

Outlook for 5Y JGB Auction

A long tail expected

- ✓ Tomorrow's auction is likely to be held at the lowest bidding yield level since the auction in July 2016
- ✓ Unless there are new factors, yield declines from the current level would be limited
- ✓ On the other hand, it is also difficult to expect the 5Y JGB yield to rise into the level above -0.20%
- ✓ A poor result (such as longer tail) is expected if auction is held at the current level (around -0.23%)
- ✓ Regarding 5Y JGBs, we would like to take a dip-buying stance at around -0.2%, such as vs. the futures

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Auction Details

Auction Date:	June 18, 2019
Issue Date:	June 19, 2019
Maturity Date:	March 20, 2024
Offering Amount:	About 1.9 trillion yen

* New 5-year JGBs will be the final reopening of JS139 carrying a 0.1% coupon.

** On June 17, JS139 traded at -0.235 - -0.230% (unch - +0.5bp v. previous day's close), and closed at -0.230% (+0.5bp).

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

After the previous 5Y JGB auction went well at the -0.170 to -0.165% level on May 16, the 5Y JGB yield trended down, temporarily logging -0.250% in early June, the lowest level since September 2016. Since then, the yield has mostly moved in a narrow range between -0.240% and -0.220%. As of 15:00 today (June 17), on-the-run JS 139 traded at -0.235 to -0.230% (unch to +0.5bp vs. previous day's close). Tomorrow's auction is likely to be held at the lowest bidding yield level since the auction in July 2016¹.

Unless there are new factors, yield declines from the current level would be limited

Concerns 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 an environment, the downtrend of the 5Y JGB yield has steadily intensified. On the other hand, a further drop in the 5Y JGB yield, which is now the lowest level on the yield curve, would necessitate new factors such as the BOJ's further easing or additional easing becoming a real possibility. If -0.250%, the recent high price, remains as a strong reversal in

¹ After this auction which went smoothly at the -0.365 to -0.360% level, the 5Y JGB yield temporarily declined to -0.380% on an intraday basis at the end of the month, setting a record low.

the near term, it will discourage market participants from taking an aggressive stance for tomorrow's auction at the current level (around -0.230%).

On the other hand, it is also difficult to expect the 5Y JGB yield to rise into the level above -0.20%

Meanwhile, it is also difficult to expect the 5Y JGB yield to rise above the -0.20% level in the current environment. This is because there is strong support from (1) the short-term sector (such as 2Y), which is rock-solid bolstered by demand from overseas investors and (2) the 6Y sector, which is constantly short due to the impact from the BOJ's JGB purchase policy in the 5-10Y zone. In addition, there are diminishing expectations for a cut in the offer amounts in the 3-5Y zone on the back of the recent BOJ's smooth purchase operations in the zone.

We would take a dip-buying stance at around -0.2% such as purchases vs. futures

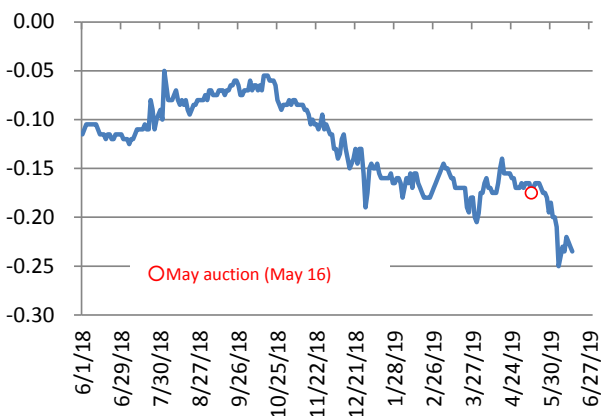
All in all, even if we factor in potential demand from overseas investors and the level of short positions in the market, a poor result (such as longer tail) is expected if the auction is held at the current level (around -0.23%). Regarding 5Y JGBs (incl. those in secondary market), we would like to take a dip-buying stance at around -0.2% such as purchases vs. futures.

