

JGB Insight

Seasonality of Monetary Base and BOJ Purchases

- ✓ Monetary base may remain below 500tn yen until Feb
- ✓ Substantial increase in TDB offer amount is supportive for monetary base
- ✓ For strong seasonality, meanwhile, probability may be low that BOJ will adjust offer amounts in consideration of short-term change in monetary base
- ✓ In Feb, TDB offer amount per operation likely to be unchanged at 500bn yen; substantial cut in JGB purchases is unlikely

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Peaking at 506tn yen in October 2018, monetary base may go below 500tn yen toward Feb

At its Monetary Policy Meeting on January 22-23, the BOJ decided to maintain the current monetary policy by majority vote. Consequently, the Bank will “continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner”. Nevertheless, on an end-term outstanding basis, the monetary base has been leveling off around 500-505tn yen after increasing to the 500tn yen level in June 2018 (Chart 1). On a daily basis, the monetary base has been lower than 500tn yen since the beginning of 2019. Partly because of this, there is a possibility that the monetary base outstanding at end-January 2019 will end up around 500tn yen for the first time since May 2018. We find a strong tendency that shortage of funds widens in January and February in comparison to December because of the seasonality of surplus/shortage of funds (Chart 3). This indicates a tendency that both the current account balances and monetary base in January and February decline from December (charts 4-5). The monetary base may remain below 500tn yen until February.

Substantial increase in TDB offer amount supportive for the BOJ to keep monetary base up

In the environment where the monetary base is expected not to expand in the near term, the BOJ has increased the offer amount per operation for Treasury Discount Bills (TDBs) in January purchase operations to 500bn yen (from 100bn yen in the last operation in Dec). The number of monthly offers is expected to decrease from four in December to three in January. However, if the offer amount in next operation is kept at 500bn yen, the monthly purchase amount would substantially increase from 400bn yen in December to 1.5tn yen in January. As a relatively large amount of shortage of funds is anticipated also in February, the BOJ may keep the TDB offer amount unchanged at 500bn yen. If the number of offers is four in February, the monthly purchases will amount to around 2tn yen. If we assume that the pace of JGB purchases does not slow down from the current pace (i.e., no reduction in Feb, either), the monetary base would be able to avoid falling to the level far below 500tn yen.

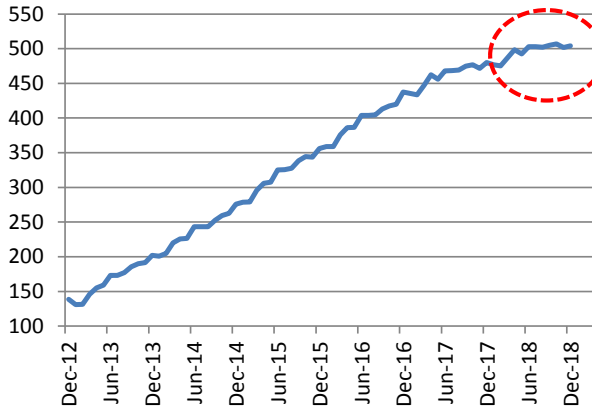
Strong seasonality, meanwhile, probability may be low that BOJ will adjust offer amounts in consideration of short-term change in monetary base

On the other hand, funds have a strong tendency of posting surplus in March. We thus expect the monetary base in March to increase substantially m/m (charts 3-5). If we consider the strong seasonality of surplus/shortage of funds and the trend of increase/decrease in the monetary base throughout the year, the purchase amount of TDBs, a buffer on the BOJ's balance sheet, could change significantly more than that of JGBs. If we assume that daily market operations will be conducted in line with the directive, in which the yield curve is adjusted under the framework of the Yield Curve Control (YCC) policy, the probability may be low that the BOJ will adjust the offer amounts in consideration of a short-term change in the monetary base.

