

JGB Insight

No change in market issuance on calendar basis

- ✓ The amount of JGB issuance will increase Y6.1 trillion from the initial plan as a result of the FY19 supplementary budget, but market issuance on a calendar basis will not change. We also expect no adjustments of issuance amounts across maturities.
- ✓ On the other hand, FY20 will likely bring an increase in 40-year JGB issuance and decline in the amount of issuance at the liquidity enhancement auction (or tap issuance) in the over-5-year to 15.5-year zone. With the expected issuance reductions in the non-price competitive auction II, the market may be surprised by any reductions in other maturities. The focus is now on the JGB issuance plan and FY20 budget, which should become clear on December 20.

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Supplementary spending and revenue of about Y3.2 trillion

On the evening of December 13, the Cabinet Office decided on its first FY19 supplementary budget under the general account. The key components of fiscal expenditures are as follows.

- ✓ Supplementary spending and revenue of about Y3.2 trillion
 - Additional spending of about Y5.2 trillion
 - ◇ Of that amount, about Y4.3 trillion is spending for economic stimulus
 - Corrective spending reductions of about Y2.0 trillion
 - Additional revenues of about Y5.6 trillion
 - ◇ Of that amount, about Y4.4 trillion comes from bond financing
 - Bond financing by issuing construction bonds is about Y2.19 trillion
 - Special bonds based on issuing deficit JGBs are about Y2.22 trillion
 - Corrective revenue reductions of about Y2.4 trillion

Based on the above, planned JGB issuance amounts for FY19 will be revised as shown in the table below.

FY2019 JGB Issuance Plan

<Breakdown by Legal Grounds>

(Yen billions)

	FY2019 initial	FY2019 after s/b	
	<a>		-<a>
Newly-issued Bonds	32,660.5	37,081.9	4,421.4
Construction bonds	6,952.0	9,143.7	2,191.7
Deficit bonds	25,708.5	27,938.2	2,229.7
Reconstruction Bonds	928.4	904.2	-24.2
FILP Bonds	12,000.0	12,550.0	550.0
Refunding Bonds	103,140.4	104,323.5	1,183.1
For matured Reconstruction bonds	1,808.0	3,051.4	1,243.4
TOTAL	148,729.3	154,859.6	6,130.3

<Breakdown by Financing Methods>

	FY2019 initial	FY2019 after s/b	
		<c>	<c>-
JGB Market Issuance	129,400.0	129,400.0	-
Non-price Competitive Auction II	8,564.0	9,434.3	870.3
Adjustment between fiscal years	3,865.3	9,025.3	5,160.0
Financed in the Market	141,829.3	147,859.6	6,030.3
Households	4,700.0	4,800.0	100.0
BOJ Rollover	2,200.0	2,200.0	-
TOTAL	148,729.3	154,859.6	6,130.3

Source: Ministry of Finance

No adjustments of issuance amounts across maturities

The JGB issuance will increase ¥6.1 trillion from the initial FY19 plan after supplementary budget. Because of adjustments for front-loaded issuance etc., however, there will be no change in the amount of market issuance on a calendar basis. As there are many market participants requesting/allowing for an increase in 40-year JGB issuance, on the other hand, it was focused whether the Ministry of Finance would make any adjustment in JGB issuance sizes between 40Y JGBs and others, for example. But there will likely be no adjustment, after all. Although such adjustments were seen as a possibility in FY19, that does not appear to be priced into either market prices or the shape of the curve. We therefore think any impacts from not making adjustments would be relatively limited.

FY20 will bring an increase in 40-year JGB issuance and decline in the amount of issuance at the liquidity enhancement auction (or tap issuance) in the over-5-year to 15.5-year zone

This week, we expect the FY20 budget and JGB issuance plan to be unveiled after the Cabinet decision on December 20. Ahead of this, we summarize below the key elements of the FY20 JGB issuance plan confirmed by the JGB Market Special Participants (primary dealers) meeting held by MOF on Thursday, December 12.

- ✓ Many primary dealers and investors commented that they want to see issuance of superlong JGBs either held steady or increased, and a particularly large number said they want to see 40-year JGB issuance increase.
- ✓ While some saw reduced issuance of long-term JGBs as a possibility, others were cautious over such a reduction in the event that yields turn positive.
- ✓ Some saw a moderate reduction in the issuance of short- to intermediate JGBs as a possibility, but many preferred to pay heed to the collateral needs of the banks and to strong demand from overseas investors.
- ✓ Nearly all agreed that based on market conditions, some reduction in issuance at liquidity enhancement auctions were possible, and a particularly large number see potential for reductions in the 5-15.5-year zone.
- ✓ Starting from January 2020, with in January 2020, the limit on subscriptions as a percentage of successful bids at the non-price competitive auction II will be reduced from 15% to 10%
- ✓ Also starting with that auction, the market rate will be rounded down to the nearest decimal point to determine the coupon (this will affect superlong JGBs)
- ✓ Now considering lowering the minimum coupon, currently 0.1%, and using increments of 0.001% (this will affect 2-year, 5-year, and 10-year JGBs), aiming for implementation from October 2020. Notification of the specific minimum coupon will be made later.

Overall, it looks nearly certain that FY20 will bring an increase in 40-year JGB issuance and decline in the amount of liquidity enhancement auctions targeting the over-5-year to 15.5-year zone. Regarding the reduction of the bid limit in non-price competitive auctions II, most primary dealers were of the opinion that although actual reductions of issuance amounts are still a concern, they are tolerable as long as reductions in market issuance on a calendar basis can be constrained. From this perspective, it may be somewhat of a surprise if there are reductions of other maturities in addition to reductions in liquidity enhancement auctions. We would like to pay close attention to the FY20 JGB issuance plan, which should become known on December 20.

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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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