Minutes of the Meeting of JGB Market Special Participants (94th Round)

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

1. Issuance size of Inflation-Indexed Bonds in the July - September 2021 quarter

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

・ As shown on page 3, 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 size of ¥200 billion per each time while stating that "the size of issuance 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 Auctions that "Buy-back Auctions in FY2021 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 size of issuance 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 conduct Buy-back Auctions for the amount of ¥50 billion every month by considering market circumstances and discussions with market participants. The results of the issuance by auctions and Buy-back Auctions are shown on pages 6 and 7.

・ The situation of the secondary market is shown on page 8. Since last fall , the market has risen in line with the global trends and remains stable in the positive sphere. However, at the very moment, these trends have stopped, and the market appears to be somewhat sluggish.

・ We asked for your opinions in advance and found that some members said that although the balance between the supply and demand situation in the Inflation-Indexed Bonds market is improving due to the effect of the Buy-back Auctions by the debt management office, both domestic and overseas investors are actively reducing their positions currently focused on off-the-run issues in the wake of the improvement in BEI. Under the circumstances, it is possible to assume that the supply and demand situation will deteriorate again depending on the external environment. Therefore, many members were in favor of leaving unchanged the size of issuance of Inflation-Indexed Bonds and the amount of Buy-back Auctions in the July-September quarter.

・ The current size of issuance and the amount of Buy-back Auctions are the consequences of the exceptional and temporary measures taken in response to the significant deterioration of the market as a result of the expansion of the COVID-19 infection and we believe it undesirable that this situation be normalized.

・ However, since there is still a sense of uncertainty over the supply and demand situation, as stated earlier, we are considering conducting an auction of issuance for the size of ¥200 billion in the July-September quarter in the same manner as in the April – June quarter, as shown on page 9.

・ Similarly, we are considering carrying out a Buy-back Auction in the size of ¥50 billion every month in the July-September quarter in the same manner as in the April - June quarter. Regarding issues subject to Buy-back Auctions, we are considering excluding the issue number 26 newly issued in May from the list for the time being, as informed at the last meeting in order to ensure the amount in market circulation of current bonds with small size of issuance to a certain extent and prevent new issues from being bought immediately in a large amount. We would like to flexibly examine the timing for including it in the list based on the supply and demand situation in comparison with other issues after the total size of issuance of the issue has reached ¥400 billion.

・ 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. Therefore, we will make a comprehensive decision based on the contents of today's meeting on the size of issuance in the July-September, 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 to maintain the status quo of the current size of issuance of ¥200 billion and the (monthly) amount of Buy-back Auctions of ¥50 billion. Although the situation is such that the BEI of all issues including off-the-run issues has exceeded 20bps, we have the impression that not only the selling by overseas investors but also that by regional banks due the improvement in the levels of the BEI contribute to the weak results of the most recent Buy-back Auctions and Outright Purchase of JGBs. We believe that the reduction of the amount of Buy-back Auctions is an agenda that needs to be discussed after October.

・ Although the supply and demand environment of Inflation-Indexed Bonds continues to improve as pointed out by the debt management office, the BEI continues to remain at a significantly low level when compared to that of other countries and we do not think that the supply and demand is strong. In addition, the selling of off-the-run issues by investors has increased with the recovery to some extent of the BEI. Therefore, we do not believe that the so-called sound situation in terms of supply and demand including off-the-run issues continues. Therefore, we believe it appropriate to wait for the market to recover while maintaining the current issuance and the amount of Buy-back Auctions as proposed by the debt management office. In addition, as the outstanding amount in the market of the current bond (issue number 26) is still small, we see no deterioration in its supply and demand due to the exclusion from Buy-back Auctions. As a result, we consider it appropriate to determine whether or not it is included in the list when the total size of issuance has increased as proposed by the debt management office.

・We recognize that the excessive stock in the Inflation-Indexed Bonds market is being reduced through a reduction of the size of issuance and an increase in the amount of Buy-back Auctions. In particular, the recovery in supply and demand for off-the-run issues with a large amount of stock seen before the COVID-19 crisis is apparent and the BEI is not traded relatively cheap any more. We are of the view that the current monthly amount of Buy-back Auctions of ¥50 billion is excessive and we believe that there is room to reduce it to monthly amount of ¥20 billion which is the level before the occurrence of the COVID-19 crisis. On the other hand, we believe it appropriate that the status quo of the current size of issuance be maintained. Since we are of the view that a flexible adjustment of the balance of supply and demand should be made by increasing or decreasing the amount of Buy-back Auctions, the size of issuance should not be changed easily.

