

JGB Insight

BOJ's JGB purchases in March 2019

- ✓ The number of offers in the 5-10Y zone reduced to four
- ✓ Offer amount in first operation of month expected to increase by 50bn yen from previous amount to 480bn yen; monthly purchase amount expected to decline by 230bn yen vs. Feb.
- ✓ Trimming in the 1-5Y zone is also likely
- ✓ Annual increase in JGB purchases estimated at only slightly below 17tn yen

[BOX] March-June 2019 JGB Futures Roll

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The number of offers in the 5-10Y zone reduced to four

In its JGB purchase guideline for March (Outline of Outright Purchases of Japanese Government Securities) announced on February 28, the BOJ reduced the number of offers in the 5-10Y zone from five until February to four. In line with the cut, the upper limit of the offer range was lifted from 600bn yen to 650bn yen. Meanwhile, the BOJ is to continue to offer to make purchases in this target zone on the day after the 10Y JGB auction. As many market participants did not anticipate major changes to the March guideline, the JGB futures declined substantially and the 10Y JGB yield also rose to -0.015% after the announcement (as of 18:00 on February 28).

Offer amount in first operation of month expected to increase by 50bn yen from previous amount to 480bn yen; monthly purchase amount expected to decline by 230bn yen vs. Feb.

Reflecting this change, the possibility appears high that the offer amount in the 5-10Y zone in the first operation in March will increase to, for example, 480bn yen, up 50bn yen from the previous amount. We expect that because when the BOJ reduced the number of offers in the 1-5Y and 5-10Y zones alongside the rise in the upper limit of the offer ranges in its operations thus far, it increased the offer amount in the first operation of the month by 50bn yen each from the previous amount (regardless of the median of the new range). On a monthly basis, the purchase amount is expected to decline by 230bn yen compared to February.

Trimming in the 1-5Y zone is also likely

Regarding other zones, the possibility of a cut in the offer amounts is high especially in the 1-5Y zone from the viewpoint of reduction in the FY19 JGB issuance amount. This is especially so, as the BOJ would have an easier time reducing its JGB purchases if the yen remains weak due to mounting speculations on the central bank's additional easing. We are unable to deny the possibility of trimming of the offer amount in as early as the first operation of the month, in which the BOJ can technically reduce the offer amount, similar to the revision to the JGB purchase guideline. Otherwise, the BOJ would try to find the opportunity for trimming throughout the month, monitoring the forex and stock price trends.

Annual increase in JGB purchases estimated at only slightly below 17tn yen

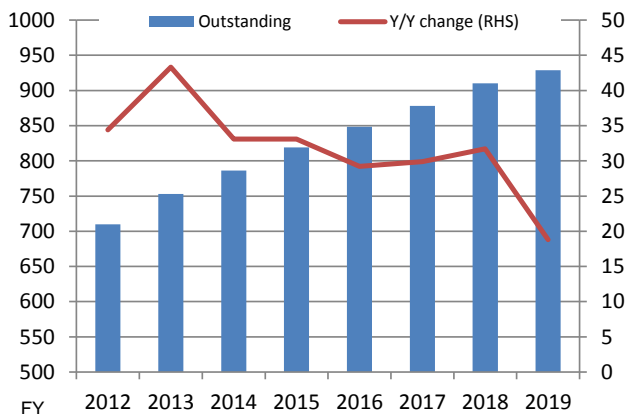
Reflecting the change in the operation guideline, we estimate the BOJ's JGB purchase amount. Assuming the offer amounts from April will be 480bn yen in the 5-10Y zone, 330bn yen in the 1-3Y zone (down 200bn yen from previous operation), 380bn yen in the 3-5Y zone (down 200bn yen), and no change in other zones, we estimate that the increase in the annual JGB purchase amount at end-FY19 will be slightly below 17tn yen. This amount is less than the annual increase in the amount of JGBs outstanding. As we see that the probability of a cut in the offer amount in the 1-5Y zone in the first operation in March is currently at 25-50%, this is a quite aggressive estimate. However, once a series of reductions are completed, the hurdle for the subsequent reductions would be much higher than the one the BOJ has had.

