

JGB Insight

Japan will increase 40Y JGBs and decrease tap-issuance in FY2020

- ✓ While total amount of JGBs to be issued in FY20 will be Y153.5tn, up Y4.7tn from initial FY19 budget, calendar-based JGB market issuance to be Y128.8tn, down Y0.6tn from initial FY19 budget
- ✓ On issuance amount by maturity, 40-year JGBs to be increased, while that Auctions for Enhanced Liquidity (AEL) in 5-year to 15.5-year zone to decline. Other zones will remain unchanged from initial FY19 budget. As figures in line with major market expectations, there is no surprise.
- ✓ Remarks by BOJ governor more likely triggered steepening than the FY20 JGB issuance plan, but such steepening may be short-lived

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Calendar-based JGB market issuance to be Y128.8tn, down Y0.6tn from initial FY19 budget

The FY20 budget approved by the Cabinet on December 20 outlines the planned amount of JGB issuance in FY20. The total amount of JGBs to be issued in FY20 will be Y153.5tn, up Y4.7tn from the initial FY19 budget. The breakdown of the planned amounts of issuance by legal grounds is as follows: new JGBs Y32.6tn (down Y100bn from initial FY19 budget), FILP bonds Y12tn (same as in initial FY19 budget), refunding bonds Y108.0tn (up Y4.8tn from initial FY19 budget), and reconstruction bonds Y920bn (down Y4.3bn from initial FY19 budget).

On the breakdown by financing methods, the calendar-based JGB market issuance is to be Y128.8tn, down Y600bn from the initial FY19 budget. Regarding non-price competitive auctions II, the budgeted amount—the total of the issuance amount at auctions and the estimated difference between the calendar-base market issuance and revenue from actual issuance—is set to be around Y8tn, down Y575.6bn from the initial FY19 budget, with a coefficient of 7% unchanged. Meanwhile, the adjustment between fiscal years, a buffer for calendar-base market issuance, is set to be around Y9.7tn, up Y5.8tn y/y, in reflection of the progress in front-loaded issuance. The budgeted amount of sales to individual investors, which have been going well, is Y4.8tn, up Y100bn from the initial FY19 plan. The rollover by the BOJ, which continues to purchase large amounts of JGBs, is set to total Y2.2tn, the same as in the initial FY19 budget.

Despite Y10tn reduction, problem of excess funding still appears very serious

The maximum amount of front-loading issuance of refunding bonds in FY20 will be Y43tn, down Y10tn from Y53tn in FY19. While drafting JGB issuance plans, the MOF has been expressing concerns about the substantial increase in front-loaded issuance in recent years owing to the notable gap between actual revenue and the estimated amount at the time of the JGB market issuance planning, and indicated the potential to decrease the amount of calendar-based JGB market issuance substantially at the time of planning. Although the maximum amount was substantially reduced by around Y10tn, the problem of excess funding still appears to be very serious. Therefore, when compiling the supplementary budget, an increase in the amount of calendar-based JGB market issuance would be less likely.

By maturity, issuance of 40-year JGBs to be increased, while that at AELs (tap-issuance) in 5-year to 15.5-year zone to decline

By maturity, the amount of issuance of 2-year JGBs, 5-year JGBs, 10-year JGBs, 20-year JGBs, and 30-year JGBs is to remain unchanged from the initial FY19 budget. On the other hand, the amount of issuance of 40-year JGBs is to increase by Y100bn to Y500bn per auction (annual amount of Y3.0tn, up Y0.6tn from initial FY19 budget). The amount of issuance at Auctions for Enhanced Liquidity (or AELs; tap issuance) targeting the over 5-year to 15.5-year zone is to decline by Y100bn to Y500bn per auction (annual amount of Y6.0tn, down Y1.2tn from initial FY19 budget). The amount of issuance of 1-year Treasury Bills, JGB linkers, and AELs in other zones is to remain unchanged from the initial FY19 budget. Regarding the issuance amount by maturity, the MOF said that “the issuance amount in the latter half of FY20 may change, depending on the market environment and

issuance conditions, based on an exchange of opinions with market participants.” As this is widely known, the impact on the JGB market would be limited.

