Minutes of the Meeting of JGB Market Special Participants
(93rd Round)

1. Date: Tuesday, March 23, 2021
2. Place: Held in writing
3. Gist of Proceedings:

1. Reopening rule and auction methods of nominal interest-bearing bonds in FY2021

▶ The Financial Bureau gave the following explanation about the reopening rule and auction methods of nominal interest-bearing bonds in FY2021.

・ The reopening rule and auction methods of nominal interest-bearing bonds for the following fiscal year are discussed at this meeting to in March every year and will be decided based on your opinions. Today, we would like to hear your opinions on the proposal of the Financial Bureau regarding the reopening rule and auction methods of nominal interest-bearing bonds in FY2021 which are presented in page 2.

・ Since FY2015, we have kept reopening rule of 10-Year Bonds in each case where bonds having the same redemption dates are issued and the gap between the coupon rate of its new issue and its market yield on the auction date is not wider than about 30 bps.
When we heard opinions from participants in advance in this regard, we learned that most of you support the current method. Since we are of the opinion that bond market liquidity can be enhanced by reopening the bonds in normal times while leaving room to stimulate demand of investors as a current bond in the event of a large market fluctuation, we are thinking of maintaining the current methods also in FY2021.

・ Regarding the reopening rule of 20-Year Bonds, 30-Year Bonds, and 40-Year Bonds, we reopened four issues of 20-Year Bonds and 30-Year Bonds, and one issue of 40-Year Bonds in FY2020.
When we heard opinions from participants in advance in this regard, we learned that most of you support the current method. Therefore, we are thinking of maintaining the current method also in FY2021 from the perspective of enhancing bond market liquidity.

・ Next, regarding the auction method of 40-Year Bonds, we continued with the yield-based uniform price auction bearing in mind the view that the yield-based uniform price auction should be adopted in view of the increase in the size of issuance in FY2020 and the opinion that there is still less liquidity comparable to other maturities among other opinions.

・ When we asked for opinions from participants in advance about the auction method of 40-Year Bonds in FY2021, we found that a few participants expressed the desire to shift the auction method to the discriminatory price auction from the perspective of the market maturity and market development in the future based on the size of issuance increase also in FY2021.

・ On the other hand, most participants, who are many more participants than in 2021, supported the idea of maintaining the yield-based uniform price auction due to the fact that it is necessary to check the stability of auction results and digestion in the market because the size of issuance of 40-Year Bonds has been increased in consecutive two years and that the yield-based uniform price auction gives a greater sense of security in the current market environment in which steepening of the yield curve accompanied by volatility is observed globally, while there is a recognition of the need to shift to the discriminatory price auction in the future.

・ As mentioned above, although we found that a few participants expressed the desire to shift the auction method to the discriminatory price auction, the majority of participants favored the maintenance of the yield-based uniform price auction in terms of the number of participants and share of successful bids.

・ In view of these opinions, we consider it desirable to aim at stable issuance by maintaining the discriminatory price auction as shown on page 2 in FY2021 in which the size of issuance is planned to be increased.

・ The reopening rule and auction methods of nominal interest-bearing bonds in FY2021 will be comprehensively reviewed in consideration of the discussions in this meeting today and we will hear your opinions on the matter again.

▶ Summarized below are the views and opinions submitted:

・ We agree to the proposal of the debt management office.

Regarding the current auction method of 40-Year Bonds, although we have no objection to continuously maintaining the yield-based uniform price auction, we also would like to share the advantage for the introduction of the discriminatory price auction. The base of investors in the market of bonds with a maturity of 40 years or shorter has expanded. Since discontinuity in the price formation may occur before and after the auction in the current yield-based uniform price auction, we believe it necessary to seek to introduce the discriminatory price auction when, for example, they are issued monthly in the future.

・ When considering the possibility that monetary easing by the Bank of Japan (BOJ) may last for a long time, it is desirable that the focus is placed on the reopening issuance in consideration of future liquidity. Therefore, we consider it appropriate that the status quo is maintained as proposed by the debt management office. Regarding the auction method of 40-Year Bonds, we consider it appropriate to adopt the yield-based uniform price auction from the perspective of issuance increase and market trends.

