Minutes of the Meeting of JGB Market Special Participants
(98th Round)

1. Date: Tuesday, March 22, 2022
2. Place: Held in writing
3. Gist of Proceedings:

1. Reopening rule and auction methods of nominal interest-bearing bonds in FY2022

▶ The Financial Bureau gave the following explanation about the reopening rule and auction methods of nominal interest-bearing bonds in FY2022:

・ The reopening rule and auction methods of nominal interest-bearing bonds for the following fiscal year are discussed in March of every year at this meeting, and a decision is based on the opinions of the participants. 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 FY2022.

・ Since FY2015, we have kept the reopening rule for 10-Year Bonds in each case where bonds having the same redemption dates are issued and the difference between the coupon rate of its new issue and its market yield on the auction date is less than around 30 bps.

When we heard opinions from participants in advance in this regard, we learned that most of you support the current method. However, a number of participants shared the opinion that 10-Year Bonds should also be changed to the reopening rule in principle.

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 new issue bond in the event of a large market fluctuation, we are considering maintaining the current method in FY2022 as well.

・ 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 FY2021.

We heard opinions from participants in advance in this regard, and learned that all of you support the current method.

Therefore, we are considering maintaining the current method also in FY2022 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 FY2021 and among other opinions, the opinion that there is still less liquidity comparable to other maturities.

・ When we asked for opinions from participants in advance about the auction method of 40-Year Bonds in FY2022, we found that a few participants expressed the desire to shift the auction method to the discriminatory price auction from the perspective of market maturity and market development in the future based on the size of issuance increase in FY2022 as well.

・ While we recognize the need to shift to discriminatory price auctions in the future, the issuance size of 40-Year Bonds will increase again next fiscal year. Therefore, it is necessary to determine the stability of auction results and the state of market digestion. In the current market environment where there is high volatility and rapid steepening of ultra-long-term zones, the yield-based uniform price auction is used, which brings a strong sense of security, and many participants expressed a desire to keep uniform price auction.

・ As mentioned above, although we found that more participants expressed the desire to shift the auction method to the discriminatory price auction compared to last year, the majority of participants favored keeping a 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 yield-based uniform price auction as shown on page 3 in FY2022, during which the size of issuance is planned to be increased.

・ The reopening rule and auction method for nominal interest-bearing bonds in FY2022 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 with the proposal to maintain the current method. As for the auction method for 40-Year Bonds, we expect the ultra-long-term zone to be volatile during the next fiscal year, and the size will increase by ¥100 billion to ¥700 billion each time.

Therefore, we wish to continue the yield-based uniform price auction.

・ We support the proposal to maintain the current reopening rule to encourage market liquidity. Regarding the auction method for 40-Year Bonds, while we feel it is necessary to consider shifting to discriminatory price auctions in the future, at present, liquidity remains low compared to other maturities, and we agree with the proposal to maintain the yield-based uniform price auction to keep the market stable.

・ We support the current reopening rule in order to maintain liquidity.

・ Regarding the reopening rule, we believe the proposal is appropriate. As for the auction method, since there is high demand to continue purchasing without specifying the price, we feel that the yield-based uniform price auction is appropriate for other maturities in addition to 40-Year Bonds.

・ While we expect the Outright Purchase of JGBs by the Bank of Japan (BOJ) will continue, it seems desirable to have a situation where reopening is likely to occur. However, for 10-Year Bonds, it is important to remember that when there are large interest rate fluctuations, buying becomes difficult for some investors due to the relationship with the book value of the issued holdings and large fluctuations with the auction unit price. The supply-demand gap is widening for some maturities and issues in the ultra-long-term zone. We believe that reopening is helpful for reducing the supply-demand gap among maturities and issues. While the investor base is expanding for 40-Year Bonds, the issuance size will begin to increase from next fiscal year. Therefore, we need to give attention to supply and demand trends. We feel it is appropriate to continue using the yield-based uniform price auction for now to maintain stable issuance.

・ We support the current plan regarding the reopening rule for 10-Year Bonds, 20-Year Bonds, and 30-Year Bonds. In particular, we feel that since the reopening of ultra-long-term bonds has been confirmed, this will maintain the liquidity of cash bonds even as the repo market is quickly tightening, leading to ease of market making.

