Daiwa Securities

JGB Insight

Real stimulus winds up about Y4 trillion

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✓ This stimulus, aimed at achieving future stability and growth, includes Y13.2 trillion of government spending that will be spread across the FY19 supplementary budget and initial budget for FY20.

✓ The additional spending planned for the supplementary budget is expected to be Y4.3 trillion.

✓ Although no increase in market issuance on a calendar basis is expected in FY19, keep an eye on adjustments between maturity sectors.

Strategic Memorandum DSTE349
FICC Research Dept.

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

Daiwa Securities Co. Ltd.

26 trillion yen of economic package approved

The Cabinet Office approved a 26 trillion yen of economic package (including private-sector spending) in the evening of December 5, the first stimulus package put together by Japan's government since August 2016. The stimulus, aimed at achieving future stability and growth, includes Y13.2 trillion of fiscal spending and will be spread across the FY19 supplementary budget and the initial budget for FY20 (effectively making it a 15-month budget). The breakdown of government expenditures is as follows.

- ✓ Of about Y13.2 trillion in fiscal spending, Y9.4 trillion will be managed by central and local governments and Y3.8 trillion will come through the fiscal investment and loan program (FILP)
- ✓ The central government will spend about Y7.6 trillion of the total government spend
  - ➢ Of the central government's portion, Y6.2 trillion will be on the general account and Y1.5 trillion on the special accounts
    - ✧ On the general account, Y4.4 trillion will be spent in FY19 (Y4.3 trillion in the supplementary budget and Y0.1 trillion in discretionary reserves) and Y1.8 trillion as provisional/special measures in FY20
    - ✧ From the special account, Y0.7 trillion will be spent in FY19 and Y0.8 trillion from FY20
- ✓ From the FILP account, Y1.4 trillion will be spent in FY19 and Y2.4 trillion from FY20

Additional spending planned for the supplementary budget is expected to be Y4.3 trillion

As the above numbers indicate, additional spending in the FY19 general account from the supplementary budget is expected to be Y4.3 trillion. That amount of spending became an issue in late November, when Prime Minister Abe's cherry blossom viewing party was showing signs of imploding, and the party leadership of the LDP and New Komeito agreed on requesting a package with actual spending of Y10 trillion. Conditions are not at the sort of crisis levels that they have been in past periods when supplementary budgets on the order of Y10 trillion were passed, and with the initial budget already ballooning above a record-high Y100 trillion, it looks like it will be difficult to put together a supplementary budget with Y10 trillion of additional spending.

No increase in market issuance on a calendar basis expected in FY19, but keep an eye on adjustments between maturity sectors

According to some media reports, the supplementary budget can be paid for with spending cuts, without having to issue deficit JGBs, while others in the media think that the supplementary budget will require deficit JGBs to make up for FY19 tax revenues falling short of expectations. We think it possible that additional JGB issuance needed beyond the initial JGB issuance plan will only total around Y3 trillion. Because this can be adequately covered using adjustments during the fiscal year etc., we do not expect an increase in the amount of market issuance on a calendar basis. Meanwhile, with many market participants expecting/welcoming an increase in 40-year JGB issuance, we would like to keep an eye out for any adjustments in issuance amounts between maturity sectors.

Explanatory Document of Unregistered Credit Ratings

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.

■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:
1) Duty of good faith.
2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
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.
4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")
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

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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")
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Assumptions, Significance and Limitations of Credit Ratings

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May 2018

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Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Other Disclosures Concerning Individual Issues:
1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.
As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Nippon Healthcare Investment Corporation (3308), Japan Rental Housing Investments (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of Y10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group is to acquire up to 5.01% of Credit Saison's total common shares outstanding (as of 31 Jul 2019), while Credit Saison is to purchase up to Y2bn worth of Daiwa Securities Group's common stock.

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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 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.

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