

## November BOJ JGB Purchases

### Fewer offers, smaller monthly purchases and broken rule of thumb

- ✓ In November, the BOJ will offer fewer purchases in the 1-5Y zone with larger offer amount per operation than October. The monthly purchase amount in the zone, however, is likely to decline v. October. The impact from a substantial increase in offer amount per operation with fewer opportunities to sell to the BOJ warrants attention.
- ✓ It may be the zone over 10Y the BOJ will think about trimming buying as its next step.

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On October 31, the BOJ released its JGB purchase guideline for November (*Outline of Outright Purchases of Japanese Government Securities*). The major changes in comparison with the October guideline are as follows (also see Table 1).

- ✓ The number of offers in the 1-5Y zone cut to four (from five in September and October).
- ✓ In line with this, the offer ranges per operation in the 1-3Y zone and the 3-5Y zone are revised upward.
  - The 1-3Y zone: from 200-400bn yen (median of 300bn yen) to 250-450bn yen (350bn yen)
  - The 3-5Y zone: from 250-450bn yen (median of 350bn yen) to 300-550bn yen (425bn yen)
- ✓ The monthly purchase amount in the 1-5Y zone is reduced from October.
  - The 1-3Y zone: from 1.5tn (=300bn yen x 5 times) to an estimated 1.4tn yen (=350bn yen x 4 times)
  - The 3-5Y zone: from 1.75tn yen (=350bn yen x 5 times) to an estimated 1.68tn yen (=420bn yen<sup>1</sup> x 4 times)
- ✓ No plan to offer to purchase on the day after auction days for coupon-bearing JGBs in the corresponding maturity segment (excluding 10Y JGBs and enhanced-liquidity auctions)
  - As a rule of thumb to date, the BOJ offered to make purchases on the day after auction days for coupon-bearing JGBs (including enhanced-liquidity auctions, but excluding 2Y JGBs and JGBis) in the corresponding maturity segment.
  - The BOJ plans to offer to make purchases in the over 10Y zone on the day before the 40Y JGB auction.
- ✓ The BOJ plans to offer to make purchases in the over 10Y zone on the day before the 40Y JGB auction.
  - As a rule of thumb to date, the BOJ did not offer to make purchases on the day before auction days for coupon-bearing JGBs (excluding 2Y JGBs and JGBis) in the corresponding maturity segment.

As JGB market participants anticipated the possibility of purchase operations being avoided on the day after JGB auctions to some extent, the skipping was largely in line with expectations. On the other hand, as they saw a low possibility of fewer offers and smaller monthly purchase amounts, the November guideline came as a surprise. Probably because of this, the JGB futures faced strong selling pressure after the release, pushing down the December contract price to 150.51 yen at one point during the evening session (0.12 yen lower than the closing price). For the 1-5Y zone, this is the second time for the BOJ to trim buying by few offers and larger offer amount per operation under the YCC. We need to carefully monitor the impact from fewer offers and a substantial increase in the offer amount per operation going forward.

In the 5-10Y zone, meanwhile, both the number of offers and the offer range are kept unchanged, and the BOJ will offer purchase on the day after the 10Y JGB auction. As the 10Y JGB yield has been moving within the assumed operational target range in reaction to

<sup>1</sup> Although the median of the new range is 425bn yen, the BOJ never offered to make purchases in 5bn yen increments, excluding JGBis. Given that the BOJ is likely to reduce JGB purchases, we expect the first offer amount in November to be 420bn yen.

external factors, the BOJ appears to have avoided doing something the Bank itself will provide volatility to the 10Y JGB yield, the long-term policy interest rate. If the 5-10Y zone is sort of “sacred” for the BOJ, it may be the zone over 10Y the Bank will think about trimming buying as the next step, for example, by offering fewer and purchasing less per month.

**Table 1: BOJ JGB Purchase and MOF Issuance**

(Yen billions)

		Offer size per operation*		Number of Offers (per month)	Offer size**	Monthly Total exp.	MOF issuance per month in FY2018***
			Mid				
<b>JGBs ex Linkers and Floaters</b>							
Up to 1 year		About 10-100	55	2	50	100	-
Over 1 to 5 years	Over 1 to 3 years	About 250-450	350	4	350	1,400	2,247-2,647
	Over 3 to 5 years	About 300-550	425		420	1,680	2,140
Over 5 to 10 years		About 300-600	450	5	450	2,250	2,954
Over 10 years	Over 10 to 25 years	About 150-250	200	5	180	900	1,070-1,320
	Over 25 years	About 10-100	50		50	250	999 - 1,177**
Linkers		About 25	-	2	25	50	428***
Floaters (in even months)		About 100	-	1	100	100	-

\* Scheduled by BOJ as of end-Oct. 2018 \*\* Expected offer size for the first operation; change from the previous operation in red

\*\*\* Including the 2nd Non-competitive (est.) and AELs (est.). Per-issuance size for Linkers, which are issued quarterly

Source: Bank of Japan, Ministry of Finance, compiled by Daiwa Securities

**Table 2: November BOJ JGB Purchase Schedule**

BOJ offer day / JGB auction day	(BOJ start day/ MOF settlement day)	Up to 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 to 25 years	Over 25 years	JGB Linker
11/1/18 TH	11/2/18	<b>10Y JGB Auction</b>						
11/2/18 F	11/5/18		◎	◎	◎			
11/5/18 M	11/6/18	○				◎	◎	
11/6/18 T	11/7/18	<b>10Y JGBi Auction</b>						
11/7/18 W	11/8/18							
11/8/18 TH	11/9/18	<b>AEL (2Y, 5Y, 10Y and 20Y JGBs with over 1 to 5 years to maturity)</b>						
11/9/18 F	11/12/18		◎	◎		◎	◎	
11/12/18 M	11/13/18				◎			○
11/13/18 T	11/14/18	<b>30Y JGB Auction</b>						
11/14/18 W	11/15/18							
11/15/18 TH	11/16/18	<b>5Y JGB Auction</b>						
11/16/18 F	11/19/18				◎	◎	◎	
11/19/18 M	11/20/18	○	◎	◎				
11/20/18 T	11/21/18	<b>20Y JGB Auction</b>						
11/21/18 W	11/22/18							
11/22/18 TH	11/26/18	<b>AEL (10Y and 20Y JGBs with over 5 to 15.5 years to maturity)</b>						
11/23/18 F	-	<b>Public Holiday (Labor Thanksgiving Day)</b>						
11/26/18 M	11/27/18				◎	◎	◎	
11/27/18 T	11/28/18	<b>40Y JGB Auction</b>						
11/28/18 W	11/29/18		◎	◎				○
11/29/18 TH	12/3/18	<b>2Y JGB Auction</b>						
11/30/18 F	12/3/18				◎	◎	◎	

Note: ◎ Scheduled by the BOJ, ○ Daiwa forecast (as of Oct. 31)

Source: Bank of Japan, Ministry of Finance, Daiwa Securities

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#### [Standard & Poor's]

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