On the other hand, for 40-Year Bonds, since it has been a long time since these were issued and liquidity is increasing due to the recent increase in size, we think it is good to shift to discriminatory price auctions the same as in other zones.

・ We see no problem with the proposal. However, in the future, we believe it may be necessary to consider changing to a reopening rule in principle for 5-year bonds as well.

・ We support discriminatory price auctions for 40-Year Bonds.

The investor base is expanding, and spreads have remained stable compared to other maturities despite refraining from increasing the size. From the perspective of market development, we believe that it is possible at this point to shift to discriminatory price auctions similar to other maturities.

・ We will follow the opinions of the top bidders.

・ Without exceptions, reopening issuance and discriminatory price auctions are desirable in principle for all nominal interest-bearing bonds.

・ In principle, the reopening rule is good for eliminating the possibility that the issuance size of CTD bonds will decrease. However, we do not have a strong opinion since a system that meets the needs of domestic investors will contribute to the stable issuance of JGBs.

・ In principle, we desire reopening of 10-Year Bonds. If 10-Year Bonds are issued once or twice, volatility will result from the small issuance size and poor market balance at the time the contract month changes when the bond becomes a futures CTD bond three years later, which may result in an unstable market. It is good to keep the auction method the same as the current method.

・ Given the scale of Outright Purchase of JGBs, we feel it is appropriate to maintain the current issuance method in order to help maintain market liquidity.

・ We agree to continuing the yield-based uniform price auction for 40-Year Bonds. Additionally, we propose a return to the yield-based uniform price auction to encourage stable issuance even in the ultra-long-term zone where the issuance size continues to increase after changing from the uniform price auction to price competition.

・ (10-Year Bonds) Since interest rate pressure is rising globally, there are also concerns about rising interest rates in Japan. However, based on the current monetary policy (YCC), since it is difficult to change the interest rate for 10-Year Bonds by at least 30 bps within a few months, we feel that the current method is actually similar to reopening issuance. In this zone, the BOJ is making purchases at a rate of ¥170 billion per month. Therefore, from the perspective of ensuring liquidity per one issue, we agree to maintaining the current status.

(Ultra-long-term bonds) As for the issuance size, we agree with the proposal to maintain the current status to help ensure liquidity per one issue. For 40-Year Bonds, it cannot be said that the bid-to-cover ratio has an underlying upward trend, and the investor base remains limited.

Therefore, we believe that the current yield-based uniform price auction is good.

・ Regarding 10-Year Bonds, the BOJ continues to make large-scale purchases of this maturity, and given the current situation with monetary policy operational goals, current bonds require appropriate liquidity. For this reason, in principle, we desire 10-Year Bonds to be reopened while these remain operational targets of the BOJ.

2. Issuance size of Inflation-Indexed Bonds in the April-June 2022 quarter

▶ The Financial Bureau gave the following explanation about the issuance size of Inflation-Indexed Bonds in the April-June 2022 quarter:

・ As shown on page 5, according to the JGB Issuance Plan for FY2022, it is stipulated that there will be issuance of Inflation-Indexed Bonds four times a year at a size of ¥200 billion each time in the same manner as with the JGB Issuance plan for FY2021 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 which will be determined based on discussions with market participants.” In addition, as shown on page 6, it is stipulated about Buy-back Auctions that “Buy-back Auctions in FY2022 is planned to be implemented based on market conditions and through discussions with market participants.” Today, we would like to hear your opinions about the size of issuance in the April-June quarter.

・ In the January-March quarter, as shown on page 7, while we conducted an auction of issuance at a size of ¥200 billion in February, we decided to change size of Buy-back Auctions from ¥50 billion every month to ¥20 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 8 and 9, respectively.

・ The situation of the secondary market is shown on pages 10 and 11. Based on changes over the last six months, BEI has risen despite fluctuations, and at this moment in particular, it has risen further due to the impact of soaring crude oil prices amid increasing geopolitical risks related to the situation in Ukraine. Based on bond movement, although there continues to be wide variation, BEI is rising for all bonds.

・ Under such circumstances, we asked for participant’s opinions in advance. In the Inflation-

Indexed Bonds market over the past few months, while some selling was carried out due to a sense of caution related to changes with the monetary policy, inflation expectations are rising based on the impact of crude oil prices, and there is balance between the current issuance size and Buy-back Auction size. Most participants would prefer that both the size of issuance and the size of Buy-back Auctions for the April-June quarter remain unchanged.

