**Minutes of the Meeting of JGB Market Special Participants**
**(92nd Round)**

1. Date: Friday, December 11, 2020
2. Place: Held in writing
3. Gist of Proceedings:

**1. Issuance size of Inflation-Indexed Bonds in the January – March 2021 quarter**

▶ The Financial Bureau gave the following explanation about the issuance size of Inflation-Indexed Bonds in the January – March 2021 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 issuance size may be adjusted in a flexible manner in response to market circumstances and demands of investors, 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 January – March quarter.

・ In the October-December quarter, as shown on page 5, we conducted an auction of issuance for the amount of ¥200 billion in November 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. The result of the auction of issuance in November is as shown on page 6. The results of the Buy-Back Auctions and Outright Purchase of JGBs by the Bank of Japan (BOJ) are shown on page 7.

・ The situation of the secondary market is shown on pages 8 to 10. The Japanese BEI that fell sharply in March to April has remained almost at zero since May, 2020.

・ In such circumstances, we asked for your opinions in advance and found that many investors were in favor of leaving unchanged the issuance size of Inflation-Indexed Bonds and the amount of Buy-Back Auctions in the January-March quarter in view of the situation that the supply and demand balance for the current Inflation-Indexed Bonds market continues to be unfavorable despite that such an intermittent selling pressure as before has stopped.

・ In light of this situation, our proposal is shown on page 11. We are considering an auction for the amount of ¥200 billion per auction and carrying out a Buy-Back Auction in the amount of ¥50 billion every month in the January-March quarter, which is the same amounts as the October-December 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 the issuance in the January-March quarter. We believe that the development of the Inflation-Indexed Bonds market is an important issue in Debt Management Policy. We will make a decision based on the contents including today's meeting as to our proposal on the issuance in the January-March quarter, and we will hear your opinions again.

▶ Summarized below are the views and opinions submitted:

・ The BEI of the current Inflation-Indexed Bonds has stayed at around zero percent. Since the results of Outright Purchase of JGBs and Buy-Back Auctions are less frequently detached in the downward direction from the market prices, it looks like that the market supply and demand situation has improved considerably compared to when the bonds were traded with the BEI at a position well below the theoretical lower limit. However, as the liquidity of the market continues to decline under the influence of coronavirus infection and the BEI remains to stay at the theoretical lower limit, it cannot be said yet that the current market has regained the pricing power. Therefore, we believe that we should wait for the supply and demand situation to recover by issuing less and buying-back more bonds.

・ We believe that the situation is improving gradually in all aspects including the average prices in Buy-Back Auctions and Outright Purchase of JGBs as well as the level of the proportional rate. Since the BEIs of the off-the-run issues are at −10bps and the BEI of the current bonds at around zero bps, it cannot be said that the supply and demand situation is tight. Therefore, we agree to the proposal of the debt management office in maintaining the current levels for both the issuance and the Buy-Back Auctions.

・ There is still high uncertainty about the global economy and domestic price trends despite expectations for vaccines against the novel coronavirus, while the BEI is standing at around zero percent. Under the circumstances, the investors' demand is scarce. Therefore, we consider it appropriate to keep the current level of issuance and buy-back from the perspective of stable issuance.

・ We believe that it is necessary to increase the Buy-Back Auctions to ¥100 billion every month and improve the market environment to allow the issuance to be put back to ¥300 billion in the future in order to improve the liquidity of Inflation-Indexed Bonds. In the situation where the core CPI remains in the negative zone, a full-fledged demand remains elusive even if the price is below the theoretical value. There are still many investors who are concerned about the deterioration of the balance between supply and demand, and there are many investors who are looking for opportunities to sell. We would like to see a drastic increase in the amount of Buy-Back Auctions in order to regain a sound market environment.

・ Since many investors are cautious about new purchases in the situation where it is unlikely that the CPI will rise, we believe it desirable to maintain the current issuance size. Since the position adjustment has been made continuously due to their allocation changes, we also believe it appropriate that the amount of Buy-Back Auctions be maintained at the current level.

・We agree to the proposal of the debt management office to set the issuance size in February 2021 to ¥200 and the amount of Buy-Back Auctions in January to March to ¥50 billion. The situation remains where a wide range of the off-the-run issues are sold intermittently. In such a situation where the CPI is in the negative zone, it is difficult to explore demand from new investors.

