

JGB Insight

BOJ JGB Purchase in June 2019

- ✓ In the JGB purchase guideline for June, the BOJ reduced the number of offers in the over 10Y zone. It also made several new attempts under their policy to "conduct purchases in a flexible manner."
- ✓ The yield curve in the superlong zone may be volatile until the first offer amount in the over 10Y zone is confirmed.
- ✓ Annual increase in BOJ holding of JGBs estimated at slightly above 14tn yen vs. "80tn yen" in the latest monetary policy statement

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Number of offers in the over 10Y zone cut from four times to three

On May 31, the BOJ updated its JGB purchase guideline for June (Outline of Outright Purchases of Japanese Government Securities). Key points in the June guideline are as follows:

- ✓ The number of offers to make purchases in the over 10Y zone is reduced from four times in May to three times. In line with the cut, the upper end of the offer range in the 10-25Y zone was raised from 250bn yen (until May) to 300bn yen;
- ✓ A purchase operations in the 5-10Y zone is not planned on the following day of the 10Y JGB auction;
- ✓ A purchase operation in the over 10Y zone is not planned on the second business day after the 30Y JGB auction;
- ✓ The number of days on which the BOJ will buy JGBs is eight, unchanged from that in May.

There were some expectations that "if the BOJ tuches the guideline, it would reduce the number of offers in the over 10Y zone" prior to the release of the guideline. As an initial reaction to the release, however, we saw the JGB futures decline and better sellers for superlong JGBs.

Showing they are not immobile?

Since the monetary base expanded to the 500tn yen level in June 2018, it has been leveling around the level. In such a situation, it should be getting increasingly difficult for the BOJ to cut JGB purchases aggressively. Partly due to the recent movements of stronger yen/lower stock prices/decline in US Treasury yields, it appeared unlikely for the BOJ to conduct non-essential reductions. We can say that, by modifying the guideline, the BOJ sent a message to the market that they are not immobile under the "flexible operation" stance.

First offer amount in over 10-25Y zone expected at 200bn yen, and the amount in over 25Y zone may be 40bn yen or 50bn yen

Reflecting this revision, the first offer amounts in the over 10Y zone in June are garnering attention. At the moment, it is highly possible that the amount in the 10-25Y zone will be around 200bn yen (median of the new range), up 40bn yen from the figure in the final operation in May (monthly total purchase amount of 600bn yen, 40bn yen lower than that in May¹). Meanwhile, we expect the amount in the over 25Y zone to be 40bn yen, unchanged from the figure in the final operation in May (monthly total purchase amount of 120bn yen, 40bn yen lower than that in May) or 50bn yen, up 10bn from the figure in final operation in May (monthly total purchase amount of 150bn yen, 10bn yen less than that in May). This is because (1) the bid-to-cover ratios in the over 25Y zone at the latest operations have been high since the beginning of May and (2) the enhanced-liquidity auction of JGBs with over 15.5 years but less than 39 years left to maturity (issuance amount of around 600bn yen) is scheduled for the day before the first purchase operation in the over 10Y zone scheduled for June 7. Either way, as various speculations may mount until June 7, the yield curve is likely to be volatile especially in the superlong zone.

¹ When the number of offers in the over 10Y zone was revised from five times to four times in JGB purchase guideline for December 2018 (announced at end-Nov), the offer amount in the over 25 zone was unchanged from that in the final operation in November.

Regarding other zones, the first offer amounts may be kept unchanged from the amounts in the final operations in May in the sense that they need to hold some trumps for future trimming. In the purchase operation in the 1-5Y zone offered today (June 3), the offer amount was unchanged from the amount in the final operation in May. In the 5-10Y zone as well, the offer amount is likely to be kept unchanged from that in the final operation in May because the central bank plans to skip a purchase in the 5-10Y zone on the following day of the 10Y JGB auction for the first time.

Annual increase in BOJ holding of JGBs estimated at slightly above 14tn yen vs. “80tn yen” guideline

For reference, if we assume that the aforementioned first offer amounts will be unchanged (Table 2), the y/y increase in the BOJ's JGB purchase amount at end-FY19 is estimated at slightly above 14tn yen (Chart 2). With regard to the amount of JGBs to be purchased, the BOJ maintained the language of “amount outstanding will increase at an annual pace of about 80tn yen” in its statement in the latest April Monetary Policy Meeting.