No change in frequency and issuance months of 40-year JGBs and JGB linkers

The frequency and months of issuance of 40-year JGBs are to be the same as in FY19. JGB linkers are to be issued every three months, in May, August, November, and February in FY20, as they are in FY19. Regarding the issuance amount, however, the MOF states that it will be “adjusted flexibly in light of market conditions and investment needs, based on an exchange of opinions with market participants.” Therefore, there is a high possibility of a change in the issuance amount during the course of the fiscal year.

Getting a glimpse of MOF’s strong commitment to JGB linkers

With respect to the buy-back of JGB linkers in FY20, the MOF says that it will be “conducted as needed, reflecting the market conditions and opinions from market participants.” This implied strong commitment toward the development of the JGB linker market via flexible adjustments of the amount of issuance and buy-backs (incl. timing).

Issuance amount of 1-year Treasury Discount Bills to remain unchanged from FY19 initial budget at Y1.9tn

The issuance amount of 1-year Treasury Bills is to remain unchanged from the initial FY19 budget. The total planned amount of 1-year Treasury Discount Bills (1-year Treasury Bills and 1-year Financing Bills) per auction will be Y1.9tn, the same as in the initial FY19 budget.

Average maturity to lengthen both on flow and stock bases, showing a clear shift in emphasis to “demand”

Partly on the increase in issuance of 40-year JGBs, the average maturity on a flow basis is to be nine years and two months in FY20, slightly longer than the nine years and one month in the FY19 JGB issuance plan. On a stock basis as well, the average maturity is to lengthen from the initial FY19 plan to nine years and four months. In the handout material provided at the JGB Market Special Participants (primary dealers) meeting held on November 25, 2019, the MOF showed its opinion on the average maturity—“Going forward, we do not necessarily stick to the lengthening of the average maturity on a flow basis. ... It is appropriate to formulate the JGB issuance plan by carefully watching the fair level for the average maturity on a stock basis,” which is the extract from the report at the Advisory Council on Government Debt Management held on 26 April 2016. In addition, “the basic opinion” section of the material says that “it is important to issue JGBs in a stable and transparent manner by confirming the medium/long-term demand trends, without excessively reacting to temporary/short-term changes in demand.” As these opinions appear to have led to the increase in the FY20 issuance amount of 40-year JGBs, caution about the lengthening of the average maturity is unlikely to rein in the issuance of superlong JGBs in the issuance plan from FY21.

Remarks by BOJ governor more likely triggered steepening than the FY20 JGB issuance plan, but such steepening may be short-lived

On December 20 when the FY20 JGB issuance plan was disclosed, the JGB yield curve faced steepening pressure amid the softness in the JGB market. As the FY20 JGB issuance plan (incl. change in issuance by maturity) was in line with major market expectations, there is no surprise. On the contrary, deterioration in market sentiment for superlong JGBs appears to have been caused by the fact that BOJ governor Haruhiko Kuroda again touched on the level of superlong JGB yields and the shape of the curve on December 19. This increased caution about trimming of the offer amount of JGBs with over ten years left to maturity in BOJ purchase operations. However, Mr. Kuroda stated that “I personally think that superlong JGB yields should be higher (than they are now), but I am not bothered by the current shape of the curve.” Given this remark, we think that the possibility of trimming has substantially increased not only in the over 10-year zone but also in other target zones. Toward the end of the year, the JGB market is expected to remain volatile and the shape of the yield curve is likely to lack a clear direction amid lower liquidity and thin trading. We would like to control positions, assuming that the steepening trend may be short-lived.