BOJ JGB Purchases (Yen billions)

		Offer size per operation*		Number of Offers (per month)	First offer size in March (exp)**	Monthly Total exp.	MOF issuance per month in FY2019***
			Mid				
JGBs ex Linkers and Floaters							
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	2,000
	Over 3 to 5 years	About 300-550	425		400	1,600	1,900
Over 5 to 10 years		About 300-650	475	4	480	1,920	2,100
Over 10 years	Over 10 to 25 years	About 150-250	200	4	180	720	900
	Over 25 years	About 10-100	50		50	200	77 - 1,100**
Linkers		About 25	-	2	25	50	400***
Floaters (in even months)		About 100	-	1	100	100	-

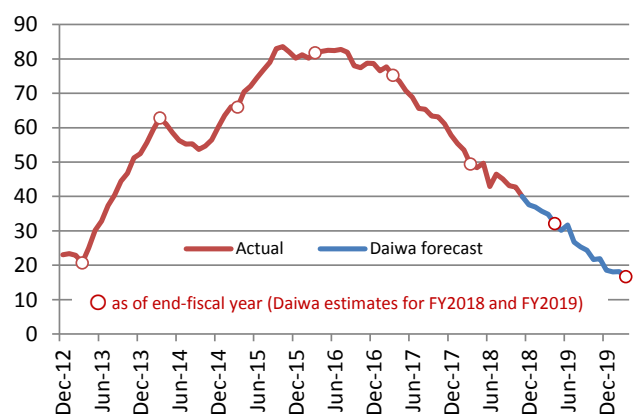
* Scheduled by BOJ as of end-Feb. 2019 ** Expected offer size for the first operation; change from the previous operation in red *** Excluding the 2nd Non-competitive (est.) and AELs (est.). Per-issuance size for Linkers, which are issued quarterly

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

JGB Issuance Outstanding (Yen trillions)


Note: Actual up to FY2017; the second supplementary budget basis for FY2018(including 55 trillion yen of front-loading issuance of refunding bonds); the initial budget basis for FY2019 (including 53 trillion yen of front-loading issuance of refunding bonds)

Source: Ministry of Finance, Daiwa Securities

BOJ's JGB Holding YoY (Yen trillions)


Note: Daiwa forecast from February 2019

Source: Bank of Japan, Daiwa Securities

BOJ JGB Purchase Forecast (Yen trillions)

	Purchase amount (face value) <A>	Redemption (face value, as of Feb. 20*) 	Redemption of JGBs purchased after March 2019* (face value) <C>	Net purchase (face value) <A-B-C>	Outstanding (face value)	Outstanding (BOJ B/S)
Jan. 2019					448.6	
Feb.	6.35	1.35		5.00	453.7	465.7
Mar.	5.83	10.15		-4.32	449.3	461.3
Apr.	5.93	1.42		4.51	453.8	465.8
May	5.83	1.61		4.22	458.1	470.1
Jun.	5.93	8.96		-3.03	455.0	467.0
July	5.83	2.00		3.83	458.9	470.9
Aug.	5.93	1.41		4.52	463.4	475.4
Sept.	5.83	9.39	0.10	-3.66	459.7	471.7
Oct.	5.93	1.58	0.10	4.25	464.0	476.0
Nov.	5.83	1.24	0.10	4.49	468.5	480.5
Dec.	5.93	11.63	0.10	-5.80	462.7	474.7
Jan. 2020	5.83	1.70	0.10	4.03	466.7	478.7
Feb.	5.93	0.74	0.10	5.09	471.8	483.8
Mar.	5.83	11.53	0.10	-5.80	466.0	478.0
Total redemption**:				53.9	Annual increase***:	16.6

Note: Actual for Jan. 2019 and Daiwa estimates for Feb. 2019 to Mar. 2020; * as on BOJ start day; ** "Total redemption" from Apr. 2019 to Mar. 2020 Daiwa estimates; *** "Annual increase" at the end of FY2019 end vs. FY2018 end; current offer sizes assumed to be unchanged during this fiscal year and offer sizes from April 2019 to March 2020 as in the table below (in billions yen). The current number of offers per month assumed to be unchanged toward Mar. 2020.