・ On the other hand, a few participants would prefer that the size of issuance be increased while keeping Buy-back Auctions the same for reasons such as strong results with issuance auctions.

・ We believe that the development of the Inflation-Indexed Bonds market is an important part of the Debt Management Policy, and recognize the issuance size and Buy-back Auctions significantly reduced in size for the January-March quarter of FY2022 are still normalizing after extraordinary measures related to significant deterioration of market conditions triggered by the COVID-19 pandemic. In line with this, at the meeting in December of last year, we stated that we would like to consider normalization even after the April-June quarter of FY2022, and at that time, we would like to make a careful decision based on the auction status, market conditions, and the opinions of participants as in the past.

・ The proposals of the Financial Bureau based on these circumstances and the opinions of participants are shown on page 12. Regarding the April-June quarter of FY2022, as in the January-March quarter, we are considering a Buy-back Auction of ¥20 billion each month while having a single issuance auction of ¥200 billion.

・ Regarding the target bonds for Buy-back Auctions, in order to avoid having a large number of current bonds being sold in FY2021, we decided not to include current bonds in the first half of the year. However, the implementation amount is lower than before. Since the amount has been reduced and successful bids may be concentrated on certain off-the-run bonds, etc., at present, we would like to have all bonds including current issues for FY2022.

・ Regarding the reopening rule and auction method for Inflation-Indexed Bonds in FY2022, we are considering reopening with one issue per year and auctions using the price uniform price auction the same as in FY2021.

・ As stated above, we explained the situation about the Inflation-Indexed Bonds market and our proposal based thereon.

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 issuance auction method in FY2022, and we will again listen to participant opinions.

We recognize that the proposals presented this time are in the process of normalization. We would like to consider normalization even after the July-September quarter of FY2022, and in that case, we will continue carefully considering the auction situation and market conditions along with the opinions of each participant when making a decision.

▶ Summarized below are the views and opinions submitted:

・ Global inflation continues to rise as commodity prices such as crude oil increase, and Inflation-Indexed Bonds continue moving steadily as these are supported by this environment. However, we recognized that the slump has not improved as much in Japan as overseas. As for liquidity, prices are formed in the secondary market with almost no trading during the day, and Outright Purchase of JGBs and Buy-back Auctions are needed to sell the appropriate amount. Based on this, we feel it is still vulnerable. Given the situation, while we believe that the investor base is recovering compared to one period, we feel that changing the balance between issuance and purchase could shock the market. Therefore, we support continuing the current issuance size and Buy-back Auction size.

・ We believe there is room to increase the issuance size based on the latest strong auction results. We understand that the current issuance size is related to the decrease in issuance as an emergency measure during the shock caused by COVID-19. However, the impact of the pandemic on the market is weakening and the balance between the supply and demand of Inflation-Indexed Bonds is improving. To help gradually return to the previous level, we feel that an increase of ¥50 billion to ¥250 billion would be appropriate in May.

・ We agree with the proposal. We also agree to the inclusion of the newly issued 27th bond using Buy-back Auctions.

・ Since the reduction in Buy-back Auctions, Buy-back Auctions and Outright Purchase of JGBs have sagged while Inflation-Indexed Bond auctions have been issued steadily, and BEI has moved steadily according to the external environment. Overall, there is good balance between supply and demand, and we support the proposal to maintain the issuance size. We also agree with the proposal to target current issues for Buy-back Auctions, to maintain the current annual reopening of one issuance, and to maintain the uniform price auction for auctions.

・ We agree with the proposal. The break-even inflation rate for Inflation-Indexed Bonds has been increasing steadily as a result of rising commodity prices and rising global inflation alerts. However, compared to the rise in the price index expected in Japan in the future, the situation seems mild, and regarding the balance between supply and demand, there is not too much demand. Therefore, we believe that now is still a time for confirming how reducing Buy-back Auctions at the beginning of the year will impact the balance between supply and demand, and that it is good to maintain the current status related to issuance size and Buy-back Auction size.

・ We agree with the proposal on page 12 to maintain the current status for both the issuance size and the Buy-back Auction size. We have no objection to the target issuance for Buy-back Auctions.