(Written on Dec. 20, 2019)

Table 1: FY2020 JGB Issuance Plan

<Breakdown by Legal Grounds>

(Yen billions)

	FY2019 initial	FY2020 initial	
	<a>		-<a>
Newly-issued Bonds	32,660.5	32,556.2	-104.3
Construction bonds	6,952.0	7,110.0	158.0
Deficit bonds	25,708.5	25,446.2	-262.3
Reconstruction Bonds	928.4	924.1	-4.3
FILP Bonds	12,000.0	12,000.0	-
Refunding Bonds	103,140.4	107,981.8	4,841.4
For matured Reconstruction bonds	1,808.0	1,693.2	-114.8
TOTAL	148,729.3	153,462.1	4,732.8

<Breakdown by Financing Methods>

	FY2019 initial	FY2018 initial	
	<a>		-<a>
JGB Market Issuance (calendar based)	129,400.0	128,800.0	-600.0
Non-price Competitive Auction II	8,564.0	7,988.4	-575.6
Adjustment between fiscal years	3,865.3	9,673.7	5,808.4
Financed in the Market	141,829.3	146,462.1	4,632.8
Households	4,700.0	4,800.0	100.0
BOJ Rollover	2,200.0	2,200.0	-
TOTAL	148,729.3	153,462.1	4,732.8

Source: Ministry of Finance

Table 2: FY2020 JGB Market Issuance (calendar base)

(trillion yen)

	FY2019 initial				FY2020 initial			
	per auction	# of auctions per year	total <a>		per auction	# of auctions per year	total 	
40Y JGB	0.4	×	6	= 2.4	0.5	×	6	= 3.0
30Y JGB	0.7	×	12	= 8.4	0.7	×	12	= 8.4
20Y JGB	0.9	×	12	= 10.8	0.9	×	12	= 10.8
10Y JGB	2.1	×	12	= 25.2	2.1	×	12	= 25.2
5Y JGB	1.9	×	12	= 22.8	1.9	×	12	= 22.8
2Y JGB	2.0	×	12	= 24.0	2.0	×	12	= 24.0
1Y TB	1.8	×	12	= 21.6	1.8	×	12	= 21.6
10Y LNK	0.4	×	4	= 1.6	0.4	×	4	= 1.6
AEL	-	-	-	= 12.6	-	-	-	= 11.4
TOTAL				129.4				128.8
								▲ 0.6

Source: Ministry of Finance

Table 3: Monthly Schedule expected

< FY2019 initial >

(Yen trillions)

FY2019	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-19	1.8	2.0	1.9	2.1	0.9	0.7			1.10	10.5
May-19	1.8	2.0	1.9	2.1	0.9	0.7	0.4	0.4	1.00	11.2
Jun-19	1.8	2.0	1.9	2.1	0.9	0.7			1.10	10.5
Jul-19	1.8	2.0	1.9	2.1	0.9	0.7	0.4		1.00	10.8
Aug-19	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.10	10.9
Sep-19	1.8	2.0	1.9	2.1	0.9	0.7	0.4		1.00	10.8
1H Total	10.8	12.0	11.4	12.6	5.4	4.2	1.2	0.8	6.3	64.7
Oct-19	1.8	2.0	1.9	2.1	0.9	0.7			1.10	10.5
Nov-19	1.8	2.0	1.9	2.1	0.9	0.7	0.4	0.4	1.00	11.2
Dec-19	1.8	2.0	1.9	2.1	0.9	0.7			1.10	10.5
Jan-20	1.8	2.0	1.9	2.1	0.9	0.7	0.4		1.00	10.8
Feb-20	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.10	10.9
Mar-20	1.8	2.0	1.9	2.1	0.9	0.7	0.4		1.00	10.8
2H Total	10.8	12.0	11.4	12.6	5.4	4.2	1.2	0.8	6.30	64.7
TOTAL	21.6	24.0	22.8	25.2	10.8	8.4	2.4	1.6	12.6	129.4