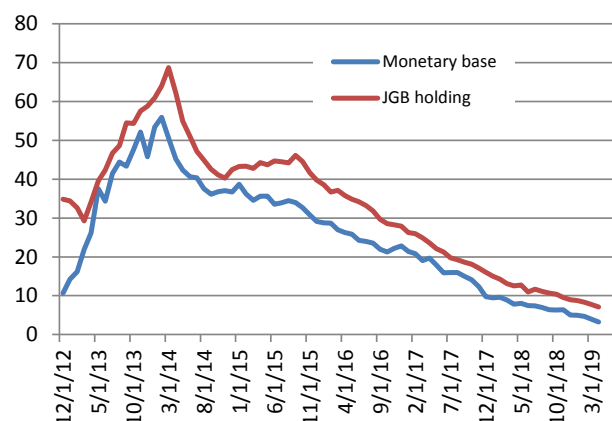
Table 1: BOJ JGB Purchase for June 2019

(Yen billions)

		Offer size per operation*		Number of Offers (per month)*	Offer size expected at the first operation in June**	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	1,800	2,100
Over 10 years	Over 10 to 25 years	About 100-300	200	3	200	600	900
	Over 25 years	About 10-100	55		40 or 50	120 or 150	700 - 1,100
Linkers		About 25	-	2	25	50	400
Floaters (in even months)		About 100	-	1	100	100	-

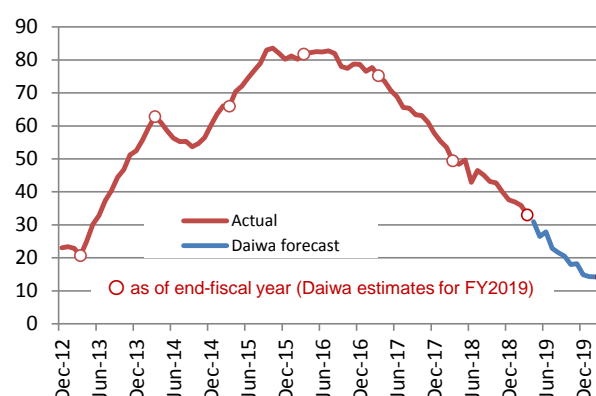
(Note) Change from May in red * Announced by BOJ on May 31, 2019 ** Daiwa forecast, actual for over 1 to 5 years *** Excluding NPC1 and AEL; JGB Source: Bank of Japan, Ministry of Finance (MOF), Daiwa Securities.

Chart 1: Monetary Base and JGB Holding: % YoY



Source: Bank of Japan, compiled by Daiwa Securities.

Chart 2: BOJ JGB Holding: y/y % Change



Note: Daiwa forecast for May 2019 and beyond
Source: Bank of Japan, Daiwa Securities.

Table 2: Scenario on Offer Size (Yen billions)

	-1Y	1-3Y	3-5Y	5-10Y	10-25Y	25Y+	LNK	FRN	w/o FRN	w/ FRN
Offer size (bn)	50	350	400	480	200	50	25	100		
# of offers	2	4	4	4	3	3	2	1		
Monthly Total	100	1,400	1,600	1,920	600	150	50	100	5,820	5,920

Source: Bank of Japan, Ministry of Finance (MOF), Daiwa Securities.

BOJ JGB Purchase Scheduled for June 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	JGB Floater
6/3/19 M	6/4/19	50.0	350.2	400.9					
6/4/19 T	6/5/19	10Y JGB Auction							
6/5/19 W	6/6/19								
6/6/19 TH	6/7/19	AEL (for 20Y, 30Y and 40Y JGBs with over 15.5 to less than 39 years to maturity)							
6/7/19 F	6/10/19				◎	◎	◎		
6/10/19 M	6/11/19		◎	◎				○	
6/11/19 T	6/12/19	AEL (for 10Y and 20Y JGBs with over 5 to 15.5 years or less to maturity)							
6/12/19 W	6/13/19								
6/13/19 TH	6/14/19	30Y JGB Auction							
6/14/19 F	6/17/19				◎				○
6/17/19 M	6/18/19								
6/18/19 T	6/19/19	5Y JGB Auction							
6/19/19 W	6/20/19	○				◎	◎		
6/20/19 TH	-	BOJ MPM (Day 2)							
6/21/19 F	6/24/19		◎	◎	◎				
6/24/19 M	6/25/19								
6/25/19 T	6/26/19	20Y JGB Auction							
6/26/19 W	6/27/19		◎	◎				○	
6/27/19 TH	7/1/19	2Y JGB Auction							
6/28/19 F	7/1/19				◎	◎	◎		

Note: ◎ Scheduled by BOJ, ○ Daiwa forecast as of June 3 ; BOJ MPM in blue (Day 1 on June 19); Figures for actual in billion yen

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

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[Standard & Poor's]

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[Fitch]

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May 2018

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