・ Our company continues to support the shift to the yield-based uniform price auction not only for 40-Year Bonds, but also, in particular, for 20-Year Bonds and 30-Year Bonds. Although the willingness to invest of life insurance companies continues, since the issuance scale in the new fiscal year continues to be large, there will be an increased possibility of the tail expansion in the price competitive bidding if volatility increases. We believe that the shift to the yield-based uniform price auction will greatly contribute to stable issuance of ultra-long term bonds in such circumstance.

・ We support maintaining the status quo of 10-Year Bonds in order to ensure market liquidity in light of the decreased outstanding amount due to Buy-back Auctions of the BOJ. We do not see any problem with the issuance of current bonds if a large deviation in yields from the actual market (about 30 basis) occurs. Regarding ultra-long term JGBs, although current bonds are not subject to Buy-back Auctions of the BOJ, we want the continuation of the current reopening issuance because the balance between the supply and demand becomes tight frequently due to investment needs.

・ Regarding 10-Year Bonds, while it is expected that Buy-back Auctions of the BOJ will continue correspondingly in the future, we consider it desirable that the reopening issuance be given the facility. On the other hand, however, we should bear in mind that when a large fluctuation occurs in interest rates, problems such as the difference from the book value of the already owned ones and a significant variation in prices of the issues auctioned occur and this will make it difficult for a part of investors to acquire them.

Regarding ultra-long term bonds, we consider it desirable that the reopening issuance be continued when considering that a sense of shortage is felt frequently according to market trends, such as a repo tightening in some current bonds.

Regarding the auction method of 40-Year Bonds, although the investors' base is increasing, it is not sufficient when compared to other maturities, and since the size of issuance will be increased from the next fiscal year, we believe the yield-based uniform price auction is preferable for stable issuance.

・ We consider it appropriate to adopt the same reopening rule as in this fiscal year with a view to maintaining liquidity of each issue when considering that Buy-back Auctions of the BOJ will continue from April onwards.

We do not think there is any problem with the adoption of the same auction method as in this fiscal year. Regarding the debate about "the adoption of the yield-based uniform price auction for all ultra long-term bonds" in the past meetings, we also think it is valid for easing the stress at the time of auction.

・(10-Year Bonds)

Since it is expected that the yield curve control by the BOJ will continue to be carried out in the new fiscal year, 10-Year Bond interest rates will be in the boxed range. We believe that the deviation of the 10-year bond interest rate from that of the last time will be within 30 bps and we consider that the current reopening rule is also appropriate from the perspective of ensuring liquidity.

(20-Year Bonds and 30-Year Bonds)

Current issues of ultra-long term bonds may become tight when interest rates rise. Since the current issuing method has eased the tightness, we support the reopening rule as a general rule.

(40-Year Bonds)

We support the continuation of the yield-based uniform price auction.

Investment needs for 40-Year Bonds are increasing. We consider that monthly issuance may be also an option if the size of issuance of 40-Year Bonds is increased in the future.

・ We consider it desirable that 10-Year Bonds are also reopened as a general rule.

In addition, since the size of issuance of 40-Year Bonds per auction will be increased in FY2021, we believe that this is a good timing for shifting the auction method to the discriminatory price auction.

・ We agree to the proposal of the debt management office to maintain the current reopening rule of both 10-Year Bonds and ultra-long term bonds (20-year to 40-Year Bonds). Regarding the auction method of 40-Year Bonds, since it is planned that their size of issuance will be increased also in the next fiscal year, we would like to see the continuation of the yield-based uniform price auction.

・ We believe that the reopening rule is desirable as a general rule in the sense of increasing options.

・ We agree to the proposal of the debt management office. We believe that the current reopening rule contributes to maintaining liquidity of current issues. Therefore, we believe it desirable that the current method be continued.

・ (1) Reopening
The 10-year bond interest rate in Japan increased temporarily in the January-March quarter due to uncertainties over the review in March by the BOJ. However, when considering the current easy-money policy, the environment does not allow interest rates to fluctuate by more than 30 bps in a few months. Therefore, we consider that the current system is substantially close to the reopening rule as a general rule. Since Outright Purchase of JGBs in the zone continue to be carried out at a pace of ¥2 trillion per month, we support the maintenance of the status quo in order to ensure liquidity of each issue. We also support the maintenance of the status quo in order to ensure liquidity of each issue also for other maturities.
(2) Auction method
Regarding 40-Year Bonds, since the number of investors continues to be limited, we believe that the current yield-based single auction is preferable as the auction method.