・ It may be possible to consider returning to an issuance size of ¥300 billion in the future when the market environment is expected to further improve as Japan’s CPI recovers.

・ We support maintaining the current status. Based on recent market conditions, we do not expect Japan’s BEI to decline significantly. However, there are doubts that the investor base has expanded sufficiently. We believe that more careful judgment is needed to continue promoting normalization.

・ We agree with the proposal.

・ Auction results have been strong recently, making it a good time to increase the issuance size. We believe it can be increased by ¥100 billion each time.

・ Inflation is seen in markets all over the world, and despite continued market rises, prices have fallen sharply at times. While we expect prices to rise resulting from the immediate decline in mobile phone charges, the subsequent situation is unclear, including the situation in Ukraine. Therefore, it would be appropriate to maintain the current status for the time being. We also feel that the reopening rule is good to reduce the supply-demand gap between issuances. We do not feel that the investor base is expanding, and therefore would like the uniform price auction to continue since it promotes stable issuance.

・ We have no objection to the proposal.

・ Based on the size of the current market and liquidity, we feel it is appropriate to maintain the current status for both the issuance size and Buy-back Auction size.

3. Issuance size of Liquidity Enhancement Auctions in the April-June quarter 2022

▶ The Financial Bureau gave the following explanation about the Liquidity Enhancement Auction Size for the April-June 2022 quarter:

・ As shown on page 14, according to the FY2022 JGB Issuance Plan regarding Liquidity Enhancement Auctions,

(1) while it is assumed that a total of ¥12.0 trillion will be issued for the year, including an increase of ¥0.6 trillion over FY2021 to ¥3.0 trillion with remaining maturities in the 1 to 5 years zone, and ¥6.0 trillion with remaining maturities in the 5 to 15.5 years zone and ¥3.0 trillion with remaining maturities in the 15.5 to 39 years zone, which is the same as in FY2021, and

(2) finally, "the details will be flexibly adjusted in view of the market environment and investment demands."

Today, in response to this plan, we would like to hear participant's opinions regarding the size of issuance for each maturity zone for the April-June quarter.

・ As shown on page 15, in the same manner as assumed in the FY2021 JGB Issuance Plan, we decided to issue bonds with remaining maturities of the 1 to 5 years zone in the size 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 size of ¥500 billion every month, and bonds with remaining maturities of 15.5 to 39 years zone in the size of ¥500 billion in the even numbered month of February in the January-March quarter. These results are as shown on pages 16 to 18.

・ In these circumstances, we asked for the opinions of participants about the Liquidity Enhancement Auctions for the April-June quarter in advance. All participants agreed it would be appropriate to maintain the issuance size for the remaining maturities 5 to 15.5 years zone and the remaining maturities 15.5 to 39 years zone while reflecting the increase in size of issuance for the remaining maturities 1 to 5 years zone, which was strongly requested.

・ In response to this, we prepared the proposal of the issuance size for each maturity zone in the April-June quarter, as shown on page 19. For remaining maturities of the 1 to 5 years zone, the increased size according to the issuance plan is reflected as is, and we are contemplating the idea of issuing bonds in the size of ¥500 billion in the odd-numbered month of May, for bonds with remaining maturities of 5 to 15.5 years zone in the size of ¥500 billion every month, and for bonds with remaining maturities of 15.5 to 39 years zone in the size of ¥500 billion in the even numbered months of April and June.

・ Regarding the issuance size 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:

・ It would be good to increase the bonds with a remaining maturity in the 1 to 5 years zone from next fiscal year while keeping an eye on the future situation. For both bonds with a remaining maturity in the 5 to 15.5 years zone and bonds with a remaining maturity in the 15.5 to 39 years zone, the issuance size is generally in line with market demand, indicating it would be good to maintain the current status.

・ We support maintaining the current status. You already responded to the increase of bonds with a remaining maturity in the 1 to 5 years zone, for which many opinions were given at the previous meeting, and we do not feel that further changes are needed.

・ Stable issuance is possible since the amount of money is distributed in a balanced way for each maturity and is supported by the short cover of securities companies and investor demand. Therefore, we believe that allocation at the same level as the current situation is appropriate.

・ We have no objection to the proposal.