・ We support the proposal of the debt management office. With the increasing trends of the BEI overseas from the beginning of the year, the BEI in Japan has finally got out of the negative range, which attracts attention of new investors. However, the outlook for the CPI in the future is highly unpredictable due to the magnifying impact of the reduction in mobile telephone charge as a result of the revision of the standards. In addition, there are considerable potential needs for the selling of old off-the-run issues mainly by mainly overseas. Therefore, we believe it premature to discuss an increase in the size of issuance and a decrease in the amount of Buy-back Auctions.

・ We would like that the current size of issuance and the amount of Buy-back Auctions be maintained. According to the current balance of supply and demand, no decrease in the BEI has ceased to be observed due to a supply and demand factor against the external environment, and currently, the BEI in Japan is also rising in line with the rise in the BEI overseas due to global inflation hedging needs, We believe that since the price is roughly formed in accordance with the external environment, there is no need to change the balance of supply and demand. In addition, we believe in light of the supply and demand situation of current issues that there is no problem at all in excluding current issues from the list of issues subject to Buy-back Auctions for the time being on the assumption that their inclusion in the list will be flexibly reviewed after the auction in August.

・ The BEI has been getting improved steadily and we are getting into the period to examine a reduction in the amount of Buy-back Auctions of issues whose amount is large relative to the size of issuance. We believe that its status quo needs to be maintained in the July – September quarter and its reduction will need to be examined from the October onwards in view of future conditions.

・ We agree to the proposal of the debt management office in terms of the size of issuance. In addition, we have no objection to maintaining the amount of Buy-back Auctions under the current market environment.

・ We would like that the current size of issuance and the amount of Buy-back Auctions be maintained. Currently, in the wake of the rise in the CPI in the US and Europe, the BEI in Japan has risen supported by the global rise. However, we believe it necessary to keep a close eye on whether or not a global downward pressure on the BEI will be applied and affect the BEI in Japan when the base effect is lost and the CPI falls after the July – September quarter onwards.

・ There are strong needs for current issues. In order to maintain and improve liquidity, we would like the size of issuance of ¥200 billion which is the same size issued in May. Immediately before the last auction, there was circulatory selective buying by both domestic and overseas investors in relatively cheap off-the-run issues and the auction overheated due to short covering by dealers, resulting in a relatively expensive auction, accordingly. Although the prices were adjusted since then, sales to investors have progressed steadily and the prices have been recovering. Buying on dips is observed when the BEI of current issues stands in the first half of 20bps. Regarding Buy-back Auctions, we would like that the current monthly size of ¥50 billion is maintained in order to stabilize supply and demand in consideration of the fact that selling on temporary recovery by investors continues and the bid-to-cover ratio is high, in addition to the fact that the average buying price difference is in the negative range.

・ We agree to the proposal of the debt management office. Due to the increase in the BEI in the US, the market has somewhat stabilized. However, most recently, selling by investors for the purpose of controlling the holding amount is seen here and there. We believe it desirable that the current issuance and Buy-back Auctions be maintained for the time being so as not to cause a rapid deterioration of supply and demand again. In addition, we believe it appropriate to continue to exclude current issues from the list of issues subject to Buy-back Auctions from the perspective of the balance of supply and demand by issue.

・ Regarding Inflation-Indexed Bonds, we recognize that while a situation in which there is no prospect for an increase in prices continues in Japan, firm market sentiment continues compared to nominal bonds, supported by concerns over inflation overseas. On the other hand, the gap in supply and demand between current issues and off-the-run issues seemingly continues to remain. Under the circumstance, it is considered important to continuously improve the supply and demand balance for the time being, we support that the current size of issuance and Buy-back Auctions amount is continuously maintained.

・ When considering the current market size, liquidity and domestic price trends, we believe it appropriate that the current size of issuance and the amount of Buy-back Auctions be maintained.

・ Since the amounts bid continues to increase in both Buy-back Auctions and Outright Purchase of JGBs in addition to the fact that the demand for Inflation-Indexed Bonds by domestic investors is low, it seems that the selling demand for off-the-run issues continues to be strong. Therefore, we have no objection to maintaining the size of issuance and the amount of Buy-back Auctions. In addition, we have no objection to the proposal of the debt management office regarding the time for including the issue number 26 in the list of issues subject to Buy-back Auctions.