・ We consider it appropriate that the current issuance and auction methods are maintained from the perspective of maintaining liquidity in the market and stable issuance.

2. Issuance size of Inflation-Indexed Bonds in the April-June 2021 quarter

▶ The Financial Bureau gave the following explanation about the issuance size of Inflation-Indexed Bonds in the April-June 2021 quarter:

・As shown on page 4, according to the JGB Issuance Plan for FY2021, it is stipulated that there will be issuance of Inflation-Indexed Bonds four times a year for the amount of ¥200 billion per each time in the same manner as with the JGB Issuance plan for FY2020 after the supplementary budget while it is stated that “the size of issuance may be adjusted in a flexible manner in response to market circumstances and demands of investors and through discussions with market participants”. In addition, as shown on page 5, it is stipulated about Buy-back Auctions 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 in the April-June quarter at today’s meeting.

・ In the January-March quarter, as shown on page 6, we conducted an auction of issuance for the amount of ¥200 billion in February and decided to conduct Buy-back Auctions for the amount of ¥50 billion every month based on market conditions and through discussions with market participants. The results of the auction of issuance and of Buy-back Auctions are shown in pages 7 and 8, respectively.

・ As shown on page 9, according to the amount of Buy-back Auctions per issue, despite its small size of issuance in comparison with many other issues, the issue number 25 which is the current issue was bought back most throughout the year.

・ The situation of the secondary market is shown on page 10. The BEI of the current JGBs which dropped significantly between March and April last year and remained generally at around zero from May has risen since last autumn affected by the global movement and remains stable in the positive range. In addition, currently, the BEI of all off-the-run issues from the issue number 17 and subsequent numbers has entered the positive range.

・ In such circumstances, we asked for your opinions in advance and found that many of you were of the opinion that although the balance between the supply and demand has somewhat improved due to successful Buy-back Auctions by the debt management office, since it still lacks stability and may deteriorate again depending on external environment, it would be desirable that both the size of issuance and the size of Buy-back Auctions for the April-June quarter should continue to be kept unchanged.

・ We hold the view that the current size of issuance and size of Buy-back Auctions are the result of the measures undertaken in response to the significant deterioration of the market environment triggered by the COVID-19 pandemic and this situation should not be normal. However, since there is still a sense of uncertainty over the balance between the supply and demand, we are considering conducting issuance auction once for the April-June quarter in the same manner as with the January-March quarter and carrying out Buy-back Auctions in the amount of ¥50 billion every month, as shown on page 11.

・ However, regarding issues subject to Buy-back Auctions, we are considering excluding the issue number 26 to be newly issued in May from the list for the time being and including it in the list from the latter half of the fiscal year (for example, October) in order to ensure the amount in market circulation of current bonds with small size of issuance to some degree and prevent current bond from being bought immediately in a large amount.

・ In addition, regarding the reopening of Inflation-Indexed Bonds in FY2021, we are considering offering one reopening bond in a year in the same manner as with FY2021.

・ As above, we explained the situation regarding the Inflation-Indexed Bonds market and our proposal in consideration thereof.
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 on the size of issuance in the April-June quarter and the adoption of the reopening rule in FY2021, 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. We also agree to the handling of the issue number 26. In addition, we consider it appropriate that when the market is normalized, the size of Buy-back Auctions is adjusted in the first place, followed by the step of the revision of the size of issuance of current bonds

・ We would like that the current status quo of the size of issuance of ¥200 billion and the monthly amount of Buy-back Auctions of ¥50 billion is maintained. Although it is proposed to exclude the issue number 26 to be newly issued from the list of issues subject to Buy-back Auctions for the time being and, we do not see any problem with it because the issue number 26 will be included it in the list from the latter half of the fiscal year (October) and the notification to that effect has been made in advance.