	-1Y	1-3Y	3-5Y	5-10Y	10-25Y	25Y+	LNK	FRN	w/o FRN	w FRN
Offer size (bn)	50	330	380	480	180	50	25	100		
# of offers	2	4	4	4	4	4	2	1		
Monthly Total	100	1,320	1,520	1,920	720	200	50	100	5,830	5,930

Source: Daiwa Securities

[BOX] March-June 2019 JGB Futures Roll

Wednesday, March 13 is the last day of trading for the lead and most-active March 2019 JGB futures contract. In this report, we check the current progress in the March-June 2019 roll activities and think about near-term developments in the calendar spread.

Open interest of around 11tn yen, the lowest since December 2017 contract, vs. previous rolls at the same point

Since effectively becoming the lead JGB futures contract on December 12, the March 2019 contract, or JBH9, had mostly been in an uptrend. During the period, the open interest of JBH9, which stood at slightly below 13tn yen at the time of the rollover in December, decreased to 10tn yen toward the beginning of January, and then increased to slightly over 11tn yen toward the outset of February. Since then, the figure has been moving at around 11tn yen (Chart 1). This level is the lowest since December 2017 contract vs. previous rolls at the same point (Chart 2). Here, we would like to check positions held by players (Chart 4). Although foreign investors have accumulated long positions since mid-January, the figure declined last week when JBH9 hit a new high. Meanwhile, proprietary accounts have increased long positions since the beginning of February.

Quite slow pace

The JBH9-M9 roll is expected to take place in such an environment. As of February 28, nine trading days before the last trade day of JBH9, around 3.8% of JBH9 had been rolled over to the June 2019 contract, or JBM9, much slower than the average pace (around 7.7%) for previous rollovers by that point since the introduction of the yield curve control (YCC) policy (Chart 3).

From viewpoint of CTD spread, calendar spread is unlikely to tighten further from the current level

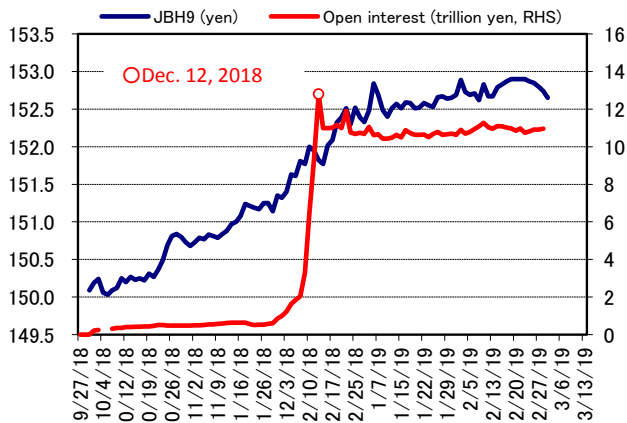
Amid the start of roll at a quite slow pace, the Mar-Jun 2019, or JBH9/JBM9 calendar spread, has tightened since the beginning of February (when the spread traded at 0.18 yen) amid very thin trading. This week, the JGB market has softened and the spread remained flat at around 0.08 yen. Today, the spread hit a new low at 0.07 yen. Looking at the CTD spread (JB342/JB343), we find that it has tightened from around 1.5bp to 0.5bp since the December rollover (Chart 8). The CTD spread has remained flat at around 0.5bp since we saw the calendar spread traded (on a closing price basis, Chart 7). On top of this, the

outstanding balance of JB343, CTD for JBM9, is around 1tn yen, slightly larger than around 800bn yen in JB342, CTD for JBH9. We think that further tightening in the CTD spread may be limited from the current level. From that point, we thus see that the calendar spread may not tighten from the current level significantly.

Calendar spread expected to widen by around 0.05 yen from the current level

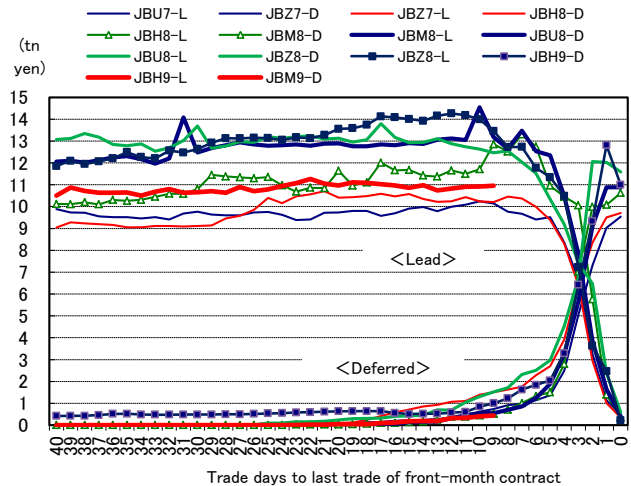
All in all, by the last trade day, we expect the calendar spread to widen by around 0.05 yen from the current level, although we need to carefully watch possible impact from the overseas markets, the trend of CTD repo rate, and activities related to curve positions.