The average purchase price gap has turned positive for the first time in a long time at the previous Buy-Back Auctions. We believe that this is due to the looming effect of the current issuance size and the amount of Buy-Back Auctions. In the future, we believe it will be necessary to consider decreasing the amount of Buy-Back Auctions when the position adjustment has been completed and the large tail can be seen in the positive range and if the bid-to-cover ratio declines significantly.

・ Since no price increase is expected in the future, we understand that Inflation-Indexed Bonds market continue to be in a difficult situation from market participants' perspectives, including performance, liquidity, etc. In view of this situation, we believe that it is important to improve the balance between supply and demand for the time being. Therefore, we agree to the proposal that the current issuance and Buy-Back Auctions will be maintained.

・ Although the supply and demand situation has improved compared to before, since no significant improvement is observed, we would like to see that the status quo for both the issuance and Buy-Back Auctions be maintained.

・ Since the liquidity of the existing Inflation-Indexed Bonds continues to be low, we would like that the current monthly ¥50 billion Buy-Back Auctions be maintained. In the meantime, since the current bonds with the current issuance size continue to remain stable with the BEI in the range of -5.0 to zero percent, we believe that there is no need for a change in the issuance size.

**2. Liquidity Enhancement Auctions in the January-March 2021 quarter**

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auctions for the January - March 2021 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 JGBs with remaining maturities of 15.5-39 years and ¥2.4 trillion for those with remaining maturities of 1-5 years, respectively, in the same manner as in FY2019, and ¥6.0 trillion for those with remaining maturities of 5-15.5 years, a reduction of ¥1.2 trillion from FY2019, and
(2) finally, “the details will be flexibly adjusted in view of the market environment and investment needs”.

Today, in response to this plan, we would like to hear your opinions regarding the issuance size for each maturity zone for the January - March 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 November with remaining maturities of 1-5 years, ¥500 billion of bonds every month with remaining maturities of 5-15.5 years and ¥500 billion of bonds in the even numbered months of October and December with remaining maturities of 15.5-39 years.

・ The results of the recent Liquidity Enhancement Auctions are shown on pages 15 to 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 January - March quarter in advance and, although there was some opinion about the tightening in supply and demand balance in specific maturities, we 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 issuance size.

・ In response to this, we prepared our draft plan for the issuance for each maturity zone in the quarter, as shown on page 18. We are contemplating the idea of issuing ¥400 billion of bonds in the odd-numbered months of January and March with remaining maturities of 1-5 years, ¥500 billion of bonds every month with remaining maturities of 5-15.5 years and ¥500 billion of bonds in the even numbered month of February with remaining maturities of 15.5-39 years.

・ Regarding the issuance size for each maturity zone for Liquidity Enhancement Auctions for the January - March quarter, we will make a decision based on the contents including 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 bonds is distributed in a well-balanced manner for each maturity zone 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. However, some issues in the 3-4 remaining-year zone with strong demand by overseas investors for asset swap purposes are scarce. We are of the view that there is a room for an increase in the 1-5 remaining-year zone.

・ Except for some issues in the 1-5 remaining-year zone, it seems that the current supply and demand situation of the off-the-run issues of JGBs is good and we do not see any imminent reason for changing the amount of Liquidity Enhancement Auctions. If the current tight supply and demand situation of the off-the-run issues in the 1-5 remaining-year zone continues for a relatively long period of time, we believe that it may be possible to increase the amount in the 1-5 remaining-year zone in the future.

・ The number of issues with tight supply and demand balance due to the increase in the buyback amount, demand from overseas investors, demand for collateral purposes has been increasing in the 1-5 remaining-year zone and we would like to see an amount increase in order to enhance the market liquidity. 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 issues that are tight in supply and demand balance as the measures to exclude issues from Outright Purchase of JGBs have been taken.

・ There are strong short-covering needs for every zone at Liquidity Enhancement Auctions and given there is no change in the total amount in Liquidity Enhancement Auctions, we are in favor of the current issuance size.

・ We agree to the proposal of the debt management office to maintain the current status quo in the January-March quarter. In the meantime, since there are some issues in the 1-5 remaining-year zone with very tight supply and demand balance, we would like the debt management office to provide us with the opportunity to buy those tight issues by increasing the amount of the zone or by issuing every month.