・ Although the balance between the supply and demand environment of Inflation-Indexed Bonds continues to improve, the BEI continues to remain at a low level. In addition, since the results of both Buy-back Auctions and Outright Purchase of JGBs continue to be weak and the situation continues to be highly unpredictable, we believe it desirable that the size of issuance and the size of Buy-back Auctions are maintained. As a general rule, we consider it right to exclude the current bond from the list of Buy-back Auctions. However, since adverse effects on the digestion of the current bond and concerns over instability of the result of Buy-back Auctions are considered not small, we are of the view that the current bond should be included in the list earlier than October depending upon these trends.

・ With an increase in the expected inflation rate in overseas, the breakeven inflation rate of Inflation-Indexed Bonds in Japan is slowly heading for recovery and all issues have returned to the positive range. Overseas investors are more active than before and a good market environment is gradually coming back. However, there are some investors who will be selling on temporary recovery and the bid-to-cover ratio of Buy-back Auctions and Outright Purchase of JGBs is still at a high level. The balance between the supply and demand still lacks stability.

We request the debt management office to help improve the balance between the supply and demand and the recovery of the market environment by continually maintaining the current amount of Buy-back Auctions also in the April-June quarter.

In future, when the market environment further improves with the recovery of CPI, we consider it an option to make the size of issuance back to ¥300 billion.

・ Regarding Inflation-Indexed Bonds, we recognize that a tough situation for market participants continues in a situation in which there is no prospect for an increase in prices. Since it is presumed important to improve the balance between the supply and demand for the time being, we continue to support the continuation of the current size of issuance and size of Buy-back Auctions. In addition, regarding issues subject to purchase, since such cases in which the performance of current bonds which have been issued in a small amount differs from that of existing bonds due to supply and demand gap are found frequently, we believe it worthwhile to consider excluding them from issues subject to Buy-back Auctions in order to improve the balance between the supply and demand.

・ There is no change in the situation that investors that hold JGBS for a long term are limited and the situation does not allow an increase in the size of issuance. Therefore, we support the maintenance of the current status quo. Although we do not think it necessary to exclude bonds to be newly issued from the list of issues subject to Buy-back Auctions, we are not opposed to the exclusion either.

・ We agree to the proposal of the debt management office. Since we believe that the exclusion of the newly issued bond from the list of purchase will help correct the gap between current bonds and existing bonds, we agree to the measure.

・ We agree to the exclusion of current issues from the list of Buy-back Auctions until there is a sufficient amount in circulation. On the other hand, there are other issues whose amount in circulation in the market is substantially below ¥400 billion when the amount of Buy-back Auctions and the amount owned by the BOJ are taken into consideration. Therefore, we believe it important for the market that the debt management office specifies what reference is used for the exclusion and show a rough schedule in the future for temporary and/or extraordinary measures.

・ Liquidity has been finally restored and the BEI of all issues are now in the positive range due to the balance between the current size of issuance and the size of Buy-back Auctions. We wish that the current amount of Buy-back Auctions be continued in the circumstance in which off-the-run issues are sold continuously by our clients. Since the total amount between Outright Purchase of JGBs and Buy-back Auctions exceeds the size of issuance, however, in the case where the balance between the supply and demand is tightened in the future and the tail moves significantly in the positive range following the completion of position adjustments or in the case where the bid-to-cover ratio drops significantly, we believe it necessary that a decrease in the size of Buy-back Auctions be studied.

We agree to the proposal that the issue number 26 to be newly issued is excluded from the list of issues subject to Buy-back Auctions in the April-June quarter. We request the debt management office to determine the timing for its inclusion in the list of issues subject to Buy-back in the future in view of the selection of issues for Outright Purchase of JGBs and the circulation situation in the market.

・ The transactions of Inflation-Indexed Bonds have been generally stable in this fiscal year due to the decrease in the size of issuance and Buy-back Auctions. On the other hand, the widening of the BEI spread between the issue numbers 25 and 24 reflects the difference in supply and demand of individual issues. Since a gap in the BEI spread due to supply and demand may occur if the current size of issuance is applied to bonds to be newly issued in the next fiscal year, we consider it necessary to take measures such as excluding them from Buy-back Auctions.

・ We believe it appropriate to maintain the current size of issuance and amount of Buy-back Auctions when considering the current market scale and domestic price trends.

