

## Outlook for 30Y JGB Auction

### Holding it neutral may be one option

- ✓ Tomorrow's auction is to be held at the lowest bidding yield level since the auction in July 2016 which had a quite poor result
- ✓ Nevertheless good auction is expected on the back of solid demand from real-money investors
- ✓ Meanwhile, we may need to carefully watch performance in the secondary market
- ✓ Place our bids to be able to take the necessary amount
- ✓ Maintaining existing flattening positions especially on 10Y/30Y and long positions in asset swaps

Strategic Memorandum DSTE312  
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### Auction Details

<b>Auction Date:</b>	June 13, 2019
<b>Issue Date:</b>	June 14, 2019
<b>Maturity Date:</b>	March 20, 2049
<b>Offering Amount:</b>	About 700 billion yen

\* New 30-year JGBs will be the final reopening of JX62 carrying a 0.5% coupon.

\*\* On June 12, JX62 traded at 0.340 - 0.355% (-1.0 - +0.5bp v. previous day's close), and closed at 0.340% (-1.0bp).

### Exp. Rating on Auction Results

1	2	3	4	5
Failed	Poor	Average	Good	Outstanding

**Tomorrow's auction is to be held at the lowest bidding yield level since the auction in July 2016 which had a quite poor result**

Since the previous auction for 30Y JGBs went well at the 0.530-0.535% on May 14, the 30Y JGB yield has sharply declined. This week, the yield declined to 0.350% on an intraday basis, the lowest level since August 2016. As of 15:00 today (Jun 12), the day before the auction, JX62 traded at 0.340-0.355% (-1.0 to +0.5bp vs. previous day's close). Tomorrow's auction is to be held at the lowest bidding yield level since the auction on July 12, 2016, immediately after the 30Y JGB yield hit a bottom. At that time, 30Y JGB auctions during April-July 2016, which were held at around the 0.4% or lower yield level, had a poor or average result amid the continued downtrend of superlong JGB yields (refer to data in the red box of 30Y JGB Auction Results table on the following page).

**Good auction expected on the back of solid demand from real-money investors**

Worries about the global economy are lingering partly because of factors that are unlikely to be resolved immediately, such as Brexit and trade frictions vs. the US. The increase in the number of market participants expecting Fed's multiple rate cuts in 2019, combined with mounting speculations on the BOJ's further easing (such as revision to forward guidance) and the possibility of additional easing (deepening of interest rate operational target in negative territory), makes market participants aware of the global yield downtrend. In such a situation, investors' appetite for superlong JGBs appears strong partly on activities to extend duration etc. We expect tomorrow's auction to go solidly as market sentiment is favorable especially for 30Y JGBs and short-covering from primary dealers appears strong.

**Needing to carefully watch 30Y JGBs performance in the secondary market**

On the other hand, we may need to carefully watch 30Y JGBs performance in the secondary market. At the current yield level and also on the yield curve shape, it is difficult to follow the trends of real money accounts in a fully optimistic stance because (1) noteworthy events are scheduled for next week, such as the FOMC meeting and the BOJ's Monetary Policy Meeting, (2) an auction is slated to be held on July 4 for new 30Y JGBs in new maturity basket to be redeemed in June 2049, and (3) the BOJ floor is now set for the 10Y JGB yield unlike the period of around July 2016.

**Placing our bids to be able to take the necessary amount/ maintaining existing flattening positions**

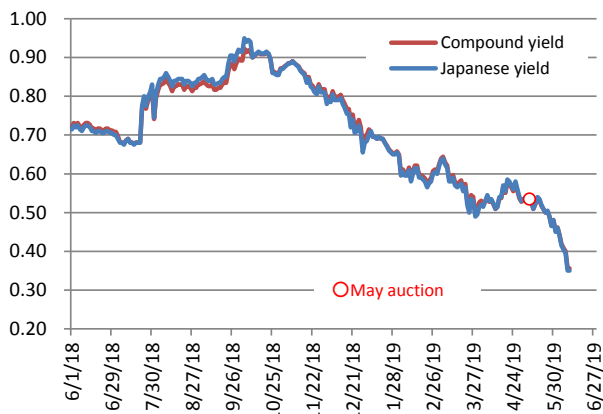
All in all, we would like to place our bids to be able to take the necessary amount at tomorrow's auction, measuring demand from real-money investors. In terms of the relative value, it is difficult to aggressively build new positions. Given the recent flattening trend, the 30Y sector is now quite rich on the curve (excluding the 40Y sector, appendixes 3-4). The 30Y asset swap spread also shows that 30Y cash is becoming more overvalued (Appendix 5). However, those trends are unlikely to show major reversals especially in the near term, which would enable us to maintain existing flattening positions (particularly 10Y/30Y, etc.) and long asset swap positions.