・ We would like to see an increase in the issuance size for the 1-5 remaining-year zone. Due to increased Outright Purchase of JGBs (government bonds and corporate bonds) carried out amidst the coronavirus pandemic, there is a big shortage in the 3-4 remaining-year zone and it is sometimes difficult to guarantee market making. Therefore, we propose that the issuance size of the 1-5 remaining-year zone be increased to ¥500 billion every other month in the January-March quarter.

・ We support the proposal of the debt management office to maintain the status quo in all zones. Some off-the-run issues of the 2-year bonds and the 5-year bonds are constantly tight in repo market and we have the impression that a number of securities companies would like to see an increase in the issuance size in the 1-5 remaining-year zone. However, since appropriate measures such as their exclusion from Outright Purchase of JGBs have been taken, we believe that the situation is not such that an increase in the amount of Liquidity Enhancement Auctions is called for.

・ We would like to see an increase of ¥100 billion per auction in the issuance size of the 1-5 remaining-year zone.

Some issues in the short- to medium-term zone centered on the 2-year bonds and the 5-year bonds which are tight in repo market are observed and liquidity has declined significantly. A decrease in liquidity in existing bonds contributes to the distortion in the yield curve, creates difficult market-making situations and adversely affects the auction of current bonds. We believe that it is possible to enhance the liquidity of existing bonds by clarifying the position of the debt management office to increase the issuance size in the aforementioned zone in response to the market request and to enable stable issuance of current bonds.

Regarding the 1-5 remaining-year zone and the 5-15.5 remaining-year zone, we believe it appropriate to maintain the status quo because the issuance size and frequency match investors' demand.

・ We would like to see the current issuance size be maintained for the Liquidity Enhancement Auctions in the January-March quarter 2021. Since there are many issues with low liquidity and tight supply and demand balance in the 1-5 remaining-year zone, we are of the view that there is room for an increase in the amount of the zone.

・ We agree to the proposal of the debt management office. Although we requested an increase in the amount of ¥100 billion in the 1-5 remaining-year zone at the last meeting due to the tightening of supply and demand balance, the situation has become less tight due to the recent selling for yield adjustment, and thus we support that the current issuance size continues to be maintained in light of the annual size.

・ We would like to see the same amounts as in the October-December quarter. We are of the opinion regarding Liquidity Enhancement Auctions that there is a suitable demand for each zone and there is no need for changing the issuance size at present. However, it is assumed that there could be an imbalance in liquidity between current bonds and existing bonds in the future due to the increase in the issuance size of JGBs from July, we are of the view that it will be necessary to shift the issuance of current bonds partly to the Liquidity Enhancement Auctions in the future (not in the January-March quarter) in order to form an appropriate yield curve.

**3. JGB Issuance Plan for FY2021**

▶ The Financial Bureau gave the following explanation about a review of the current situation of the JGB issuance plan for FY2021, etc.

・Explained on the left side of page 20 is how the Financial Bureau is now discussing and considering the JGB Issuance Plan for FY2021 with the breakdown of the issuance size by legal grounds. The size of issuance of Newly-issued bonds and Reconstruction Bonds will be decided in the budget formulation process while Fiscal Investment and Loan Program Bonds (FILP Bonds) is decided in the process of formulating the FILP plan. At this moment, we are not in a position to say anything certain about the issuance size of these bonds.

・With regard to Refunding Bonds, as we have explained based on the figures given in the "Future Estimation of JGBs to be Issued" at our previous meeting, the amount will be increased significantly more than this fiscal year.

・Shown on the right side is the breakdown of the issuance size by financing method. We are still carefully reviewing the amount of JGBs "for Retail Investors" and "for BOJ Rollover." Regarding the amount of "additional issuance at the time of auction," we are contemplating not only the amount procured from the Non-price Competitive Auction II, but also revenue above projections from issuance at a price above per value. In this regard, we will take into consideration the effect that the lower limit of the coupon interest of interest-bearing bonds will be lowered from the current 0.1% to 0.005% from April. Based on the above, the "amount of market issuance" will be determined.

・For your reference, the calendar-based JGB market issuance size is enclosed on page 21.

・On pages 22 and 23 we organized opinions submitted at our meeting and the Meeting of JGB Investors last month relating to the maturity composition of the calendar-based JGB market issuance.

・With respect to ultra-long-term bonds, many participants expressed their views in favor of keeping or increasing the issuance size, in particular, many asked for an increase in the 40-year bonds. Some said that an increased issuance in a few maturities in the ultra-long-term zone should be avoided.