・ Firstly, we believe it would be better to implement the proposal of ¥500 billion for all three zones, which would be an increase of ¥100 billion for bonds with a remaining maturity in the 1 to 5 years zone. Once it can be confirmed that there is still a strong need for bonds with a remaining maturity in the 1 to 5 years zone even when the size is increased, it would be good to consider adjusting the issuance size for the three zones in the future.

・ We agree with the proposal on page 19.

・ We agree with the proposal. Bonds with a remaining maturity in the 1 to 5 years zone have increased by ¥100 billion every other month while the yield curve is often distorted by the balance of supply and demand. Therefore, we believe that there is still room for increase.

・ We agree with the proposal.

・ While we expect there to be reasonable demand in each zone, the BOJ has a high ownership ratio in the short- and medium-term zones. Therefore, we support the proposed increase for bonds with a remaining maturity in the remaining 1 to 5 years zone (¥100 billion each time) (for other zones, we support the proposal to maintain the current status).

・ We agree with the proposal.

4.JGB Market Special Participants Scheme (Bidding responsibility)

▶ The Financial Bureau gave the following explanation about the JGB Market Special Participants Scheme (Bidding responsibility):

・ At the Meeting of JGB Market Special Participants (96th) in November last year, we announced that we would change the rate of bidding responsibility for JGB Market Special Participants to “100/n% or more of the planned issuance amount” and received approval. We asked for the opinions of participants regarding rounding for 100/n% in advance, and most participants responded that a 1% unit is preferable for reducing administrative risk. Based on this, a draft revision of the Principal Terms and Conditions for JGB Market Special Participants Scheme (PD Scheme) was prepared as shown on pages 21 to 23 where amounts less than 1% are rounded up. We would like to hear your opinions on the draft revision.

・ The revision of the PD Scheme is scheduled for March 31, 2022. Similar provisions will be made for notifications that determine the standards for special participants in the JGB market. Therefore, please note that the change to “100/n% or more of the planned issuance amount” will be applied to all government bonds issued after April 1, 2022.

・ We will notify everyone of the rate of bidding responsibility on the date that the PD Scheme is revised. Afterward, any changes in the special participants of the JGB market and the rate of bidding responsibility will be notified to everyone within one month as stipulated in the draft revision of the PD Scheme.

▶ Summarized below are the views and opinions submitted:

・ For fractions of less than 1 with 100/n%, it seems good to round these fractions up. We believe the increase in bidding responsibility caused by rounding up is limited and will not impact the bidding stance of investors.

・ Basically, we have no objection from the perspective of stable issuance. However, regarding the notification when the rate of bidding responsibility is changed, a response such as a reminder just prior to the change at the first bid would help special participants in the JGB market avoid mistakes.

・ We have no objection to the proposal.

・ Although we agree with the proposal on bidding responsibility, we also propose a review of Non-Price Competitive Auctions I. While the number of JGB market special participants is decreasing, we expect the burden on JGB market special participants to increase as a result of changes in the rate of bidding responsibility. Therefore, we would like you to consider measures such as increasing the size of Non-Price Competitive Auctions I.

・ We see no problem with rounding upward. We would ask that you contact us about the rate of bidding responsibility as well as the Reference Purchasing Coefficient.

・ We have no particular objection to the draft revision on pages 21 to 23.

・ We agree with the proposal.

・ Most are not affected, and we feel it is appropriate to simplify the calculation.

・ Since bid amounts change in steps, there are negative aspects from the perspective of issuance size. Our desire is for the rate of bidding responsibility to be up to the first decimal place.

・ We agree with the proposal.

・ We agree with the proposal.

5. Latest JGB market situation and outlook in the future

▶ Summarized below are the views and opinions submitted:

・ Volatility in the ultra-long-term zone has risen sharply in the JGB market as interest rates in Europe and the United States rise, and the yield curve has become a bear steepener. This change in the shape of the curve is mainly a natural consequence of the rise in interest rates, but the rise in volatility in the ultra-long-term zone is connected with the decrease in investor risk tolerance as a result of portfolio damage, buying and selling at the end of the fiscal year, and geopolitical risks. Therefore, we expect the market to regain composure based on the formation of an outlook consensus and the trend of investors at the beginning of the fiscal year.