**30Y JGB Auction Results**

Auction Date	Issue #	Coupon (%)	Maturity	Amt Issued (billion yen)	B/C	Average Accepted Price (Yen)	Lowest Accepted Price (Yen)	Tail (Yen)	Average Accepted Yield (%)	Highest Accepted Yield (%)	Tail (%)	Allotment (%)	
6/13/19	62R	0.5	3/20/49	700*									
5/14/19	62R	0.5	3/20/49	699.4	4.65	99.23	99.20	0.03	0.529	0.531	0.002	96.5889	Good
4/4/19	62	0.5	3/20/49	747.3	4.55	98.96	98.90	0.06	0.540	0.542	0.002	18.8092	Good
3/7/19	61R	0.7	12/20/48	739.7	4.56	101.97	101.90	0.07	0.621	0.624	0.003	4.7619	Good
2/7/19	61R	0.7	12/20/48	699.1	4.72	102.85	102.80	0.05	0.587	0.589	0.002	63.1931	Good
1/10/19	61	0.7	12/20/48	762.2	4.03	99.62	99.60	0.02	0.715	0.716	0.001	87.3552	Good
12/11/18	60R	0.9	9/20/48	769.2	3.78	102.55	102.50	0.05	0.794	0.796	0.002	82.4455	Good
11/12/18	60R	0.9	9/20/48	758.3	3.99	100.60	100.55	0.05	0.874	0.876	0.002	64.4188	Good
10/11/18	60	0.9	9/20/48	706.4	3.92	100.04	100.00	0.04	0.898	0.900	0.002	69.4027	Good
9/11/18	59R	0.7	6/20/48	797.0	4.23	96.71	96.70	0.01	0.838	0.838	0.000	81.5511	Good
8/9/18	59R	0.7	6/20/48	744.1	4.68	96.41	96.35	0.06	0.850	0.853	0.003	73.4502	Avg
7/5/18	59	0.7	6/20/48	780.6	5.01	99.90	99.85	0.05	0.704	0.706	0.002	31.2024	Good
6/19/18	58R	0.8	3/20/48	785.1	4.22	102.27	102.20	0.07	0.707	0.710	0.003	39.1509	Avg
5/15/18	58R	0.8	3/20/48	795.6	4.41	101.31	101.30	0.01	0.746	0.746	0.000	91.8088	Good
8/9/16	51R	0.3	6/20/46	800.9	3.07	96.71	96.50	0.21	0.424	0.432	0.008	50.4725	Avg
7/12/16	51R	0.3	6/20/46	799.7	2.64	105.20	104.45	0.75	0.120	0.144	0.024	22.2857	Poor
6/7/16	51	0.3	6/20/46	918.3	3.42	99.59	99.45	0.14	0.314	0.320	0.006	87.1794	Avg
5/12/16	50R	0.8	3/20/46	799.4	3.01	113.10	112.70	0.40	0.319	0.332	0.013	79.6078	Poor
4/14/16	50R	0.8	3/20/46	828.3	3.39	111.02	110.35	0.67	0.388	0.411	0.023	33.3333	Poor
3/8/16	50	0.8	3/20/46	918.2	4.21	100.83	100.80	0.03	0.765	0.767	0.002	76.2871	Good

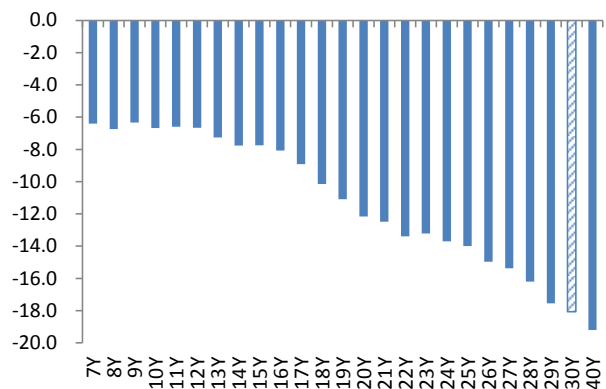
\* Amount the Ministry of Finance plans to issue  
Source: Ministry of Finance (MOF), Daiwa Securities.