・With respect to the medium- to long-term zone, while many participants were of the opinion that the issuance size could be reduced or increased, some were cautious about the increase because the issuance size is already at the historic high.

・With respect to the short-term bonds (T-Bill), many participants were of the opinion that the amount should be reduced if the total amount is reduced because of the reason that this is the zone which was increased most in the 2020 JGB Issuance Plan (after the second supplementary budget). In particular, many opined that the 6-month T-Bill should be preferentially reduced to the 1-year T-Bill.

・With respect to Liquidity Enhancement Auctions, many participants expressed their views in favor of keeping or increasing the issuance size

・With respect to Inflation-Indexed Bonds, some said that there was a need as a hedging against inflation expectation in the future.

・Although the details of the amount to be required in the third supplementary budget (FY2020) have not been determined yet, we would like to avoid a further increase in the already largest ever calendar-based JGB market issuance through the use of front-loading issuance of refunding bonds.

・In the coming days, we will decide the details of the JGB Issuance Plan for FY2021 in light of the above-mentioned opinions and publish it together with the budget for the next fiscal year as usual.

▶ Summarized below are the views and opinions submitted:

・As for the JGB issuance plan for the next fiscal year, there are still many uncertainties due to the coronavirus pandemic. We believe that it will be possible to allow a stable bond issuance in the financial market by maintaining roughly the current issuance size. However, with regard to short-term bonds (T-Bills) which continue to be issued in large quantities, since it is a plain fact that the number of securities companies that can hold such a large inventory is limited and that the situation which depends daily on the amount of Outright Purchase of JGBs is unstable, we must continue to be on guard.

In addition, if any additional issuance is required, we believe it appropriate to increase the amount of JGBs in the short- to medium-term zone whose supply and demand balance is constantly tight and JGBs with a maturity of 10 years or longer for which there is a stable demand from domestic investors for the time being, before considering increasing the amount of short-term bonds (T-Bills).

・ With respect to the JGB issuance plan for FY2021, we would like to see that the issuance size of interest-bearing bonds will be basically maintained as they are and the JGB issuance size will be adjusted by increasing or decreasing short-term bonds (T-Bills). Since before July 2020 when the issuance of interest-bearing bonds was increased, the purchase of JGBs by the BOJ has increased. However, the increase in the JGB purchase amount by the BOJ was at a fairly slow pace compared to the increased amount in interest-bearing bonds. Therefore, we consider that there is more tension now than before for each auction. Depending on the stance of the BOJ, we are of the view that a further increase in the amount of interest-bearing bonds may result in higher volatility of the JGB market.

・ We would like to see that the issuance size of the 2-year bonds, 5-year bonds, 10-year bonds, 20-year bonds, and 30-year bonds will be left unchanged and that of the 40-year bonds will be increased to ¥600 billion every other month (¥100 billion more per auction). As the duration needs to comply with the regulations by life insurance companies will continue to be strong, their demand for the remaining 35-39 years zone in Liquidity Enhancement Auctions (remaining maturity of 15.5-39 years) is observed every time. Further, in addition to the increase in the number of investors in the 40-year bonds, while the 20-30 year spread has widened to the mid-20bps range, the 30-40 year spread remains at 1-4bps, due partly to an imbalance in the issuance size of the 30-year bond, we believe that the amount of the 40-year bonds can be increased to ¥600 billion every other month.

・ The current supply and demand balances of the 40-year bonds and 20-year bonds are favorable, but the yield curve has significantly steepened since the issue size increased. This means that the issuance cost of the ultra-long-term zone is rising compared to other maturities. Therefore, we believe that the current curve shape cannot be maintained unless there is more demand than the current level of demand.

Therefore, we are of the view that the amount increase in the ultra-long-term zone should be carefully considered and determined, and the reduction in the issuance volume of the 30-year bonds should be studied. If an increase is required, we believe that bonds with a maturity less than 10 years should be prioritized.

・ We have no objection to maintaining or increasing the issuance size of the ultra-long-term zone. Particularly, we would like to see that priority will be given to the increase in the 20-year bonds which attract a wider range of investors.