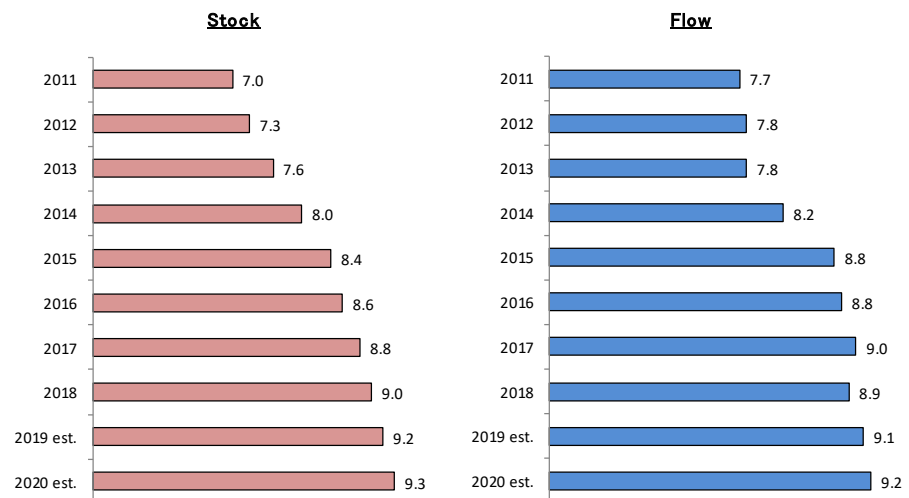
< FY2020 initial >

(Yen trillions)

FY2020	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-20	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
May-20	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.4	0.90	11.2
Jun-20	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
Aug-20	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.00	10.8
2020年9月	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
1H Total	10.8	12.0	11.4	12.6	5.4	4.2	1.5	0.8	5.7	64.4
Oct-20	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Nov-20	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.4	0.90	11.2
Dec-20	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jan-21	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
Feb-21	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.00	10.8
Mar-21	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
2H Total	10.8	12.0	11.4	12.6	5.4	4.2	1.5	0.8	5.70	64.4
TOTAL	21.6	24.0	22.8	25.2	10.8	8.4	3.0	1.6	11.4	128.8
Change v. FY2019	-	-	-	-	-	-	0.6	-	-1.2	-0.6

Source: Ministry of Finance, compiled by Daiwa Securities

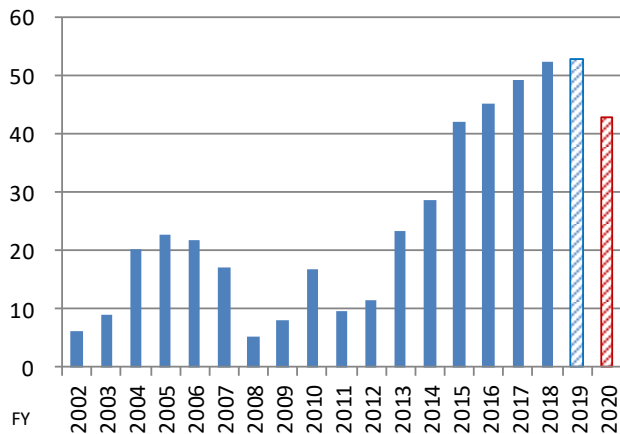
Chart 1: Average Redemption Term of JGBs in Years



Note: Fiscal year basis

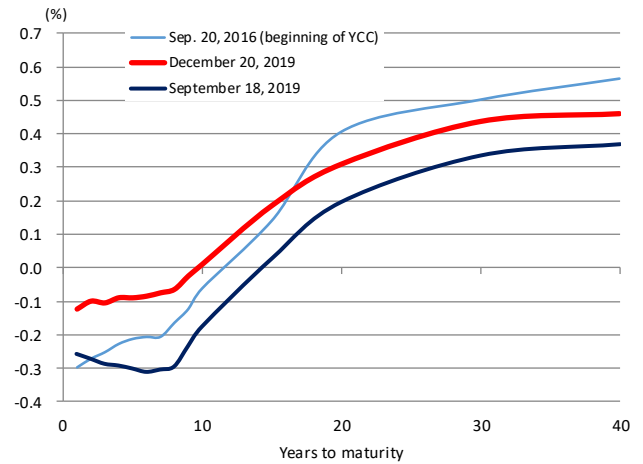
Source: Ministry of Finance, compiled by Daiwa Securities

Chart 2: Issuance of Front-loaded JGBs



Note: Maximum issuance for FY2019 and FY2020
 Source: Ministry of Finance

Appendix 1: JGB Yield Curve Comparison



Source: Daiwa Securities

Appendix 2: FY2020 Flow in Market (exp.)