**Appendix 1: 30Y JGB Yield (%)**



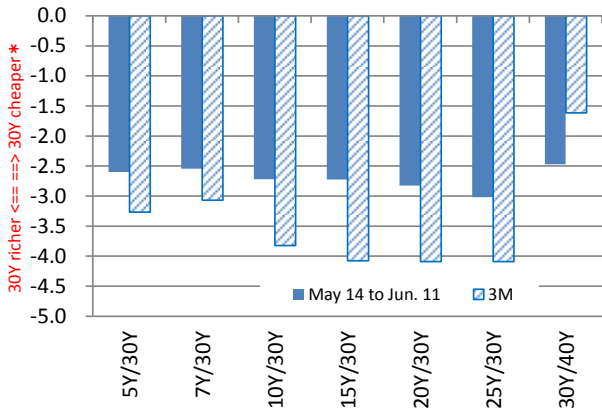
Source: Daiwa Securities.

**Appendix 2: JGB Yield Change (May 14 v. Jun. 11)**



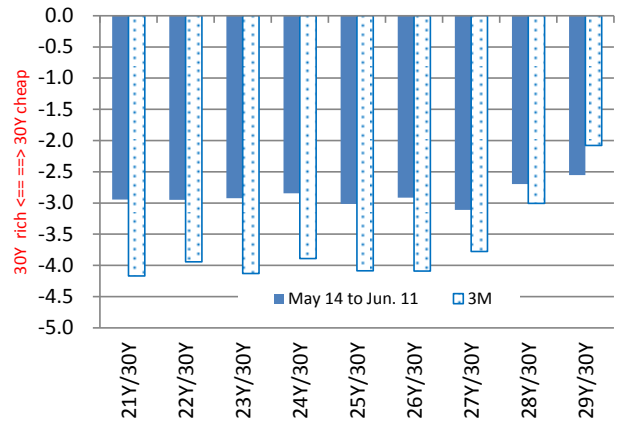
Source: Daiwa Securities.

**Appendix 3a: Z-scores of JGB Yield Spreads**



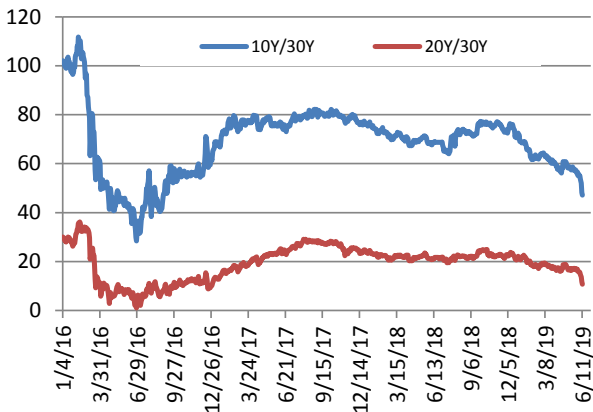
Note: For 30Y/40Y, 30Y richer at + and cheaper at - v. 40Y  
 Source: Daiwa Securities.

**Appendix 3b: Z-scores of JGB Yield Spreads**



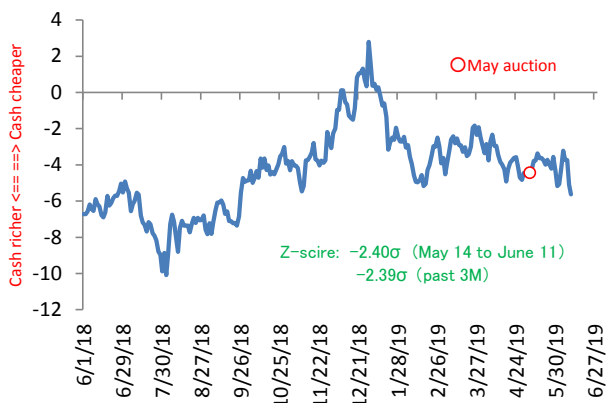
Source: Daiwa Securities.

**Appendix 4: 10Y/30Y and 20Y/30Y Spreads (bp)**



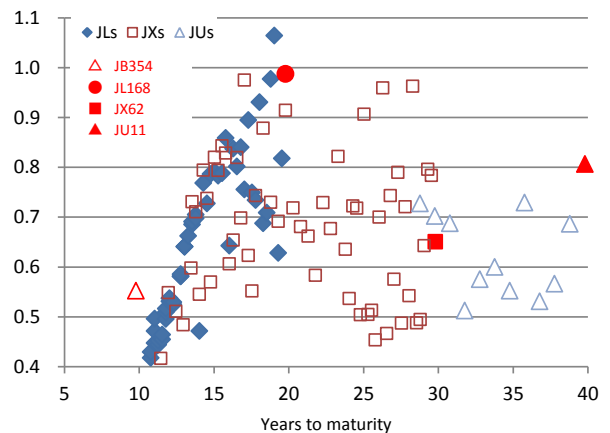
Note: On-the-run issue basis  
 Source: Daiwa Securities.