・ Interest rates on 5-Year Bonds have risen into the plus zone for the first time since 2016 as a result of the sharp rise in interest rates in markets outside Japan, which started at the beginning of the year, and the 10-Year Bond interest rate reached 0.230% on February 10, resulting in the launch of a fixed-rate purchase operation for the first time since July 2018. Due to the significant upward shift in 10-Year Bond interest rates, it is still unclear what the appropriate level is for the ultra-long-term zone, and especially since February, price movements have continued to be volatile, particularly in the ultra-long-term zone.

Increasing geopolitical risks have caused energy prices to rise further, causing global inflation rates to remain high, and the hawkish stance of central banks in each country which started at the beginning of the year is likely to continue for the time being. Even with the ECB, where a negative interest rate policy was introduced, there is a growing movement to seek a rate hike this year. The CPI is also expected to temporarily exceed 2% in Japan since a new Governor will be appointed in the spring of 2023 and as concerns about monetary policy normalization continue to smolder.

Under the YCC policy, while price fluctuation with 10-Year Bonds are likely to be limited, interest rates for 10-Year Bonds are rising close to the upper limit of the range (0.20% level), and the positive interest rate level for 5-Year Bonds is fixed. Therefore, it seems that the demand for traditional 20-Year Bonds has shifted considerably to 10-Year Bonds, and the demand for 10-Year Bonds has shifted to 5-Year Bonds. In response to the hawkish stance of central banks outside Japan, some are saying that “JGBs will make a comeback next year.” However, from our perspective, the market environment is likely to continue to cause the balance of supply and demand to worsen in the ultra-long-term zone.

・ Interest rates continue to rise, especially in the US Treasury market, which impacts JGBs as volatility continues. There is limited movement with 10-Year Bonds because of YCC, but value tends to jump and curve distortion is becoming more noticeable in the ultra-long-term zone where there is less influence by YCC. Based on JGB investor trading trends, it seems that the balance of supply and demand in the ultra-long-term zone will not suddenly collapse. However, the decline in liquidity in the ultra-long-term zone may lead to unexpected fluctuations. Therefore, we feel it is necessary for both the debt management office and market participants to exercise caution.

・ Interest rates have risen globally since the beginning of the year due to changes in the stance of central banks in response to inflationary pressures in overseas markets, and JGB interest rates have also risen significantly. We expect the same phenomenon to continue in the Japanese market based on speculation about the direction of the monetary policy, and since we believe the situation will continue to be volatile in 2022, it will be necessary to frequently confirm YCC support.

・ Interest rates continue to rise overall. Factors include rising interest rates overseas, speculation about BOJ policy normalization, and timing factors related to the end of the fiscal year. Therefore, it is necessary to focus on the impact that the BOJ's 10-year 25 bps continuous fixed-rate purchase operation has on the curve.

・ We expect YCC to continue placing a restraint on 10-Year Bond yields for the time being. However, in the market, we see yen depreciation pressure due to interest rate fluctuation, and we expected the trading environment to continue to become more volatile than in recent years since there is the possibility of changes in the BOJ's monetary policy. We are also aware that the ECB tightening process could make Japan's policy rate the lowest among major countries, resulting in capital flow volatility.

・ There was a temporary purchasing time zone in the first half of March due to the risk-lowering trend. However, domestic interest rates are gradually trending upward due to the gradual rise in global interest rates. The difference in monetary policy between the US and other countries and the BOJ has had a major impact, and we believe that this difference in interest rates with other countries will continue to widen for now.

・ As the FRB and ECB became hawkish, only the BOJ continued discussions away from policy normalization, making the divergence in monetary policy more obvious. This has helped to maintain the momentum in the foreign exchange market despite the recent rapid depreciation of the yen and appreciation of the dollar. Even if the momentum slows down in the future, the yen will continue to depreciate and the dollar to appreciate as long as the divergence in monetary policy continues.

Regarding the JGB market, if the yen depreciates rapidly, it is inevitable that speculation about monetary policy normalization will come into play. Although the interest rate level itself will of course be held back by fixed-rate purchase operations, if easing measures are taken, we expect the yen to depreciate further in the foreign exchange market. Even if the upward pressure on interest rates is suppressed by fixed-rate purchase operations, if the foreign exchange market gains attention, speculation on monetary policy normalization will again come into play. The yen will continue to be weaken and the dollar will continue to strengthen as long as the monetary policy remains unchanged, and we expect the upper limits of interest rates to be tested in certain situation. Based on this, together with Governor Kuroda's term coming to an end next year, we feel that interest rates will likely continue to test higher prices in regard to monetary policy.