・ Regarding the room for increase of the 20-year bonds and 40-year bonds, we understand that an increase in amount is particularly required for the 40-year bonds for which there is real money demand from mainly insurance companies. On the other hand, although we consider that there is room for increase in the 20-year bonds at the moment, there is a possibility that this is due to a temporary favorable supply and demand situation caused by a change in the deposit-loan gap by depository financial institutions and due to the yield of the 10-year bonds being around zero percent. Therefore, the priority is higher for the 40-year bonds.

・ There is strong demand for 40-year bonds both in Japan and overseas. With interest rates stabilizing at a low level globally, we believe that strong demand will continue and there is room for an increase in the 40-year bonds next fiscal year.

・ As stated in today's meeting materials, we agree with the debt management office to curb further increase on a calendar basis as much as possible. Given the increase in the number of investors, we believe that an increase in amount for 40-year bonds is possible.

・ We see that an increase in JGBs with strong investors’ demand is desired. We are of the view that inflows of funds are particularly expected to continue for the bonds with a remaining maturity of 10 to 20 year zone, and the 40-year bonds are supported by demand from life insurance companies for duration needs. All bonds with a maturity of 10 years or less are expected to be stable under the monetary policy.

・ There is strong demand for 40-year bonds both in Japan and overseas. With interest rates stabilizing at a low level globally, strong demand is expected to continue, and there is room for an increase in 40-year bonds next fiscal year.

Since it is seen that JGBs in the medium-term zone are tight due to strong demand for asset swaps from overseas, we believe that the amount for Liquidity Enhancement Auctions in the remaining 1-5 year zone may be increased and issued monthly if necessary.

・ We believe that there is room for increase of Liquidity Enhancement Auctions in the remaining 1-5 year zone and of the 40-year bonds.

・ We believe that short-term bonds (T-Bills) should be reduced and JGBs in the long-term and ultra-long-term zones should be increased. We are of the view that the decision should be made in consultation with high-ranked bidders.

・ Short-term bonds (T-Bills) have been increased in large quantities in this year's supplementary budget, and we recognize that it is a challenge to control the size of issuance of this zone.

We believe that it is necessary to consider lengthen the average maturity in the JGB issuance plan for the next fiscal year and we are of the opinion that there is room for increase specifically in the 20-year bonds and 40-year bonds.

・With respect to JGBs for FY2020, we think that the front-loading issuance of refunding bonds need to be financed in the first place and if there is more need on top of that, short-term bonds (T-Bills) can be increased. If, short-term bonds (T-Bills) issues are increased in the market, they may be increased preferably in the order of 3 months, 1 year and 6 months.

If the JGB issuance is reduced, we believe that it is necessary to reduce mainly short-term bonds (T-Bills). Conversely, if increased, there is room for increase in the 20-year bonds and 40-year bonds, with higher priority for 40-year bonds. Although there is a possibility that the amount of short-term bonds (T-Bills) will be increased within FY2020, we believe it is undesirable that the large issuance size will continue also in FY2021. If the issuance of the large volume continues, we believe it necessary to shift some to the ultra-long-term zone.

・ Regarding the JGB Issuance Plan for FY2021, we believe that a significant increase in the issuance size for 40-year bonds will be necessary. This is due to the fact that the supply and demand balance for the 40-year bonds with a small issuance size is very tight in a situation where domestic life and non-life insurance companies started to buy JGBs rapidly and that a imbalances in liquidity arises between at the time of auction and others, given the current bimonthly issuance. In order to solve the problem, we believe it desirable to shift to monthly issuance even if the amount of issuance per auction is reduced. Since we believe that an increase of ¥100 billion per auction does not contribute to the improvement of the situation at all, it should be appropriate to specifically increase the amount to monthly ¥400 billion auction and in its place, reduce the 30-year bonds to ¥800 billion per month.

We are also of the view that the amount of Liquidity Enhancement Auctions should be increased significantly. Since it is obvious for everybody that the reduction in liquidity of existing bonds due to the prolonged Outright Purchase of JGBs is significant, particularly that of JGBs with a 1-5 remaining-year zone, we hope a drastic increase in the issuance with a view to balancing supply and demand among issues and recovering liquidity.

・If the total issuance needs to be increased in the next fiscal year, we would like to see an increase in the 40-year bonds with tight balance between supply and demand for which there is a continuous and strong demand from investors. On the other hand, since short-term bonds (T-Bills) were issued in large quantities this fiscal year and are expected to be replaced by interest-bearing bonds in the future, we would like to see a reduction mainly in the 6-month bonds which seem to be deadlocked.