・ We are of the view that the market is stable due to the significant amount decrease and Buy-back Auctions in this fiscal year. However, our perception that Inflation-Indexed Bonds is a commodity whose demand by investors is comparatively low remains unchanged and we consider that the same size of issuance and Buy-back Auctions as with this fiscal year are appropriate.

Since the exclusion of current bonds from Buy-back Auctions may affect the price formation, we wish that the current status quo is maintained.

・ The market has been comparatively steady most recently. However, since there is no denying that this is partly caused by the sharp increase in the BEI in overseas including the US, we consider it reasonable that the current status quo of the size of issuance and the size of Buy-back Auctions will continue to be maintained for the time being.

In addition, regarding issues subject to Buy-back Auctions, since many investors intend to sell off-the-run issues, we do not think there is any particular problem with excluding the new bond issued in May from the list.

3. Liquidity Enhancement Auctions in the April-June quarter 2021

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auctions for the April-June 2021 quarter:

・ As shown on page 13, according to the FY2021 JGB Issuance Plan regarding Liquidity Enhancement Auctions,
(1)while it is assumed that JGBs in a total amount of ¥11.4 trillion will be issued in a year, including ¥2.4 trillion with remaining maturities of 1 to 5 years zone, ¥6.0 trillion with remaining maturities of 5 to 15.5 years zone and ¥3.0 trillion with remaining maturities of 15.5 to 39 years zone in the same manner as in FY2020, 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 size of issuance for each maturity zone for the April-June quarter.

・ As shown on page 14, in the same manner as assumed in the FY2020 JGB Issuance Plan, we decided to issue bonds with remaining maturities of 1 to 5 years zone in the amount of ¥400 billion in the odd-numbered months of January and March, bonds with remaining maturities of 5 to 15.5 years zone in the amount of ¥500 billion every month, and bonds with remaining maturities of 15.5 to 39 years zone in the amount of ¥500 billion in the even numbered month of February in the January-march quarter. These results are as shown on pages 15 to 17.

・ In the circumstances, we asked participants opinions about the Liquidity Enhancement Auctions for the April-June quarter in advance, and some members indicated strong investment demand for specific issues and maturities. However, since no significant change in the supply and demand situation has occurred in any maturities, we found that many of participants were of the opinion that it was appropriate to maintain the current size of issuance.

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

・ Regarding the size of issuance for each maturity zone for Liquidity Enhancement Auctions for the April-June quarter, we will make a comprehensive decision based on the contents of today’s meeting, and we will ask your opinions again.

▶ Summarized below are the views and opinions submitted:

・ When considering that the size of each maturity has been distributed in well-balanced manner and they are stably digested supported by short-covering by securities companies and investment needs, we consider that the current levels of amount distribution are appropriate.

・ We would like that the current status quo continues to be maintained because of the large demand for each zone by investors and securities companies. Since the yield curve of JGBs with a remaining maturity of 1 to 5 years zone is frequently distorted depending on the balance between the supply and demand, we consider that there is room for an increase in the size of issuance of this zone.

・ The needs for existing bonds in each zone mainly by overseas investors continue. Therefore, we want to see a continuous stable supply.

・ In view of the investment demand in a part issue of JGBs with a remaining maturity of 1 to 5 years and the supply and demand environment, we want an increase in the issuance. Regarding JGBs both with a remaining maturity of 1 to 5 years and a remaining maturity of 15.5 to 39 years, since the size of issuance and the market demand are generally well balanced, we consider it appropriate that the current status quo is maintained.

・ The tightening of the repo rate and the tightening of supply and demand have become to stand out in a plurality of issues with a remaining maturity of 10 years or shorter. Under the circumstances, however, we consider it appropriate that the current status quo continues to be maintained as proposed by the debt management office for the time being as it seems that measures are being taken by the BOJ, such as the exclusion of some issues from Buy-back Auctions.

・ Such a situation as that there is a number of issues with a remaining maturity of 1 to 5 years zone in a tight supply and demand balance has been normalized. Therefore, we believe that expectations for the recovery of market functions in the zone through an increase in the size of issuance are strong. On the other hand, although the needs to cover short positions in JGBs with a remaining maturity of 5 to 15.5 years zone and a remaining maturity of 15.5 to 39 years zone are limited, the incentive to bid continues to remain strong due to the strength of the needs for positive interest rates of investors. We feel that the demand for off-the-run issues has strengthened year by year due to the lengthening of the large scale Outright Purchase of JGBs of the BOJ.