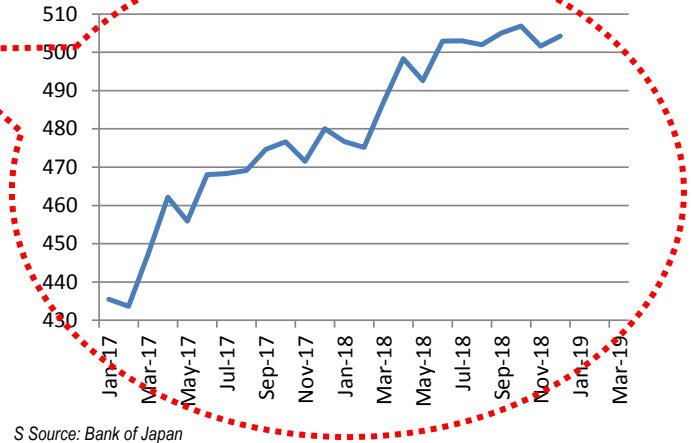
In Feb, TDB offer amount per operation likely to be unchanged at 500bn yen; substantial cut in JGB purchases is unlikely

Given all above, we anticipate TDB purchase operations in February as follows: per-operation offer amount of 500bn yen or slightly higher depending on market trends, the offer frequency of four, and monthly purchase amount of at least 2tn yen. Regarding JGB purchases, if the BOJ reduces the purchase amount in February vs. January, the amount to offset shortage of funds via monetary operations is expected to decline. Partly because of

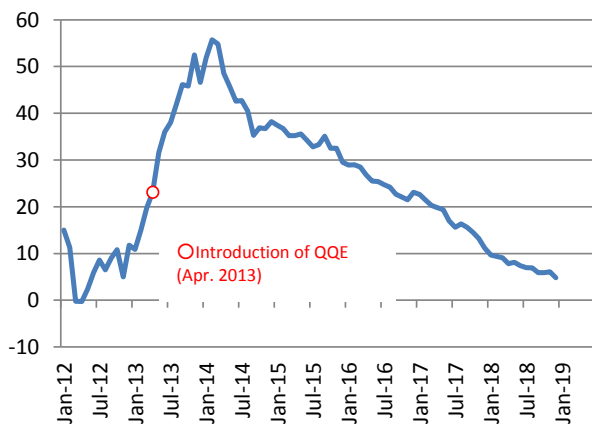
this, the BOJ is unlikely to reduce the purchase amount substantially, although such moves depend on market and supply/demand conditions.

Chart 1a: Monetary Base (Yen trillions, end month)


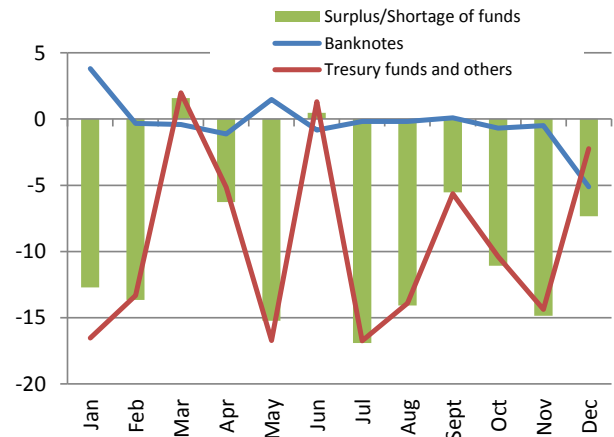
Source: Bank of Japan

Chart 1b: Monetary Base (Yen trillions, end month)


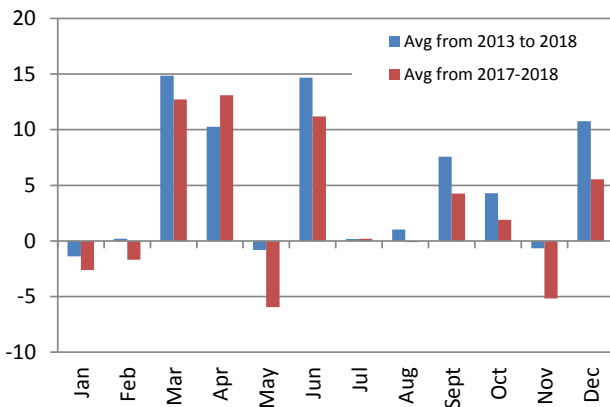
Source: Bank of Japan

Chart 2: Monetary Base y/y Growth (%): Another sign of stealth tapering???