5Y JGB Auction Results

Auction Date	Issue #	Marutiry Date	Coupon %	Issue Size (trillion yen)	B/C	Average Price	Lowest Price	Price Tail (yen)	Average Yield	Highest Yield	Yield Tail (%)	Allotment (%)	
6/18/19	139R*	3/20/24	0.1*	1.9**									
5/16/19	139R	3/20/24	0.1	2.1	4.94	101.32	101.31	0.01	-0.170	-0.168	0.002	16.6556	Good
4/9/19	139	3/20/24	0.1	1.9	5.31	101.32	101.31	0.01	-0.164	-0.162	0.002	5.2806	Good
3/12/19	138R	12/20/23	0.1	2.3	4.71	101.24	101.23	0.01	-0.157	-0.156	0.001	29.8196	Avg
2/13/19	138R	12/20/23	0.1	2.3	4.84	101.23	101.22	0.01	-0.151	-0.149	0.002	15.4016	Avg
1/16/19	138	12/20/23	0.1	2.3	5.15	101.21	101.21	0.00	-0.144	-0.144	0.000	85.4629	Good
12/13/18	137R	9/20/23	0.1	2.2	3.84	101.02	101.00	0.02	-0.112	-0.108	0.004	13.0155	Poor
11/15/18	137R	9/20/23	0.1	2.3	3.89	100.91	100.91	0.00	-0.087	-0.087	0.000	68.1985	Good
10/16/18	137	9/20/23	0.1	2.0	4.88	100.77	100.76	0.01	-0.055	-0.053	0.002	40.2505	Avg
9/13/18	136R	6/20/23	0.1	2.0	5.53	100.82	100.81	0.01	-0.071	-0.069	0.002	10.5496	Good
8/16/18	136R	6/20/23	0.1	2.1	3.95	100.86	100.85	0.01	-0.076	-0.074	0.002	37.0117	Avg
7/10/18	136	6/20/23	0.1	2.0	4.87	101.03	101.02	0.01	-0.107	-0.105	0.002	39.4402	Avg
6/21/18	135R	3/20/23	0.1	2.0	3.88	101.02	101.00	0.02	-0.113	-0.109	0.004	61.1594	Poor
5/17/18	135R	3/20/23	0.1	2.0	4.22	100.99	100.98	0.01	-0.103	-0.101	0.002	33.7643	Avg

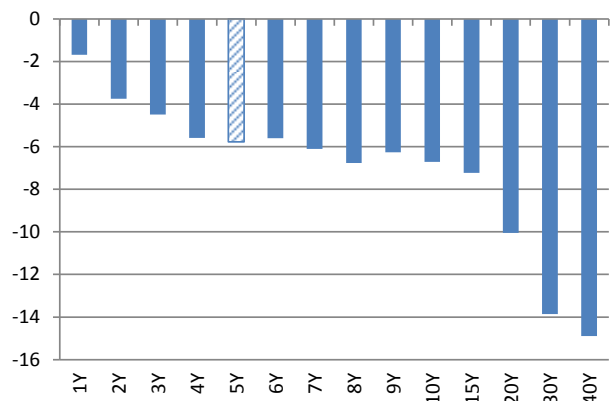
* Daiwa forecast as of June 17 ** Amount the MOF plans to issue
Source: Ministry of Finance, Daiwa Securities.

Appendix 1: 5Y JGB Yield (%)



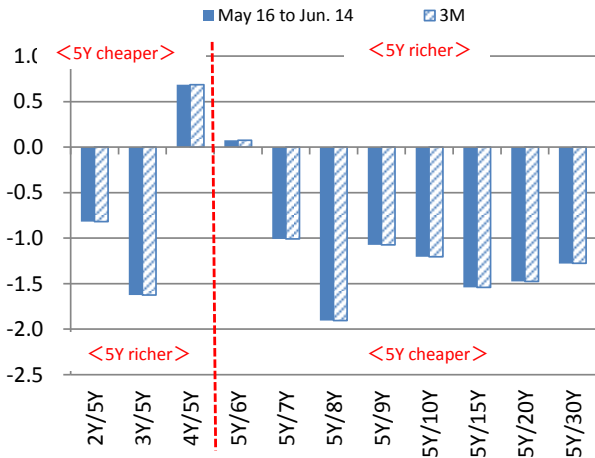
Source: Daiwa Securities.

Appendix 2: JGB Yield Change (bp): May 16 v. June 14



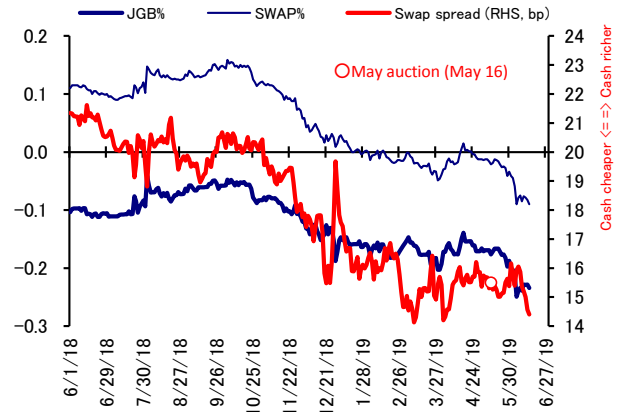
Source: Daiwa Securities.