On the other hand, as we look to the next fiscal year and beyond, we expect investment funds to flow into JGBs as most loans and operations connected with the pandemic come to an end. We believe this will raise the demand for JGBs despite monetary policy speculation.

Since the environment makes it easy for both buying and selling to become complicated, we want to engage in appropriate market making activities and contribute to smooth market development. From this perspective, we would like to continue improving communication with the debt management office.

・ The change in the monetary policy stance by central banks outside Japan has intensified speculation on the BOJ regarding early policy revisions. Therefore, investors are taking a wait-and-see approach based on the sharp and significant rise in interest rates. We thought that selling would settle down once the fixed-rate purchase operation at a 10-year interest rate of 25 bps was offered. However, this triggered a short cover in the 10-year zone, and there were significant sales of other zones, especially the ultra-long-term zone. As interest rates outside Japan fluctuate significantly, we also expect interest rates in Japan to continue to fluctuate significantly.

・ The yield level rose and fluctuated this year due to factors including (1) speculation on the BOJ changing the monetary policy, (2) a rise in US interest rates & FRB interest rates, and (3) the situation in Ukraine. However, the fixed-rate purchase operation by the BOJ on February 14 currently plays a role in preventing the 10-Year Bond yield from rising above 0.25%. Buying on decline by investors can be seen everywhere, especially in the ultra-long-term zone. However, a number have incurred latent losses in areas where they have already made purchases, and aggressive buying is not observed. Recovery of liquidity is also extremely limited, especially with off-the-run bonds.

As for the future, from April, the year-on-year rate of change in consumer prices (excluding fresh food) will likely exceed 2%, and speculation related to (1) will be recognized as a factor in increasing yields. Factor (2) is rising interest rates in Japan in response to rising interest rates in the United States. However, it would be good for changes in the yield curve to flatten for US Treasuries, including twists. Therefore, in general, we do not expect the 10-Year Bond yield to exceed 0.25%. Factor (3) remains an uncertainty. Prolonged economic sanctions on Russia will likely cause stagflation with the world economy. Combined with (2) aggressive rate hikes by the FRB and balance sheet compression, the possibility of sudden risk lowering such as a sharp drop in stock prices cannot be ruled out.

We consider the 10-Year Bond yield to be in the core range of 0.10 to 0.25%.

・ The market will move according to the BOJ's policies and the size of issuance. Therefore, we want you to give priority to the opinions of the top bidders.

・ As interest rates have begun to rise in the US and monetary normalization is progressing globally, the domestic bond market has remained unstable since the beginning of the year, especially in the ultra-long-term zone, since the outlook for the BOJ's monetary policy remains uncertain. In this situation, each auction seems to have a greater impact on the market than before. Therefore, we feel there is a risk that market volatility will increase further depending on the BOJ's stance on JGB purchases. We want related agencies to continue working closely together and to maintain close communication with the market.

・ The JGB market has had a positive attitude as prices rise according to interest rate trends outside Japan. However, the BOJ's fixed-rate purchase operation is rapidly weakening the motivation for rising interest rates. Also, we are concerned that the disappointing situation of the JGB market, which fails to reflect fundamentals, etc., will also continue this year.

・ At the time of the last meeting, although interest rates remained low and the balance between supply and demand was tight, the Japanese bond market has become somewhat unstable as interest rates outside Japan rise sharply. It is expected to remain highly volatile as factors of rising interest rates remain, such as resource and food prices rise, import prices increase due to yen depreciation, and the additional economic measures to mitigate the impact on people's lives. We are concerned that even if the pandemic becomes under control and the economy normalizes in the future, if the growth rate does not increase and public finances do not improve, there will be a greater possibility of a downgrade.

・ Compared to interest rate trends in other countries, JGB interest rates have been relatively limited. However, the fluctuation range is expanding mainly in the ultra-long-term zone. Therefore, we want to focus on demand trends such as 40-Year Bonds, which will increase next fiscal year.

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