Chart 1: JBH9 Close Price and Open Interest



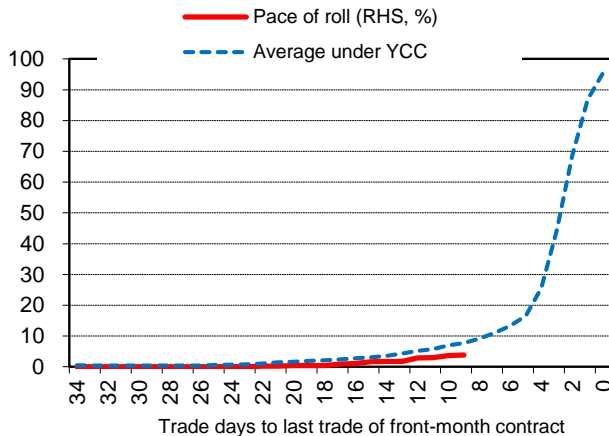
Source: Bloomberg

Chart 2: Open Interests at Previous Rolls



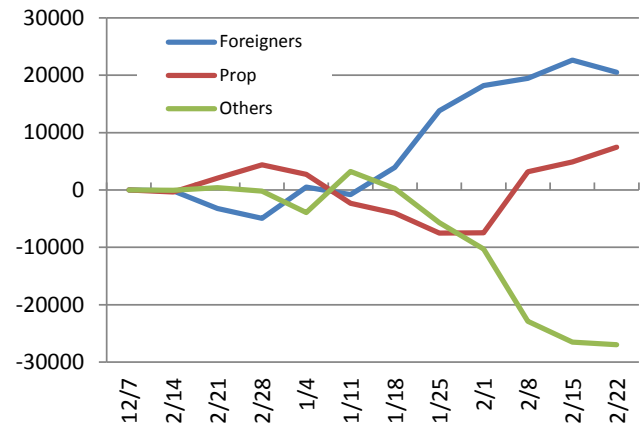
Source: Bloomberg

Chart 3: Progress of Roll



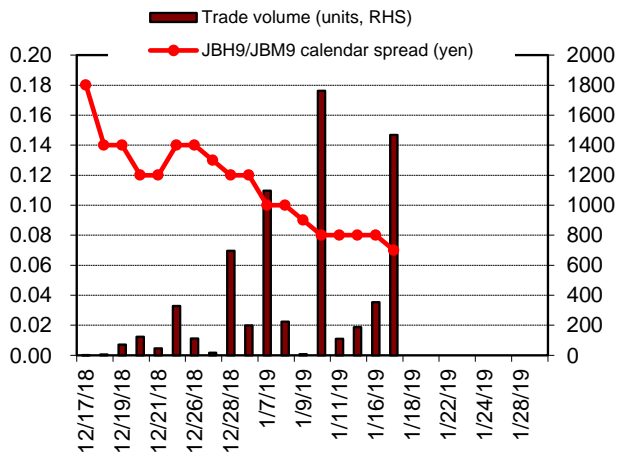
Source: Bloomberg, Daiwa Securities

Chart 4: Accumulative Position by Player Type



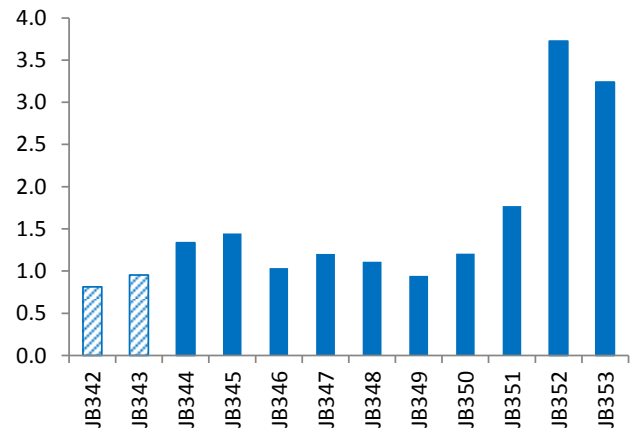
Note: Accumulating from the 1st week of December 2018
 Source: Osaka Exchange, Daiwa Securities

