Daiwa Securities

Daiwa's View

Reflecting result of upper house election

➢ Even if economic measures formulated, full-scale rise in JGB yields unlikely

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As expected, the upper house election ended with a victory for the ruling parties. In this election, key seat numbers were 53, 63, and 85 (see our 19 Jul report *Daiwa's View: Events and focal points after upper house election*). While the ruling parties secured 71 seats, exceeding the majority of re-elected seats, the number fell short of the two-thirds majority needed to propose a constitutional revision. As a prerequisite to achieve the legacy of constitutional revision, Prime Minister Shinzo Abe needs to avoid a lame-duck situation. This time around, a double election for the upper and lower houses was avoided. However, the timing to dissolve the lower house will remain a focal point.

Going forward, the market will likely continue to watch the timing/scale of economic measures. The Basic Policy on Economic and Fiscal Management and Reform 2019 states that "the government will pay full attention to downside risks emanating from abroad and quickly grasp the impact on the economy and financial market. At the same time, it will conduct expeditious macroeconomic policy without hesitation if risks emerge." The government is thus likely to compile a supplementary budget, watching the situation.

However, even if economic measures are formulated, the JGB supply/demand condition is unlikely to worsen. First, the so-called front-loading refunding bonds (front-loading issuance of refunding bonds slated to be issued in following fiscal year for leveling off of annual JGB issuance amount) have already accumulated to Y52.46tn. There is thus a high possibility that front-loading refunding bonds will be preferentially used if a supplementary budget is compiled. Even if the government increases the JGB issuance amount without using front-loading refunding bonds, the increase is likely to be offset by the following factor.

Recently, BOJ officials have often pointed out the possibility that the BOJ will increase the JGB purchase amount in line with an increase in JGB issuance due to the government's economic measures. This could result in a policy mix in line with Abenomics' guideline—"cooperation between fiscal policy and monetary policy." Speculation on additional easing by the BOJ is thus expected to again become the market's main theme, depending on the economic conditions at home and abroad after the consumption tax hike in October. In conclusion, the outcome of the latest upper house election and compilation of a supplementary budget (if any) are unlikely to lead to a full-scale rise in JGB yields. Concerns about an increase in JGB issuance may provide a dip-buying opportunity.

■ ◆ **BOJ governor Haruhiko Kuroda (20 Jun 2019)**

・Under the current yield curve control (YCC) policy, we set the operational target of the 10-year JGB at around 0% only in terms of monetary policy. The purpose is not to help government financing. However, from the viewpoint of policy mix (fiscal and monetary policy), if the BOJ needs to maintain the current YCC policy, a rise in the long-term interest rate due to an increase in JGB issuance would be prevented. In that sense, the YCC could result in the policy mix—cooperation between fiscal policy and monetary policy.

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3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
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■ Credit Rating Agencies

[Standard & Poor's]

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The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (http://www.standardandpoors.co.jp/unregistered) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")
The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moodys.com/pages/default_ja.aspx)

Assumptions, Significance and Limitations of Credit Ratings

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Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")
The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

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Assumptions, Significance and Limitations of Credit Ratings

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May 2018

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

• 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.

** 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator
Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association
The Financial Futures Association of Japan
Japan Investment Advisers Association
Type II Financial Instruments Firms Association