2.Liquidity Enhancement Auctions in the July-September quarter 2021

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

・ As shown on page 11, according to the FY2021 JGB Issuance Plan regarding Liquidity Enhancement Auctions,

(1) while it is assumed that JGBs in a total of ¥11.4 trillion will be issued in a year, including ¥2.4 trillion with remaining maturities of 1 to 5 years, ¥6.0 trillion with remaining maturities of 5 to 15.5 years and ¥3.0 trillion with remaining maturities of 15.5 to 39 years
(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 July - September quarter.

・ As shown on page 12, we issued JGBs with remaining maturities of 1 to 5 years in the amount of ¥400 billion in the May (odd-numbered month), JGBs with remaining maturities of 5 to 15.5 years in the amount of ¥500 billion every month and JGBs with remaining maturities of 15.5 to 39 years in the amount of ¥500 billion in the April and June (even numbered months) in the April - June quarter. These results are shown on pages 13 - 15.

・ In the circumstances, we asked your opinions about the Liquidity Enhancement Auctions for the July - September 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 that requires the balance of the distribution of issuance amounts among issues to be changed, we found that many of you 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 issue amount for each maturity zone in the July - September quarter, as shown on page 16. We are contemplating the idea of issuing JGBs with remaining maturities of 1 to 5 years in the amount of ¥400 billion in the July and September (odd-numbered months), JGBs with remaining maturities of 5 to 15.5 years in the amount of ¥500 billion every month and JGBs with remaining maturities of 15.5 to 39 years in the amount of ¥500 billion in the August (even-numbered month).

・ Regarding the size of issuance for each maturity zone for Liquidity Enhancement Auctions for the July - September 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:

・ In order to meet the needs of both investors and securities companies in each maturity zone and maintain liquidity in the secondary market, we would like to see the same size of issuance as it is now.

・ We have no objection to the proposal of the debt management office. Incidentally, investors are currently keen to buy off-the-run issues in an active manner and there are many investors who are willing to buy off-the-run issues in Liquidity Enhancement Auctions. Therefore, we believe that there is room for an increase in Liquidity Enhancement Auctions.

・ Although JGBs with a term to maturity of between 1 to 5 years stand out as tight supply and demand in the current repo market, since the situation is not so serious and the investors' demand for off-the-run issues in other maturity zones also continues steady, we believe it appropriate that the status quo be maintained as proposed by the debt management office.

・ As long as the Bank of Japan (BOJ) purchases a large amount of JGBs, the situation in which off-the-run issues are in shortage continues. Therefore, we do not like to see a reduction in the size of issuance.

・ We agree to the proposal of the debt management office to keep the current status quo. However, in the case where the possibility of increasing the total annual size of issuance is contemplated, we would appreciate as market makers that the issuance of JGBs with remaining maturities of 1 to 5 years and JGBs with remaining maturities of 5 to 15.5 years be increased by about ¥100 billion because there is always a strong demand for off-the-run issues of these JGBs.

・ We agree to the proposal of the debt management office to keep the current status quo. Since the current situation is such that the number of issues with short to mid-term maturities whose balance of supply and demand is constantly tight has been increasing again, we believe that there is room for an increase in the amount of ¥100 - ¥200 billion for JGBs with remaining maturities of 1 to 5 years in Liquidity Enhancement Auctions in the last half term when judging only by room for increase when the shortening of the issuance maturities is not taken into consideration.

・ We have no objection to the current implementation intervals and size of issuance when considering that there is no upset in the results of Liquidity Enhancement Auctions and they are stably issued and digested.

・ According to the most recent auction results, it is seen that there is a rough match between the size of issuance and the market demand. If anything, since there are issues in JGBs with remaining maturities of 1 to 5 years whose balance of supply and demand is constantly tight, we believe there is some room for an increase.

・ We would like that the debt management office keep the current status quo because there is a strong short covering demand by investors and securities companies in each maturity zone. In particular, we believe there is large room for an increase for JGBs with remaining maturities of 1 to 5 years in particular because the yield curve is distorted frequently by the balance of supply and demand.

・Since the needs of investors for off-the-run issues in each zone are strong, we would like to see a continuous stable supply. We believe it appropriate to maintain the current status quo in terms of amount in the July – September quarter. However, since the needs of investors for off-the-run issues with about 1.5 to 3.5 years remaining to maturity are strong, if there is a further increase in demand, we believe that there is room for an increase in JGBs with 1 to 5 years remaining to maturity.