Chart 5: JBH9-M9 Calendar Spread



Source: Bloomberg

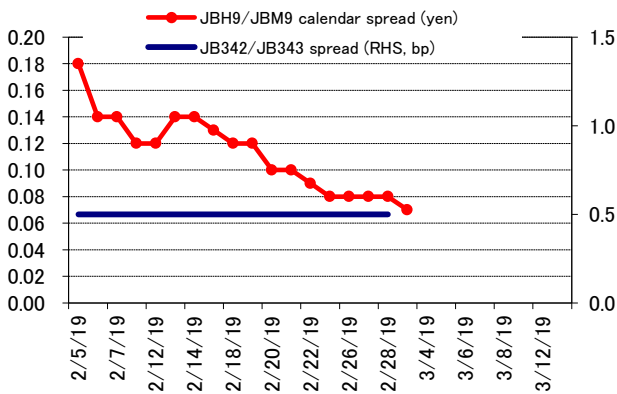
Chart 6: Market Outstanding of Deliverable JGBs



Note: as of Feb. 20 on a BOJ start basis; Yen trillions

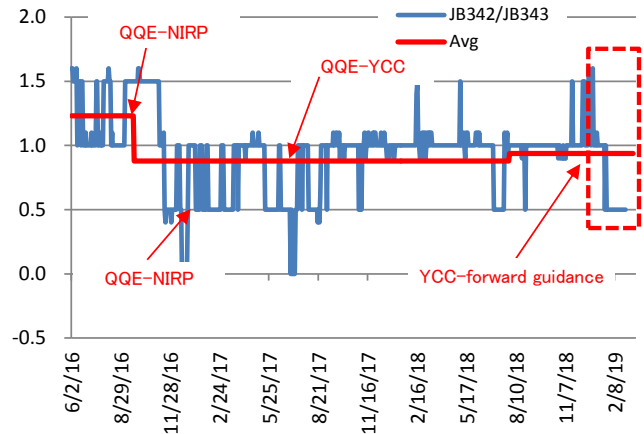
Source: Daiwa Securities

Chart 7: Calendar Spread and CTD Spread



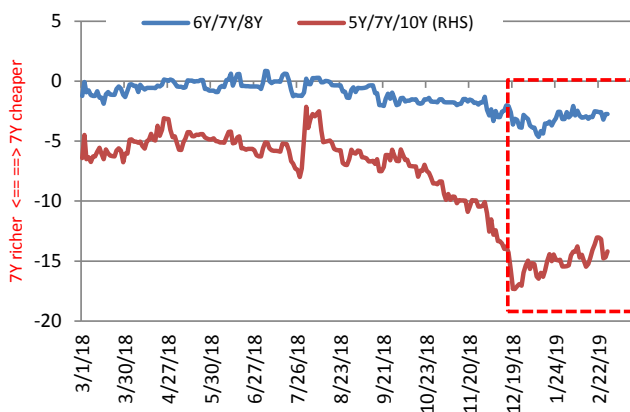
Source: Bloomberg, Daiwa Securities

Chart 8: JB342/JB343 Spread (bp)



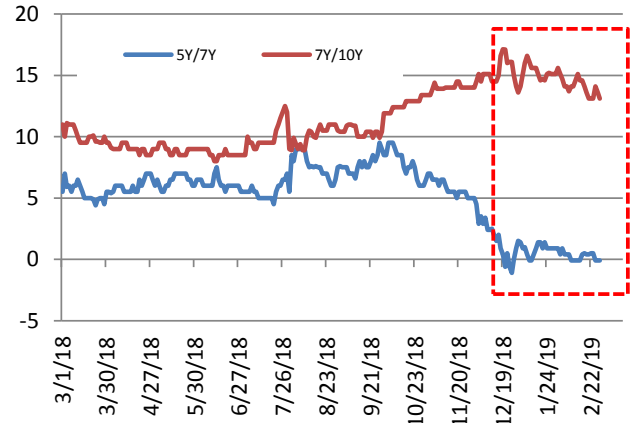
Source: Daiwa Securities

Appendix 1: JGB Butterfly Spreads (bp)