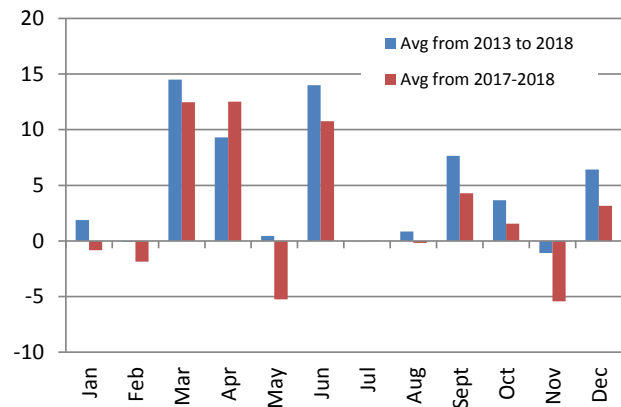
Note: % change from a year earlier in average amounts outstanding
 Source: Bank of Japan

Chart 3: Seasonality of Surplus/Shortage of Funds (Yen trillions, average from 2013 to 2018)


Source: Daiwa Securities

Chart 4: Trend of Change in Monetary Base (Yen trillions, m/m)


Source: Daiwa Securities

Chart 5: Trend of Change in Current Accounts Balances (Yen trillions, m/m)


Source: Daiwa Securities

[Appendix] BOJ Balance Sheet and Monetary Base (Yen trillions)

	end 2012	end 2013	end 2014	end 2015	end 2016	end 2017	end 2018	2019			Policy target/ Guideline
								Jan est.	Feb est.	Mar est.	
Monetary Base	138.5	201.8	275.9	356.1	437.4	480.0	504.2	501.6	499.9	512.6	Expansion
(Breakdown of the Balance Sheet)											
JGBs	89.2	141.6	201.8	282.0	360.7	418.5	456.1	-	-	-	about 80
CP	2.1	2.2	2.2	2.2	2.3	2.2	2.0	-	-	-	-
Corporate bonds	2.9	3.2	3.2	3.2	3.2	3.2	3.2	-	-	-	-
ETFs	1.5	2.5	3.8	6.9	11.1	17.2	23.5	-	-	-	about 6
J-REITs	0.11	0.14	0.18	0.27	0.36	0.45	0.50	-	-	-	about 0.09
Loan Support Program	3.3	8.4	23.4	29.8	38.8	47.1	44.8	-	-	-	
FSOP-DA*	0.44	0.38	0.33	0.31	0.51	0.51	0.68	-	-	-	
TDBs	24	40	49	43	50	22	11	-	-	-	
FSOPC**	26.9	8.4	23.4	29.8	38.8	47.1	44.8	-	-	-	
Total assets (incl. others)	158.4	224.2	300.2	383.1	476.5	521.4	552.1	-	-	-	
Banknotes	86.7	86.7	90.1	93.1	98.4	102.5	106.7	-	-	-	
Current deposits	47.2	47.2	107.1	178.1	253.0	330.2	368.5	367.6	365.8	378.3	
Total liabilities and net assets (incl. others)	158.0	224.2	300.2	383.1	476.5	521.4	552.1	-	-	-	

* Funds-supplying operation to support financial institutions in disaster areas, etc ** Fund Funds-supplying Operations against Pooled Collateral

Note: As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively; Daiwa estimates for Jan. to Mar. 2019, based on the trend in Jan. to Mar. 2018

Source: Bank of Japan, Daiwa Securities

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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May 2018

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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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