・ We are of the view that there will no significant change in the issuance plan of interest-bearing bonds in FY2021 compared to this fiscal year. However, we believe there is room for increase in the 40-year bonds which are in strong demand by investors. If there is a future concern about an increased issuance in the ultra-long-term zone, there is the option to increase the 40-year bonds and reduce the 30-year bonds. We believe that the total issuance size can be maintained by the adoption of this measure as well as increasing the amount of Liquidity Enhancement Auctions of bonds with a remaining maturity of 1-5 years which are tight in supply and demand balance.

## 4. Latest JGB market situation and outlook in the future

▶ Summarized below are the views and opinions submitted:

・ The JGB market seems to be in a very stable and balanced state, and daily price movements are small and it is difficult to predict future changes in market prices. Under these circumstances, over-the-counter trading and sales by securities companies have decreased. In addition, Japanese yen interest rate swap transactions in anticipation of the discontinuity of LIBOR have dwindled and liquidity has decreased as a whole.

Although the outlook for the interest rate will change along with a global distribution of vaccines, the current market environment with low liquidity seems to continue for the time being. Therefore, in addition to being wary of unexpected movements, we believe it necessary to maintain closer communication with the debt management office and JGB market special participants.

・ The price of JGBs continues to remain at a high level without any external influence due to continued purchase from investors who had refrained from trading since the US presidential election. The JGB market continued to be strong thanks to investors' strong bids at the auction in the first half of December. Since the attendance to office may decrease in response to the spread of the novel coronavirus infection toward the end of the year, we will have to carefully watch market liquidity.

・ Japanese Yen interest rates are moving steadily amid rising stock prices and the US interest rates, and we believe that they will continue to be stable for the time being.

・ Amid rising stock prices and overseas interest rates, the interest rates for JGBs with a maturity of 10 years or less hardly move and those for the ultra-long-term bonds also remain steady. Stable demand by domestic investors continues and the effect of the third supplementary budget will also seem to be slight. The correlation with the external environment will continue to be low for the time being and the room for interest rates to rise will be limited.

・ Since the last meeting, the market has remained stable only with a slight fluctuation amid movements in the overseas market and position adjustment toward the year-end. Yields on 10-year bonds are stuck in a very narrow range and it is expected that the market will be based on issuance and Outright Purchase of JGBs will continue.

・ We have the feeling that interest rates are hard to rise in comparison with overseas interest rates. While there was a fiscal stimulus and a subsequent increase in the JGBs issuance size this fiscal year due to the novel coronavirus pandemic, the funds which were retained by depository financial institutions have been turned to the government as the resource for JGBs. However, if the progress in the development of vaccines against the novel coronavirus leads to the calm down of the spread of the virus, resulting rise in stock prices, and a series of risk-taking behaviors and discussions on the normalization of global monetary policy, there is a possibility that interest rates will rise. We will keep an eye on future developments,

・ We expect that the overall yield curve will continue to be stable at a low level due to the strong effect of the yield curve control along with the low trade volume and volatility in the secondary market.

・ The market is very stable under the strong yield curve control of the BOJ. However, we believe that the issuance plan of the debt management office is still very important. Although opinions from experts in this field need to be respected, we are hopeful that opinions of high-ranked bidders are also respected as being valuable in this regard.

・ Although interest rates fluctuate depending on the external environment such as overseas interest rates, stocks, and foreign exchange, those range is small under the yield curve control. The market has currently lost its pricing power and we believe that this situation will continue for the time being. Since it is necessary to improve the functionality of the market, we believe that the determination of ultra-long-term interest rates will have to be left up to the market by decreasing the amount of Outright Purchase of JGBs (with a maturity of 10-25 years).

・ Although there has been no significant change from the previous meeting on November 26, there are less concerns about an increase in the JGB issuance size in this fiscal year's third supplementary budget and in the next fiscal year budget, and the market sentiment has improved mainly in the ultra-long-term zone. Regarding the external environment, while the US long-term interest rates have remained high, European interest rates are on a downward trend, which seems to be urging the shift from European bonds to JGBs. However, the general framework of the "government-controlled market" by the yield curve control remains unchanged.