Source: Daiwa Securities

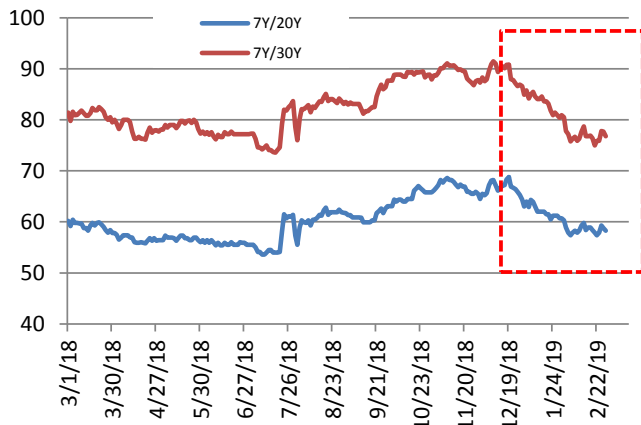
Appendix 2a: JGB Yield Spreads (bp)



Note: On-the-run and CTD basis

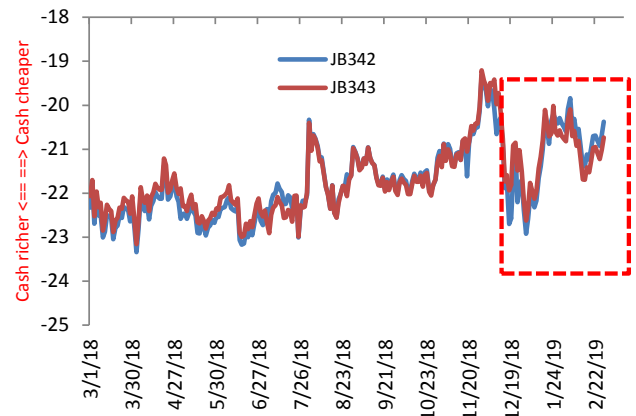
Source: Daiwa Securities

Appendix 2b: JGB Yield Spreads (bp)



Note: On-the-run and CTD basis
 Source: Daiwa Securities

Appendix 3: CTD Asset Swap Spreads (bp)



Source: Daiwa Securities

[Appendix] BOJ JGB Purchase Scheduled for March 2019

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
3/1/19 F	3/4/19							
3/4/19 M	3/5/19		◎	◎		◎	◎	
3/5/19 T	3/6/19	10Y JGB Auction						
3/6/19 W	3/7/19	○			◎			
3/7/19 TH	3/8/19	30Y JGB Auction						
3/8/19 F	3/11/19		◎	◎				○
3/11/19 M	3/12/19	5Y JGB Auction						
3/12/19 T	3/13/19				◎	◎	◎	
3/13/19 W	3/14/19	AEL (10Y and 20Y JGBs with over 5 to 15.5 years to maturity)						
3/14/19 TH	3/15/19	BOJ MPM (Day 2)						
3/15/19 F	-							
3/18/19 M	3/19/19	○	◎	◎				
3/19/19 T	3/20/19	20Y JGB Auction						
3/20/19 W	3/22/19				◎			○
3/21/19 TH	-	Public Holiday (Vernal Equinox Day)						
3/22/19 F	3/25/19	AEL (2Y, 5Y, 10Y and 20Y JGBs with over 1 to 5 years to maturity)						
3/25/19 M	3/26/19		◎	◎		◎	◎	
3/26/19 T	3/27/19	40Y JGB Auction						
3/27/19 W	3/28/19							
3/28/19 TH	4/1/19	20Y JGB Auction						
3/29/19 F	4/1/19				◎	◎	◎	

Note: ◎ Announced by the BoJ, ○ Daiwa forecast as of Feb. 28; BOJ MPM in blue (Day 1 on Mar. 14)

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

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[Standard & Poor's]

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