, depository institutions with low amount of loans will be motivated to reduce the Policy-Rate Balance by buying JGBs with positive interest rates, etc. In addition, since there will be a sharp increase in the deposit amount due to the cash handout of ¥100,000, depository institutions will be motivated to buy JGBs with positive interest rates. For this reason, we believe that if the interest rate of the 10-Year Bonds is in the positive range, there will be a heightened demand in the future, and even if there is no increase in the amount in Outright Purchase of JGBs, we consider that the interest rate of the 10-Year Bonds will remain in the range of plus or minus 0.2 percent and will remain in the range of 0.1 - 0.15 percent even if interest rates rise. We are of the view from this perspective that even if the bear steepener tendency continues, it will be moderate.

On the other hand, a heightened demand for risk-off purchase due to the US-China trade friction and the implementation of further low interest rate policy by FRB and ECB will pose a risk for a decline in interest rates. However, the possibility for the FRB to introduce negative interest rates is low due to the fact that the money market funds must be taken care of. The ECB has already cut interest rates significantly, and although there is a possibility of expanding the Pandemic Emergency Purchase Program, the ECB must be cautious about moving deep into negative interest rates. In view of these circumstances, it is highly unlikely that central banks in each country will compete for lower interest rates globally, and since it is considered that each country will focus on fiscal policy in response to risk-off events, we anticipate the possibility that the heightened demand for risk-off purchase will be offset by the increase in the supply of Bond issuance in each country as a result of their fiscal policy.

・ The market’s concern is focused on the adjustment of Outright Purchase of JGBs associated with the increase in the JGB issuance. There are concerns about the supply and demand situation in the super long-term zone against the main backdrop of the steepener of the yield curve, and there is no consensus on the interest level of the terminal part of the yield curve from foreign countries’ investors. However, since the monetary easing by the BOJ is far from its exit strategy, we think that there is a limit to increase in risk premium without an increase in the inflation rate and economic growth rate. We presume that the yield curve in the future will continue steepener to be adjusted gradually.

・ The liquidity of the JGB market has been improved compared to March and April. However, when compared to the time before the spread of the novel coronavirus infection, the trading volume over the counter and the tradable amount in the market remain at a low level. We think that the liquidity in the derivatives market, such as swaps, futures, options, etc., which remains significantly low, has an influence on the liquidity in the JGB market. As we consider that the level of liquidity is proportional to the attendance rate to the office of investors and securities companies, we expect that it will gradually recover at a moderate pace within the year.

・ Although the liquidity of the JGB market declined significantly in March, the flexible JGB purchase operation by the BOJ and the stimulation of demand for investment with the interest rates of the 10-Year Bonds in the positive range allowed decrease in volatility of the market and the market gradually regained calm since April. On the other hand, the change in the JGB issuance plan following the compilation of two large supplementary budgets put pressure on interest rates, and the interest rate of bonds in the super long-term zone in which the purchase ratio by the BOJ is relatively low has risen to the level a year earlier for the first time and the yield curve bear steepened. However, the demand for buying on dips by real money such as life insurance companies has been seen, and the volatility of the market as a whole has not risen. Although we may see a rise in interest rates temporarily due to the increase in the JGB issuance from July, we expect that the demand of investors to buy on dips will be stimulated and the market in which trading is based on real demand will be formed.

・ Although there is upward pressure on interest rates due to the increase in JGB issuance, we are of the view that a stable market environment will continue against the backdrop of the investors' demand for JGBs in the super long-term zone and the yield curve control by the BOJ.

・ Although we see some uncertainty regarding the operation of the BOJ to purchase JGBs since July onwards, the current situation is such that interest rates are adjusted by appropriately discounting the increase in the JGB issuance from July and the yield curve is formed. In the future, we will see fluctuations in interest rates in the long-term zone and super long-term zone according to the global economic recovery and the degree of the monetary easing stance of the central banks of each country, but we see currently strong focus on an upward trend of interest rates.

・ The yield curve of JGBs continues to be steepened due to the decision to significantly increase JGB issuance from July and the global risk-on market. Currently, interest rates of 30-Year Bonds are in the 0.58% range and those of 40-Year Bonds are in the 0.61% range, with interest rates rising to the level in April - May last year. However, the interest rate of 10-Year Bonds declined to -0.05% due to the additional monetary easing by the BOJ in the latter half of April, and rose to around 0.05% in the first half of June following the release of US Labor statistics. Despite the rise in interest rates in the super long-term zone, the current interest rate situation is very stable at around 0.01%. The current steepener of the yield curve is not caused only by the forecast of deterioration of supply and demand balance due to the decision to increase JGB issuance. With the robust global stock market as the backdrop, government bonds yields both in Europe and the US have also steepened. Since there are expectations for additional economic measures in the USt and expectations also for early development of vaccines against the novel coronavirus infections, it is difficult to deny the possibility that such a trend will continue from July onwards. Although we expect that the 10-Year Bonds will continue to stay stable under the yield curve control policy, since the impact of the JGB purchase by the BOJ from July onwards and the significant increase in the JGB issuance amount on auctions is uncertain, the volatility of JGBs in the super long-term zone will be high at least in July and August.