・ We support the same size of issuance as in the January-March quarter. Regarding Liquidity Enhancement Auctions, since there is some demand for each zone, we are of the view that no further measures are particularly required at the moment including a change in the size of issuance.

・ Although we agree to the proposal of the debt management office as a general rule, we would like that the debt management office understands that there is a plurality of issues with a remaining maturity of 1 to 5 years zone in a tight supply and demand balance.

・ We agree to the proposal of the debt management office designed to maintain the current status quo because there are not many issues in a tight supply and demand balance thanks to the flexible response to issues subject to Outright Purchase of JGBs.

4. Latest JGB market situation and outlook for future investments

▶ Summarized below are the views and opinions submitted:

・ Amid a sharp increase in the issuance of national bonds in the world, it seems that concerns (speculations) over price rises have been heightened, which has been unseen for the past 10 years. Although it is difficult to conceive of the occurrence of inflation according to our experience in Japan, we would like to be in close communication with the debt management office to prevent the market from becoming unstable while bearing in mind the possibility that the global interest rate markets tend to become inflationary.

・ With the conclusion of the Monetary Policy Meeting of the BOJ, we believe that a market with low volatility and stable low interest rates will follow.

・ As a result of the publication of the review results of the BOJ which has been gathering attention lately, interest rate rises in the JGB market have paused. However, we will need to be wary of interest rate rises for the time being due to (1) concerns over that the BOJ may decrease the amount of Outright Purchase of JGBs from April onwards and (2) concerns over the economic recovery due to the US fiscal expansion and deterioration in supply and demand of US treasuries. In particular, we will keep an eye on the movements of 10-Year Bonds and 20-Year Bonds whose demand varies significantly depending on the interest rate outlook held by investors.

・ As a result of the “monetary policy review” at the BOJ’s Monetary Policy Meeting of the BOJ conducted last week, the volatility of the long-term interest rates has been clarified to be plus or minus 0.25%, while on the other hand, the continuous limit price operation system has been introduced. Interest rates of JGBs mainly with ultra-long term maturities have decreased after the meeting because the market possibly understood that the policy aims to control interest rises more strictly than previously thought. Since there is a possibility, however, that some change compared to before may be introduced in the schedule of Outright Purchase of JGBs for the next month that will be published at the end of the month, we recognize the need to keep an eye on the fluctuating situation.

・ The market was very difficult during the past 1 month due to heightened volatility caused by speculations over the “policy review” of the BOJ. However, since there was no significant change, a sense of stability has prevailed in the JGB market and there is a steady move toward the purchase of JGBs. We believe that the possibilities of a sudden change in the market and a significant interest rise toward the end of the term are low.

・ The situation where the BOJ sets the levels of interest rates based on the overall yield curve remains unchanged according to the economic fundamentals and overseas market trends after the completion of the review of the monetary policy. Although there will be movements in both directions depending on the situation of Outright Purchase of JGBs, the interest rates will remain in a narrow range when investors' perspective is defined.

・ Before the meeting for the review of the results of the BOJ' s monetary policy, there was a consensus of view in the JGB market from the beginning of the year according to media reports that the BOJ would iron out measures aimed to expand the range of interest rates and restore the functions of interest rates with a view to lengthening the monetary easing. In addition to the long-term interest rate rise in anticipation of the lengthening of the low policy rate in the US treasury market and the effects of economic measures, the information provided by the BOJ was in line with the aforementioned consensus immediately before the meeting for the review. Therefore, interest rates of 10-Year Bonds remained at around 10 bps.

However, since the contents of the purchase operations of long-term JGBs published by the BOJ after the meeting for the review at the end of last week substantially remained unchanged from before, JGBs were bought back focused on 20-Year Bonds and 10-Year Bonds in the JGB market this week and the consensus from the beginning of the year tends to be negated strongly.

The possibility that the JGB market will be decoupled from external conditions and return to the supply and demand market focused on the issuance and Outright Purchase of JGBs has increased for the time being.

