

JGB Insight

YCC policy facing ordeal

- ✓ The BOJ cut the offer amount in the 5-10Y zone. However, the relatively small reduction temporarily pushed the 10Y JGB yield down to -0.255% after the operation notice.
- ✓ Speculations are likely to linger on trimming or setting of a floor to the bidding yield on a yield downtrend. Keeping the current operational range at “about double the range” between -0.1% and +0.1% unchanged, however, the BOJ may accept a decline of the 10Y JGB yield to about “triple” or “fourfold” level.
- ✓ Regarding JGB purchases, the BOJ is unlikely to take strong actions at least until the next MPM in September.
- ✓ We expect JGB yields to stay on a downtrend and flattening bias to persist on JGB yield curve. BOJ surprises would provide a dip-buying opportunity.

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FICC Research Dept.

Senior JGB Strategist
Keiko Onogi
+813 5555 8788
keiko.onogi@daiwa.co.jp

Daiwa Securities Co. Ltd.

After the notice on trimming, the 10Y JGB yield temporarily declined to -0.255%

In its JGB purchase operation in the 5-10Y zone conducted today (Aug 16), the BOJ cut the offer amount by 30bn yen from the previous operation to 450bn yen. Following the previous operation on August 9, the central bank adjusted the offer amount for the second time in a row. Without the change in the BOJ's JGB purchase guideline (Outline of Outright Purchases of Japanese Government Securities), this was the first consecutive adjustment since end-January to beginning of February 2018. The 10Y JGB yield has been trending down since the beginning of August. Especially from August 9, the yield is moving at -0.25 to -0.20%, below the lower end of the BOJ's operational target range “about double the range of between -0.1% and +0.1%.” This time, the BOJ appears to have shown its commitment to the YCC by adjusting the offer amounts for the second time in a row. Meanwhile, as the reduction was relatively small, market participants look to have built a positive atmosphere in buying JGBs. After the operation notice, the 10Y JGB yield thus temporarily declined to -0.255%, the lowest level since July 2016. The yield appears to be sliding to the about triple the range of between -0.1% and +0.1%.

Speculations are likely to linger on trimming or setting of a floor, but...

Toward the end of August, the BOJ plans to conduct JGB purchase operations on 19th, 23rd, 26th, and 30th. Of which, the central bank will purchase JGBs with over 5 to 10 years left to maturity on 23rd and 30th. Speculations are likely to linger on trimming of the offer amount or setting of a floor for the bidding yield. Regarding the former, however, the BOJ appears to be hesitating to substantially cut the offer amount (e.g., around 50-80bn yen). From the viewpoint of maintaining expansion of the monetary base as well, it appears difficult for the BOJ to repeatedly make a small cut to the offer amounts, which has only limited effects. As for the latter, it seems more difficult for the BOJ to set a floor when the 10Y JGB yield is at the -0.30 to -0.25% level, if it is aware of “about double the range of between -0.1% and +0.1%.”

The BOJ may accept a decline to about “triple” or “fourfold” with the current operational range at “about double the range of between -0.1% and +0.1%” unchanged

Regarding the operational range for the long-term interest rate (about double the range of between -0.1% and +0.1%), the BOJ may accept a decline of the 10Y JGB yield to about “triple” or “fourfold” the range of between -0.1% and +0.1% with the current target range unchanged. This is because of the fact that the BOJ maintains the language that it will purchase JGBs so that “their amount outstanding will increase at an annual pace of about 80tn yen” in its statement, but in reality, it just buys JGBs at an annual increase pace of less than 20tn yen. It may be possible for the central bank to interpret that the 10Y JGB yield in about “triple” or “fourfold” the range of between -0.1% and +0.1% is within the range of “around 0%”, the major premise to guide the long-term interest rate under the YCC policy.

JGB yields to remain on an upward trend and flattening bias to persist

As BOJ deputy governor Masayoshi Amamiya showed the recognition that “about double the range of between -0.1% and +0.1%” was the decision at the Monetary Policy Meeting (MPM), the BOJ is unlikely to take strong actions regarding JGB purchases at least until the next MPM (Sep 18-19). We expect JGB yields to stay on a downtrend and the JGB yield curve to remain under flattening pressure. If yields rise and the yield curve steepens due to the BOJ's adjustments to JGB purchases, this would provide a dip-buying opportunity.

BOJ JGB Purchase Operations

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
8/1/19	TH 8/2/19	10Y JGB Auction							
8/2/19	F 8/6/19					181.3	40.0	25.1	
8/5/19	M 8/6/19	50.1			480.8				100.3
8/6/19	T 8/7/19	30Y JGB Auction							
8/7/19	W 8/8/19								
8/8/19	TH 8/9/19	10Y Linker JGB Auction							
8/9/19	F 8/13/19		400.1	360.4		160.2	40.3		
8/12/19	M -	Public Holiday (Mountain Day obs.)							
8/13/19	T 8/14/19								
8/14/19	W 8/15/19								
8/15/19	TH 8/16/19	5Y JGB Auction							
8/16/19	F 8/19/19				450.1				
8/19/19	M 8/20/19	○	◎	◎					
8/20/19	T 8/21/19	20Y JGB Auction							
8/21/19	W 8/22/19								
8/22/19	TH 8/23/19	AEL (10Y and 20Y JGBs with over 5 to 15.5 years to maturity)							
8/23/19	F 8/26/19		◎	◎	◎				
8/26/19	M 8/27/19					◎	◎	○	
8/27/19	T 8/28/19	AEL (20Y, 30Y and 40Y JGBs with over 15.5 less than 39 years to maturity)							
8/28/19	W 8/29/19								
8/29/19	TH 9/2/19	2Y JGB Auction							
8/30/19	F 9/2/19		◎	◎	◎				

Note: ◎ Scheduled by BOJ, ○ Daiwa forecast as of Aug. 16; Increased from previous operation in green, decreased in red; Figures for actual in Yen billions

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

BOJ JGB Purchases and MOF Issuance

(Yen billions)

		Offer size per operation	Number of Offers (per month)	Offer size as of Aug. 16	Monthly Total exp. in July (a)	MOF issuance per month in FY2019* (b)	(a)-(b)
		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 250-500	375	4	380	1,600	2,000
	Over 3 to 5 years	About 250-500	375		380	1,440	1,900
Over 5 to 10 years		About 300-650	475	4	450	1,800	2,100
Over 10 years	Over 10 to 25 years	About 100-250	175	3	160	480	900
	Over 25 years	About 10-100	55		40	120	700 - 1,100
Linkers		About 25	-	2	25	50	400
Floaters (in even months)		About 100	-	1	100	100	-
TOTAL:					5,390 to 5,490	7,600 to 8,400	

(Note) Decreased from previous operation in red; "Offer size per operation" and "Number of offers (per month)" are as released at July 31 * Excluding NPC1 and AEL; JGB linkers issued 4 times per year ** Factoring in the BOJ purchase conducted every month and the MOF quarterly issuance

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

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[Standard & Poor's]

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[Moody's]

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[Fitch]

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