・Regarding Liquidity Enhancement Auctions for JGBs with remaining maturities of 5 to 15.5 years, we believe that an increase in the size of issuance may be an option if strong results persist in the future.

・The money is distributed in a well-balanced manner in each maturity zone and JGBs are stably issued and digested, supported by short covering of securities companies and investors' demand. Therefore, we consider that the current distribution is reasonable.

・The liquidity of off-the-run issues has declined further. When talking about the July – September quarter onwards, if a large scale purchase by the BOJ continues under the conventional method, we believe it necessary to increase the scale of Liquidity Enhancement Auctions.

3.Latest JGB market situation and outlook for future investments

▶ Summarized below are the views and opinions submitted:

・ The volatility of the JGB market continues to be low and continues to be in a box range to keep pace with the external environment. There is a sense of safety for investors to buy in the JGB market and it is unlikely for an upset to occur. We are keenly interested in the trends and movements of derivatives transactions due to the IBOR reform in the future. Although this is not a matter limited to Japan, they may affect the JGB market depending upon the liquidity situation in the transition period and we will also keep a close eye on its trend.

・ All news on the monetary policy of the BOJ are now in the public domain after the implementation of the amount reduction by the purchase of long-term JGBs announced at the end of March, and since April onwards, the market is relatively slow to react to the external environment and its fluctuation range is very small like in the October – December quarter in FY2020. Although there is a possibility that a change in terms of curve may occur for fiscal reasons in summer, we believe that the JGB market will move in a range with limited fluctuations with attention focused on the purchase operation of long-term JGBs which remains unchanged since the end of March by the BOJ and overseas interest rates.

・ Most recently, US interest rates fluctuated significantly in response to the US employment statistics, the US CPI, and the FOMC, but interest rates in JGBs have remained relatively stable. It is expected that the volatility will remain low by the "clarification of the fluctuation range of long-term interest rates" by the BOJ also In the future. However, there have been some issues whose auction results were continuously unsuccessful, such as 5-Year Bonds. We believe we are in a stage where we need to watch carefully the functionality and liquidity of the market.

・In May, the JGB market moved in a tight range with 5-Year Bonds at minus 0.10 – minus 0.09% (within 1bps) and 10-Year Bonds at 0.07 – 0.09% (within 2bps). However, in response to the large drop in interest rates of US bonds in June, interest rates in JGBs also dropped in an accelerated manner immediately after the auction of 30-Year Bonds. In addition to the fact that the range in the last month was broken, there was a variety of factors overlapping with each other, such as the period corresponding to futures contract switching, the timing immediately after the auctions of 10-Year Bonds and 30-Year Bonds with an unexpected long tail, etc., and there was a strong rally led by futures trading due to a biased positioning. We have the impression that it was completely unexpected that only bonds were short squeezed when there was no obvious news and there was hardly any change in the stock market and currency exchange rates.

However, in response to the results of the FOMC to be held next week, US bonds flattener significantly, as far as the JGB market is concerned, only the steepening trend that has continued since mid May stopped and there was no significant reversal. There is a clear decline in the pace of purchase of ultra long-term JGBs by life insurance companies in the new fiscal year. Therefore, the deterioration in demand for 30-Year Bonds and 40-Year Bonds, in particular, is remarkable with a decrease in the number of purchases and an increase in the size of issuance.

Regarding the future outlook, since we have the impression that existing positions have been almost closed as a result of the most recent development, we believe that the likelihood of the occurrence of extreme price movements has decreased in Japan. However, both the interest rate level and the curve continue to be unstable in the US bond market.

In the wake of a significant progress in coronavirus vaccinations in Japan and the de facto decision to hold the Tokyo Olympics, in addition to the prospect of this autumn's House of Representatives election, we believe that the number of investors who are cautious about upcoming auctions for new bonds for each maturity to be issued from next month will increase when considering that the situation is somehow different from April.

・ Interest rates in JGBs has remained in a very narrow range due to decreased concerns about the domestic monetary policy in April – May after the monetary policy inspection by the BOJ and the stable movement of interest rates in the US. Although the price range mainly of futures widened in line with the US interest rate movement since the beginning of June, we continue to hold the following view about cash bonds.

We believe it possible to continuously maintain stable issuance for each maturity also in the future because 10-Year Bonds or JGBs with shorter maturities are supported by the yield curve control and Outright Purchase of JGBs, there is a demand by many final investors for 20-Year Bonds and there is still a potential long-end demand for 30-Year Bonds and 40-Year Bonds despite the adverse effect of the increase in the amount of 40-Year Bonds.