・ Despite the decision to significantly increase the amount of JGB issuance from July onwards, the JGB market is relatively stable. However, there remains the risk that the supply and demand environment will change completely due to the fact that the amount of interest-bearing bonds will increase sharply from July onwards. There is a consensus in the market that the effect will be absorbed to a certain extent through an increase in amount of Outright Purchase of JGBs, but we should be keen on the liquidity in the market in the future.

・ With the rise in stock prices in expectation for the recovery from the shock of the novel coronavirus pandemic and for the economic recovery, we feel that it is rather difficult to actively buy government bonds. In addition, the market is conscious of the increase in JGB issuance starting in July and we believe that the market trends from July onwards will be significantly affected by changes in the stance to buy JGBs of the BOJ.

・ The market has continued to be slack since the last meeting. The focus of many market participants is the operational policy of Outright Purchase of JGBs and we suspect that it is difficult for BOJ to take an active stance until it is confirmed. However, we think that interest rates will continue to stay stable supported by the real demand from investors even if they rise temporarily.

・ Although the upward pressure on interest rates due to concerns over the increase in JGB issuance resulting from the large-scale government spending has somewhat weakened, we believe that the market has not discounted the effect of the increase in JGB issuance fully yet from July. We expect that the interest rate of 10-Year Bonds interest rate will continue to stay around zero percent against the backdrop of the active stance of the BOJ to buy JGBs and we are of the view that there will be concern about interest rates rise mainly in the super long-term zone while there is expectation of a further increase in government spending in the future.

・ The market is concerned about whether the increase in the JGB issuance from July onwards can be supported by Outright Purchase of JGBs. Since the interest rate of 10-Year Bonds continues to be stable, we believe that the view that the strong yield curve control is effective is predominant.

・ The spread of novel coronavirus infection has not completely subsided and it is expected that people will refrain from unnecessary and non-urgent activities. In the circumstances, it seems that the liquidity of the market will continue to be low. In view of the significant increase in the JGB issuance from July under such an environment, we would like to request again the implementation of the uniform price auction. The discussion paper entitled the "Introduction to Japanese Government Bonds - Introduction to the Auction System and Academic Research Focused on uniform price auction and discriminatory price auction -" published by the Policy Research Institute analyzes which method leads to the profits of the issuer by discussing the following three cases – (1) Case in which "winner's curse" is noticeable; (2) Case in which collusion among auction participants is serious; and (3) Case in which squeeze is serious. The analysis results show that the uniform price auction is more beneficial in the case (1), the discriminatory price auction is more beneficial in the case (2) and the uniform price auction is more beneficial in the case (3), again. In the current market environment in which the market is illiquid and the impact of the increase in the JGB issuance is uncertain in the future, there is a possibility that the case (1) will become apparent. In addition, since the demand for current issues is strong, the supply and demand balance of current bonds in the repo market are often tightened, which is considered to correspond to the case (3). We are of the opinion that it is time for the debt management office as the issuer to review the auction method with a view to raising funds at a lower cost.

・ While the interest rates of JGBs with a maturity shorter than 10 years continue to stay stable in anticipation of an increase in Outright Purchase of JGBs, interest rates of JGBs in the super long-term zone have been steepener and are slightly unstable before the increase in the issuance. In light of the biggest increase in history in the JGB issuance which provides a good opportunity for the change in the auction method, we would like to request again the change it to the uniform price auction. We are of the view that it is time to induce both domestic and foreign investors who have stayed away so far from the primary market for reasons of the discriminatory price auction by adopting the uniform price auction to expand the base of investors for the purposes of stable issuance and absorb the increase in the JGB issuance. In addition, for example, if the conditions for the auction methods are clearly defined such that in the case where the issuance of JGBs with a maturity shorter than 10 years is ¥1.5 trillion or more and in the case where the issuance of JGBs with a maturity longer than 20 years is ¥500 billion, the uniform price auction method be adopted and when the respective issuance amount is lower, the discriminatory price auction method be adopted, those methods are easily accepted also by foreign investors. In addition, if the auction method is changed to the uniform price auction, we are of the view that the participants from US investors who are accustomed to the uniform price auction method are expected to increase, leading to price stability and reduction in issuance costs in the long run. If we add one more thing, we hear that the auction of the 20-Year Bonds in the US has been successful and the market continues to stay stable, and this is largely dependent on the uniform price auction method.

・ The JGB issuance amount will be increased in July. With expectations for the BOJ's monetary policy, interest rates are rising moderately and the yield curve has steepened. If there occurs a discrepancy in communication with the market, however, we think there is a sufficient possibility that volatility will rise sharply.

・ Although an improvement was observed in liquidity and degree of functionality temporarily in the JGB market immediately after the lifting of the declaration of the state of emergency, we recognize that both liquidity and degree of functionality are currently on the decline again. Faced with the unprecedented increase in JGB issuance since July, we feel that it is difficult to conduct JGB transactions actively amid the stance of the BOJ to "hold back if interest rates rise," and we are deeply concerned about the possibility that volatility in the market will soar again. In order to maintain a stable and low yield curve, we consider it necessary for the debt management office, the BOJ and market participants to respond to the situation as one, and we would like to see close communication between the debt management office and the market participants in the future.

Contact:

Financial Bureau, Market Finance Division

03-3581-4111 (ext.5700)