・ Tight liquidity continues to pose a problem in the market in the same manner as before even after the BOJ' s Monetary Policy Meeting, and the situation is such that there is a shortage of bonds with some maturities. As a result, the widen between offers and bids is on the rise and this situation seems to continue until the end of the fiscal year. We are of the view, however, that the situation will be normalized gradually from the beginning of the new fiscal year.

・ It has been 13 years since the auction of 40-Year Bonds started. Therefore, we favor the adoption of the conventional price auction method. We request the debt management office to take decisions on the matter in consultation with higher ranked successful bidders.

・ The yield of 10-Year Bonds rose to 0.175% and the yield curve steepened on February 26 following media reports on "the policy review" of the BOJ and the speculations of the market as well as a sharp rise of US long-term interest rates. However, although the conclusion at the Monetary Policy Meeting on March 18 and 19 clarified the volatility of the long-term interest rates to be plus or minus 0.25%, denied its expansion. In addition, Mr. Kuroda as the governor of the BOJ denied the "steepening measure" at an interview. The market responded favorably to these in the yesterday's market (March 22) leading to a decrease in the yield and flattening of the yield curve.

In future, we expect that the market will explore a common ground as a whole. Although it seems that there is room to US long-term interest rates rising again, rise in interest rates in Japan in response to rises in the US will be limited because of the setting of the upper limit of 0.25% through the introduction of the "continuous limit price operation system" by the BOJ. Therefore, it is not foreseeable for the time being that the yield of 10-year bond will enter into the range of 0.20-0.25%. On the other hand, we believe that the viewpoint that JGB size of issuance including JGBs with ultra-long term maturities will be decreased based on the understanding that there should be more fluctuations in the market will strongly persist. To begin with, we are keenly interested in the policy of the BOJ to buy JGBs in April to be announced at the end of this month. If the planned amount to be shown then remains unchanged, we expect that the market will be much steadier.

・ Due to uncertainties over the policy review in March and the continued upward trend of stocks and commodities, as soon as the lower range of 0.05% from the Golden Week of last year was broken through the upward band in February, the speed of interest rate rises in the overall curve accelerated significantly. In addition to the significant US Treasury curve steepening due to global reflation trades and rising bond volatility, the sell-off of Australian 10-Year Bonds at more than 50 bps, the unsuccessful auctions of US mid-term treasuries, etc., 5-Year Bonds, 10-Year Bonds, 20-Year Bonds and 30-Year Bonds were traded at the levels of minus 0.030%, 0.175%, 0.575% and 0.765% at the end of February, respectively.

The high volatility of the overseas bond market continued also in March and the results of the auctions held in the first half of the month were uneven, affected by a series of headlines of media reports on the Monetary Policy Meeting. However, the trading was supported by certain investment demand from the absolute interest rate level and bonds were not heavily sold, and in the end, interest rates peaked at the end of February.

In addition to the fact that major auctions were successfully held from the middle of this month and that there was a strong buying demand at the end of the fiscal year and the mass redemption around the corner, interest rates dropped contrary to Western bonds. The rate of decline was limited even in the wake of the news of "the extension of the volatility of 10-year bond interest rates to plus or minus 0.25%" on the day before the meeting. Since it was confirmed at the Monetary Policy Meeting in March that there is no substantial change in the current monetary policy and the policy of Buy-back, the JGBs focused on bonds with ultra-long term maturities are strongly bought from the beginning of the week.

As seen in the price actions, in particular, before and after the Monetary Policy Meeting, it seems that the position was considerably light in March regardless of the types of traders with the

Monetary Policy Meeting and the end of the fiscal year around the corner, and we cannot help feeling that expectations for the decrease in the JGB Buy-back amounts in April which will be published at the end of March are considerably high. When considering the investment operation for the next fiscal year, the purchase of US treasuries cannot be recommended at the moment and inflation expectations continue to rise in Europe. In the circumstances, we are of the view that a high demand mainly by domestic investors for JGBs which are under the yield curve control and which are without inflation expectations will continue.

・ Although it has been confirmed that the easing monetary policy will be maintained for the time being after the publication of the review results of the monetary policy of the BOJ, it is expected that speculations to assess the BOJ's policy management including the newly introduced continuous limit price operation system and the JGB purchase operation whose purchase method is changed (change from a price range to a specific price) will persist for some time. We suppose that although domestic interest rates will fluctuate nervously up and down while overseas interest rates rise, they will eventually settle down.