・The volatility and liquidity in the JGB market sharply dropped temporarily after the publication of the monetary policy inspection by the BOJ. This is attributable to the fact that no measures that may directly affect the JGB market was not included in the inspection by the BOJ and a large scale of JGB purchase was conducted by investment trust companies for rebalancing purpose in March and April.

Although the US bond market is somewhat rough since the FOMC last week, we expect that the JGB market will continue to be stable for the time being.

・We are of the view that the market with low volatility will continue against the backdrop of the yield curve control.

・We wonder if it is not time to switch the auction of 40-Year Bonds from bi-monthly to monthly issuance. However, we are conscious that the opinion of companies with higher bid acceptance ratio should be given priority.

・Although interest rates in JGBs fluctuate somewhat in response to price fluctuations of foreign bonds, they still seem to lack motivation. We attribute this mainly to low macroscopic sensitivity to the monetary policy and the elimination of concerns over the interest range of 10-Year Bonds under the yield curve control. Therefore, we consider that this situation will be prolonged to a certain extent and we believe that the large factor for the next market fluctuation will be the discussion on the issuance of JGBs in terms of fiscal policy.

・Due to the framework of the yield curve control, JGBs with 10 years remaining to maturity, in particular, is estimated to continue to be in a box range. Although the influence of the BOJ in the long-term zone has weakened, the investors' perspective has not changed significantly and this environment seems to remain unchanged for the time being.

・The liquidity drop in off-the-run issues has become noticeable due to adverse effects of the super lengthening of massive JGB purchase by the BOJ. In the meantime, due to a significant increase in the JGB size of issuance from the last fiscal year, such a situation where current issues of each maturity tend to become comparatively cheap in terms of the curve has settled down. We are worried that such structural problem contributes to the decrease or loss of the function of interest rate more than the deadlock state of the overall JGB market. We believe that the decrease in the hedging function and opportunities of the market has started to be noted in the lengthening of the tails in JGB auctions. Therefore, we suspect it may be necessary to take measures such as (1) limiting the purchase of JGBs by the BOJ to current issues or reducing the scale of purchase and (2) increase the amount of Liquidity Enhancement Auctions, etc.

・With the elimination of uncertainties over the JGB purchase operation by the BOJ, the volatility tends to decrease. Although tails are seen here and there in some auctions, we believe that the market is steady as a whole and there is no need to regard this as a problem.

On the other hand, currently, there are only few market participants who are cautious about an increase in the amount of interest-bearing bonds and we are of the view that there may be a heightened sense of caution against an interest rate rise focused on ultra long-term JGBs which are not strongly supported by Outright Purchase of JGBs depending on future developments.

・ In April, interest rate in JGBs started with a rise due to a decrease in the purchase frequency and monthly purchase amount according to the Monthly Schedule of Outright Purchases of Long-Term JGBs released at the end of March. However, interest rate in JGBs fell against the backdrop of the favorable results of the auctions of JGBs for each maturity conducted in the same month supported by the favorable supply and demand of investments by domestic investors with the start of the new fiscal year and by the low interest rates in the US. In May, the JGB market was deadlocked and the interest rate of 10-Year Bonds moved in a tight range of only 2bps between 0.07 – 0.09%. This month, however, the interest rate of 10-Year Bonds temporarily dropped to 0.025%, triggered by the US 10-year bond interest rate falling below 1.5% in the beginning of the month. Later, with a rise in expectations for the possibility of an early tapering and interest rate rise by FRB's hawkish members in the FOMC, the interest rate of 10-Year Bonds rose again to exceed 0.05%. Most recently, overseas interest rates are in a highly volatile situation in which the unwinding of reflation trades suddenly flattened, while the interest rate in JGBs have been relatively stable and are in a box range. In the future, we believe that the current interest rate level will gradually shift upward against the backdrop of the expansion of coronavirus vaccionations and expectations for economic measures in Japan and the confirmation of the path from the tapering to increases in interest rise in the US.

・Despite the acceleration of vaccionations in Japan these days, the BOJ' s monetary easing is expected to be prolonged amid no prospect for a rise in inflation. We understand that the environment in Japan is very different from that in the US where an earlier start of the tapering talks and the timing for starting to raise interest rates are discussed. Therefore, we expect that the interest rate in JGBs will continue to remain stable at a low level with some fluctuations affected by ups and downs of overseas interest rates. The news that no supplementary budget for FY2021 will be presented in the current Diet session is favorable for the JGB market. On the other hand, it is difficult to expect that the BOJ will deep dive into negative interest rates considering the current exchange rate between the yen and the dollar and interest rates will enter a downward trend.