Appendix 3: Z-scores of JGB Yield Spreads



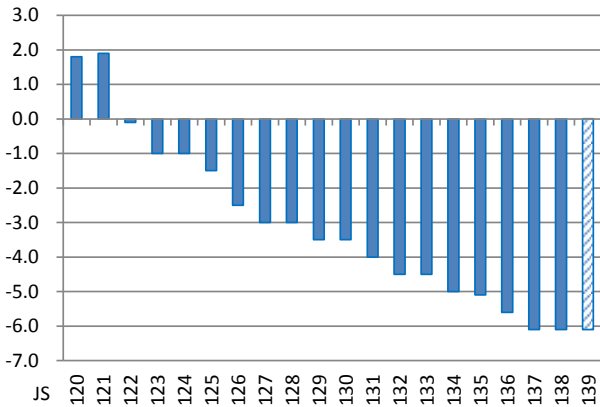
Source: Daiwa Securities.

Appendix 4: 5Y Swap Spread



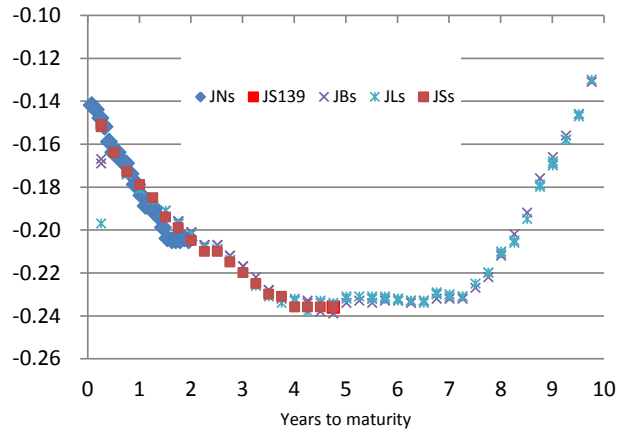
Source: Daiwa Securities.

Appendix 5: JS Yield Change (bp): May 16 v. June 14



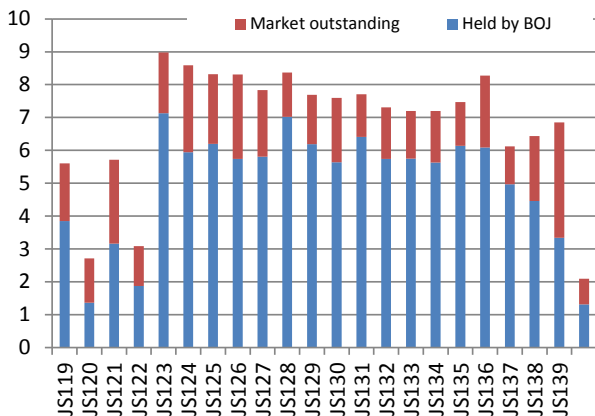
Source: Daiwa Securities.

Appendix 6: JGB Yield Curve (% , June 14)



Source: Daiwa Securities.

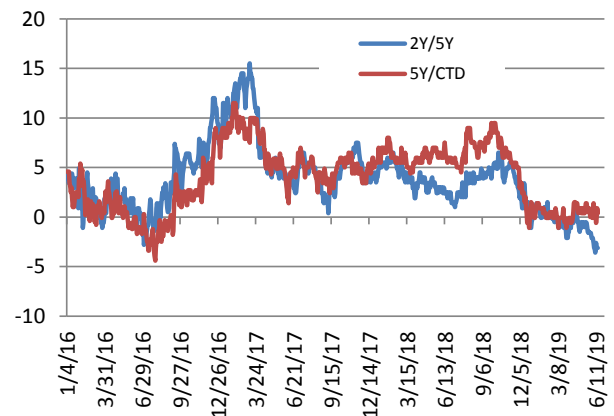
Appendix 7: JS Market Outstanding and BOJ Holding Amount (exp. Yen trillions)



Note: as of June 10 on BOJ start basis

Source: Daiwa Securities.

Appendix 8: JGB 2Y/5Y and 5Y/CTD Spread (bp)



Note: On-the-run and CTD compound yields

Source: 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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- 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.
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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.

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