・ Under the circumstances where not only demand from overseas increases, but also the number of average orders increases, we would like to see an increase in the amount of the first non-price competitive auction in order to execute these orders smoothly.

Regarding the outlook for the future, when considering the fact that the BOJ has given priority to low interest rate stability and denied the expansion of the interest rate range, we believe basically that no significant rise in interest rates is expected in a short period of time in future. However, if US interest rates rise significantly with the approaching of the end of the COVID-19 pandemic and improvement in economic environment in future, we believe that it is ideal for interest rates to rise up to around the upper range limit of 0.25% to guarantee the market function. In addition, if JGB interest rates do not rise correspondingly when interest rates rise globally, it may so happen that JGB interest rates will fall even below the lower range limit of minus 0.25% when the economy enters a downward phase again and extreme bull flattening may occur at that time.

We would like to expect that the BOJ will conduct JGB purchase operation in such a manner as to a form yield curve which reflects economic and price conditions and global interest rate conditions while maintaining the yield curve control framework. In the circumstances, we would like to see the development of the JGB market and smooth and stable issuance through close communication among the debt management office and market participants.

・ Due to uncertainties over the policy review at the BOJ's Monetary Policy Meeting, the JGB market continued to be unstable. The market has recovered calm, however, in light of no significant announcement. We believe that the publication of the schedule and amount of Outright Purchase of JGBs to be published at the end of the month and overseas interest rate trends will attract attention in future.

・ It has been clarified at the BOJ' s Monetary Policy Meeting that the volatility of long-term interest rates will be around plus or minus 0.25%. Now, the market' s attention is centered on the policy of JGB purchase to be published at the end of the month.

Uncertainties over daily purchase operations will recede by fixing the monthly purchase amount. Therefore, when the current purchase levels are maintained, we expect that interest rates will generally remain unchanged due to investors' demand at the beginning of the quarter despite that newly issued bonds will be auctioned.

・ Although the JGB market fluctuated more significantly than before due to uncertainties over the policy review at the BOJ' s Monetary Policy Meeting and a significant US interest rise, we expect that the market will restore calm gradually once the review results of the BOJ have been digested by the market.

・ We believe that a number of participants are in favor of stable issuance through the maintenance of the yield-based uniform price auction with respect to 40-Year Bonds as explained by the dept management office.

Our company is of the view that the yield-based uniform price auction should be applied, not only to 40-Year Bonds, but also to other maturity bonds, at least, to 20-Year Bonds and 30-Year Bonds.

・ Some bull flattening in JGB interest rates has occurred after the conclusion of the BOJ' s Monetary Policy Meeting in March. Now, the focus is placed on whether or not there is a change in the BOJ' s purchase amount from the next month onwards. In addition, it draws attention how the adjustment to decrease the gap between the actual policy rate balance and the balance after full arbitrage.

5. Communication from the Financial Bureau

・ Since we plan to lower the lower limit of the coupon rate of interest-bearing JGBs to 0.005% from JGBs issued in FY2021, we remind you of the fact as a matter of precaution. Specifically, this measure will start to apply to the auction of 2-Year Bonds (to be issued on April 1) to be conducted on March 30.

・ Regarding the manner to set the coupon rate, the rate is currently determined by setting 0.1% as the minimum interest rate and by setting in 0.1% increments based on the interest rate rounded to the second decimal place of the actual yield of the JGB market on the auction day. After the lowering of the lower limit of the coupon rate, only the minimum interest rate will be added to this (not in 0.005% increments as a whole). In other words, the following basic interest rate shall apply:

(1) When the actual level is less than 0.05% (when rounded, 0% or less), the coupon rate will be set to 0.005%.

(2) When the actual level is more than 0.05% (when rounded, 0.1% or more), the value rounded to the second decimal place is set as the coupon rate.

・Regarding JGB Market Special Participants Scheme, we grant special entitlements to participants and mandatory certain responsibilities on bid and successful bids in JGB auction. In FY2021, we will issue JGB at high standard size, so for each participants, we want you to fulfill that responsibilities.

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