・After the completion of transactions motivated by the results of the "inspection" of the monetary policy by the BOJ and Outright Purchase of JGBs in April, in addition to the shift of the US long-term interest rate to a box range, the JGB market lost direction and the yield of 10-Year Bonds for a period of one and half months between April 27 and June 8 moved in a very tight range at 0.070 – 0.090% (only 2bps). However, after that, it fell to 0.025% on June 11. We believe that domestic investors are still willing to buy long-term bonds on dips. However, according to the over-the-counter trading volume of public and corporate bonds in April and May, life insurance companies and regional financial institutions that have been so far the main players were not so active. We expect that the yield level will be slightly increased and fluctuate in a box range in the future. It is difficult to imagine the situation where the fluctuation range of the market will increase significantly even in response to the results of the "inspection" so far as the yield curve control continues and no benchmark interest rate is changed.

We expect a core range of 10-year Treasury yields to move in a range of 0.050 to 0.100%.

Even if vaccinations progress and the economy recovers to a certain level in line with the consensus, they will not contribute to a sustainable rise in the yield. The concern over the US long-term interest rates above 2% seems to persist. However, we are of the view that staring to raise interest rates earlier than the schedule will curb inflation expectations and the FRB will prevent interest rates from actually rising through careful tapering because a sharp rise in long-term interest rates may not only hinder economic recovery, but also lead to a sharp fall in stock prices.

In future, economic measures will be formulated in Japan. We consider that the BOJ's purchase of government bonds and an appropriate maturity distribution by the debt management office will contain the negative impact based on the experience of last year.

・ When compared to the trends in overseas markets, the JGB market is relatively stable and continues to move in a narrow range. However, since somewhat sluggish JGB auction results are seen here and there, we need to keep a careful eye on the future supply and demand situation.

・ We have the impression that the functionality of the JGB market has declined further due to the prolonged yield curve control by the BOJ and the presence of the fixed-rate purchase operations for consecutive days introduced at the Monetary Policy Meeting in March.

Although the Delta somehow maintains a correlation with overseas interest rates in the latest price movements, the yield curve movements are unsteady and inversely correlated as it were, because when the yield curve of overseas interest rates is dynamically flattened, that of JGBs steepens, or conversely, when the former steepens back, the latter flattens, etc.

From the perspective of stable issuance and stable digestion, we would like to see the shift to the uniform price auction as far as the action system for ultra long-term JGBs is concerned. We believe that this method played a certain role in the successful auction results of 40-Year Bonds with an increased amount.

・ In June, there were big events in the US including the publication of the CPI and the FOMC meeting. Although interest rates in the JGB market fluctuated with ups and downs temporarily accompanied by an increase in volume, they moved basically in a range. This may be attributed to the strong willingness to buy of investors on dips in addition to the strong support provided by the BOJ. We believe that similar movements will continue for some time to come.

・ We forecast that the amount of Outright Purchase of JGBs may be decreased by a change in operations by the BOJ which prioritizes a stable and flat yield curve at a low level due to a progress in vaccinations and acquisition of herd immunity against COVID-19 infection toward the end of the year. However, there is a possibility that interest rates in the JGB market may move in a narrow range if the US interest rates settle down in the near future. Under the current low volatility environment, the number of special participants in the JGB market has dwindled. Therefore, we believe it necessary to reconsider measures to reduce the burden of successful bidders and we propose that the number of slots for the first non-price competitive auction may be increased.

・ While purchases by domestic investors continue to restore the balance in their bond portfolio after the completion of the BOJ’s monetary policy inspection, interest rates of JGBs remain stable at a low level and a decline in the rate of fluctuation continues as a result of the stability of overseas interest rates mainly in the United States. We will continue to keep a close eye on the movements of the US interest rates for future direction.

4.Information from the Financial Bureau

The consumer price index (hereinafter referred to as the “CPI”) is scheduled to be switched to the 2020 standard from July 2021, which will be announced in August 2021. As a result of this change, we inform you that the calculation method of the indexation coefficient after September 11 2021 calculated using the CPI after July 2021 will be changed in the same manner as at the time of the standard revision in 2016.

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