**Appendix 5: 30Y JGB Asset Swap Spread (bp)**



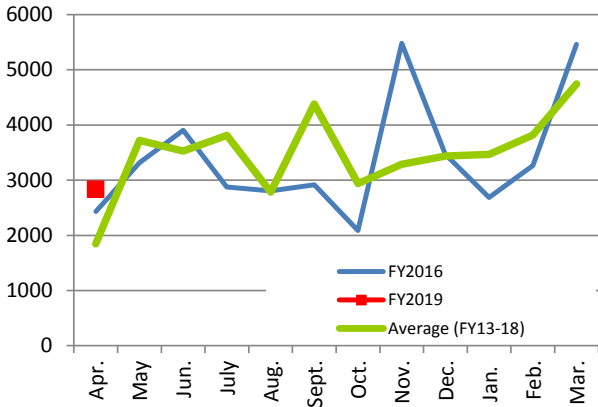
Note: 6M Yen LIBOR basis.  
 Source: Daiwa Securities.

**Appendix 6: JGB 3M Total Return Curve (%)**



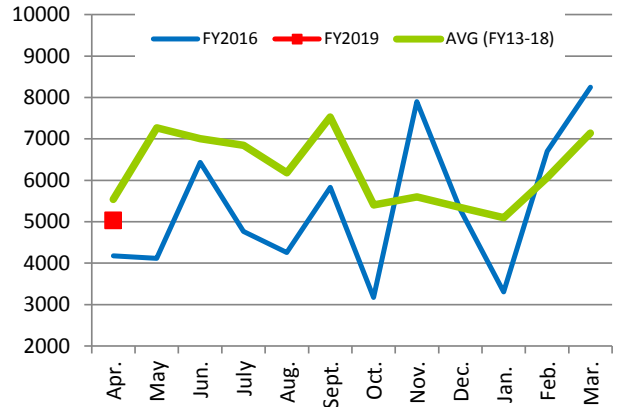
Note: Based on JGB yield curve on June 11, assuming that the yield curve shape does not change and factoring roll-down effect etc.  
 Source: Daiwa Securities

**Appendix 7a: Trend of Life and Non-life Insurers' Net Purchase of Superlong JGBs (Yen 100M)**



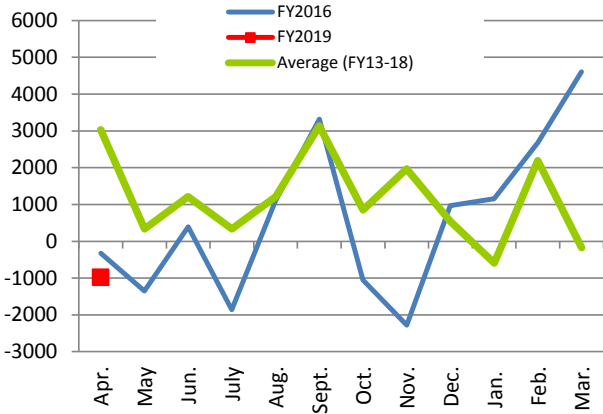
Source: JSDA

**Appendix 7b: Trend of Life and Non-life Insurers' Gross Purchase of Superlong JGBs (Yen 100M)**



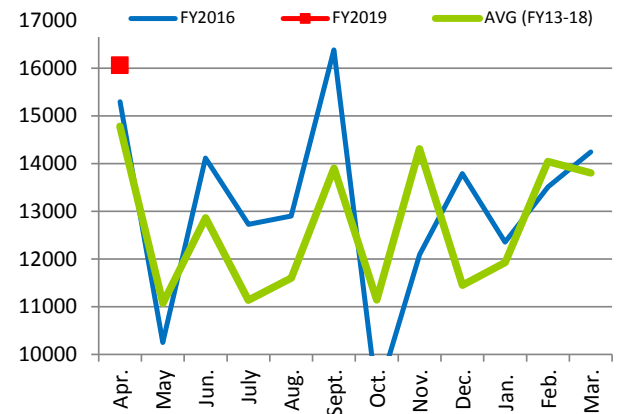
Source: JSDA

**Appendix 8a: Trend of Overseas Accounts' Net Purchase of Superlong JGBs (Yen 100M)**



Source: JSDA

**Appendix 8b: Trend of Overseas Accounts' Gross Purchase of Superlong JGBs (Yen 100M)**



Source: JSDA

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In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

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- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

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May 2018

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- 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.
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\* 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.

\*\* The ratio of margin requirements etc. to the amount of the transaction 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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