(Yen trillions)

		FY2020 exp.											
		Apr.	May	Jun.	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
<A> Market Issuance		8.60	9.40	8.60	9.00	9.00	9.00	8.60	9.40	8.60	9.00	9.00	9.00
2Y JGB		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
5Y JGB		1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
10Y JGB		2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
20Y JGB		0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
30Y JGB		0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
40Y JGB		-	0.5	-	0.5	-	0.5	-	0.5	-	0.5	-	0.5
JGB Linker		-	0.4	-	-	0.4	-	-	0.4	-	-	0.4	-
AEL		1.00	0.90	1.00	0.90	1.00	0.90	1.00	0.90	1.00	0.90	1.00	0.90
 Redemption		1.21	1.97	8.06	2.08	0.69	9.79	0.51	1.36	9.54	2.12	0.83	9.73
Market Redemption		2.10	3.81	19.55	3.64	2.11	21.82	2.10	3.84	20.05	3.87	2.34	22.11
2Y JGB		2.10	2.31	2.11	2.14	2.11	2.31	2.10	2.34	2.40	2.30	2.34	2.11
5Y JGB		-	-	8.32	-	-	8.31	-	-	7.83	-	-	8.37
10Y JGB		-	-	8.03	-	-	8.70	-	-	8.06	-	-	7.81
20Y JGB		-	-	1.09	-	-	1.00	-	-	1.76	-	-	2.46
JGB Floater		-	1.50	-	1.50	-	1.50	-	1.50	-	1.57	-	1.36
Held by BOJ and MOF (note 1)		0.89	1.83	11.49	1.56	1.43	12.02	1.59	2.48	10.51	1.75	1.51	12.37
2Y JGB		0.89	1.31	0.62	1.25	1.43	1.50	1.59	1.51	1.47	0.95	1.51	1.12
5Y JGB		-	-	6.36	-	-	6.07	-	-	6.16	-	-	7.09
10Y JGB		-	-	3.95	-	-	3.51	-	-	1.65	-	-	2.25
20Y JGB		-	-	0.56	-	-	0.43	-	-	1.22	-	-	1.35
JGB Floater		-	0.52	-	0.31	-	0.51	-	0.97	-	0.80	-	0.56
<C> Purchased by BOJ and MOF		5.92	5.82	5.92	5.82	5.92	5.82	5.92	5.82	5.92	5.82	5.92	5.82
BOJ Rinban (note 2)		5.90	5.80	5.90	5.80	5.90	5.80	5.90	5.80	5.90	5.80	5.90	5.80
1Y or less		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
1-3Y		1.68	1.68	1.68	1.68	1.68	1.68	1.68	1.68	1.68	1.68	1.68	1.68
3-5Y		1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36	1.36
5-10Y		1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
10-25Y		0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Over 25Y		0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Linker and Floater		0.16	0.06	0.16	0.06	0.16	0.06	0.16	0.06	0.16	0.06	0.16	0.06
MOF Buyback (note 3)		0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
<A>--<C>		1.47	1.61	▲ 5.38	1.10	2.39	▲ 6.61	2.17	2.22	▲ 6.86	1.06	2.25	▲ 6.55
			▲ 2.30			▲ 3.12			▲ 2.47			▲ 3.24	

(Note 1) As of Dec. 10 (on BOJ start day)

(Note 2) As of Dec. 18

(Note 3) Assuming that the pace in Oct-Dec 2019 unchanged

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

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[Standard & Poor's]

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[Moody's]

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[Fitch]

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Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default.

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May 2018

IMPORTANT

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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 ¥10bn. 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 ¥2bn worth of Daiwa Securities Group's common stock.
- 6) NEC (6701): NOTICE REGARDING U.S. PERSONS: This report is not intended for distribution to or use by any person in the United States. Securities issued by NEC Corporation have been suspended from registration in the U.S. and are subject to an order of the U.S. Securities and Exchange Commission dated June 17, 2008, pursuant to Section 12(j) of the Securities Exchange Act of 1934. This document is not a recommendation or inducement of any purchase or sale of such securities by any person or entity located in the U.S. Daiwa Securities Co. Ltd. disclaims any responsibility to any such person with respect to the content of this document. Any U.S. person receiving a copy of this report should disregard it.

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

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

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.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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