Regarding the future outlook, it is generally assumed that the boxed range market seen in the latter half of this year will continue throughout the next year. The yield would get higher than expected, if it is the case where the end of the novel coronavirus epidemic is clearly in sight due to the distribution of vaccination and a strong economic recovery continues. However, even in that case, it is unlikely that the BOJ will loosen its yield curve control and we expect that the upper limit of the 10-year bond yield is about 0.20 percent, which is the upper limit of the fluctuation range allowed by the BOJ. In addition, it is unlikely that the US-Japan interest rates will rise together, because the yield curve control will prevent the rise in the US interest rates from affecting Japanese interest rates. On the other hand, a downward trend in interest rates will be triggered by an explosive spread of infections of the novel coronavirus, which will cause a global economy collapse and strong risk-off behaviors. In such a scenario, a decrease in interest rates to -0.200 percent to -0.300 percent will be in sight. However, we do not see such a risk scenario highly likely under the current situation. Finally, based on the assumption that there will be no significant increase in the issuance size of JGBs in the next fiscal year, we would like to point out that continued tight range markets will allow investors to buy bonds with a longer maturity and take on longer duration risks, which may result in an unexpected flattening of the yield curve.

・ With an increase in the number of bidders, the number of orders at the average bid winning price from overseas investors is increasing and we find it difficult to execute the order. In order to deal with this situation, we consider it desirable to increase the number of the Non-price Competitive Auction I by 1 percent for each JGB market special participant.

・ Funds from investors are flowing into the ultra-long-term zone, the yield curve of which has steepened due to concerns about an increase in the issuance size. It also seems that short-covering is triggered by fast money. In addition, the volatility of medium- to long-term JGBs has declined due to the effects of strong financial adjustments carried out by the BOJ.

While the FRB is more likely to continue its zero interest rate policy for the time being, it is unlikely that the BOJ will make policy changes and we assume that a gradual steepening of the curve will continue to be allowed. Investors will maintain their stance of buying the dips of JGBs and Japanese interest rates will basically remain stable under the yield curve control policy.

On the other hand, there will remain the risk that the volatility may increase in bonds with a remaining maturity of more than 10 years depending on the state of the novel coronavirus infection, vaccine development, movement of overseas interest rates, and the US-China relations.

・ Immediately before the US presidential election, all market participants moved to unwind their positions causing Japanese yen interest rates to rise temporarily, but it was within the historical range due to the strong yield curve control by the BOJ and strong demand for ultra-long terms bond by investors centered on life insurance companies. It seems that Japanese yen interest rates as a whole is stable at a low level. In light of the situation where concerns about excessive fiscal expansion have receded in the United States after the US presidential election, seemingly avoiding the triple blue scenario, overseas interest rates are forming a range despite some volatility. In addition, concerns are receding over a significant increase in the JGB issuance size in the third supplementary budget in Japan, and Japanese yen interest rates will continue to be stable at a low level under these global environment.

・ From the perspective of stable issuance, we would like to continuously request the debt management office to change the auction method for the ultra-long-term zone to the uniform price auction.

・ We believe that the 10-year bond interest rate will continue to remain at around 0 percent against the backdrop of the aggressive purchase of JGBs by the BOJ. Although we believe that a certain degree of caution will be necessary until the JGB issuance plan for the next fiscal year is announced, the demand for the ultra-long-term zone remains stable, supported by investors' demand while concerns over a significant increase in the issuance size of interest-bearing bonds have receded, we believe that this trend will continue in the future.

・ Japanese yen interest rate continues to be stable at a low level without a significant linkage to overseas interest rates. As the BOJ continues to push forward the yield curve control and a strong monetary easing, interest rates will continue to stay in a narrow range. Since many market participants hold the same view, we should keep in mind the possibility that a drastic change may occur when the external environment changes significantly, including a further rise in overseas interest rates.

・ Both the 10-year bond auction and the 20-year bond auction this month were held at lower interest rates than before, which were safely issued. In view of the steady market development after the US presidential election, we have the impression that investors are looking at gradually lower interest rates for their bidding. In addition, after the 30-year bond auction was held at 0.650 percent, interest rates have fallen by about 5 bps in a week and the supply and demand balance for the 30-year bonds and the 40-year bonds has significantly improved. Since the roll-down effect due to the switching to newly issued bonds for each maturity in the next month is added to the strength of latest bonds in the ultra-long-term zone, it seems that interest rates will continue to be stable for the rest of the year.

・ We believe that interest rates will continue to be stable at low levels due to strong monetary policy.

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