

## JGB Insight

### No surprise from the increase in market issuance on a calendar basis

- ✓ The Cabinet approved Y108.2 trillion economic package, including Y39.5 trillion of fiscal expenditures, in the evening on April 7.
- ✓ Additional spending by the first supplementary budget totals Y16.8 trillion, and additional revenue will come only from government bond issuance. This already amounts to the largest supplementary budget ever.
- ✓ The increase in market issuance on a calendar basis is within market expectations and no surprise.
- ✓ A large increase in superlong JGB issuance is strongly desired.

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### The Cabinet approved Y108.2 trillion economic package, including fiscal expenditures of Y39.5trillion

In the evening on December 7, the Cabinet Office approved an economic stimulus package totaling Y108.2 trillion (including private-sector spending) and the first supplementary budget for FY20. Fiscal expenditures for the package, *Emergency Measures to Deal with the Covid-19 Pandemic*, are Y39.5 trillion, broken down as follows.

Of the Y39.5 trillion in fiscal expenditures, about Y27 trillion will be managed by the central and local governments and Y12.5 trillion will be channeled through the fiscal investment and loan program (FILP)

- ✓ The central government will spend about Y25.0 trillion of the expenditures
  - ✧ About Y18.6 trillion of the central government's expenditures will be through the FY20 supplementary budget
    - ✓ Of the central government's portion, Y16.7 trillion will be on the general account and Y1.9 trillion on the special account
- ✓ The spending funneled through the fiscal investment and loan program, Y10.1 trillion, will be added through the FY20 supplementary budget

### Additional spending from the first supplementary budget will total Y16.8 trillion, and additional revenue will come only from issuing public debt

As noted above, the additional spending on the general account related to this economic package totals Y16.7 trillion, and this together with Y99.9 billion added to the Government Debt Consolidation Fund special account brings the total additional spending from the first supplementary budget to about Y16.8 trillion. The revenue to fund that spending will all come from issuing public debt: Y2.3 trillion of construction bonds and Y14.5 trillion of special deficit JGBs. This already amounts to the largest supplementary budget ever (Chart 1). By combining a record-high supplementary budget partly funded by issuing the largest amount of deficit bonds (on a fiscal year basis) in history with an initial FY20 budget that is at a record high of Y102 trillion, the government shows strong willingness to expand government spending to overcome the crisis.

The supplementary budget has necessitated a change in the JGB issuance plan, raising total issuance by Y26.2 trillion from the initial plan to Y179.7 trillion (Table 1). By types of bonds based on governing laws (Table 1), JGB issuance by new finance resources will increase by the amount of public bond, Y16.8 trillion, stated above. In addition to it, FILP bonds will increase by Y9.4 trillion. By types of bonds based on method of selling (Table 1), the calendar-basis market issuance will increase Y18.2 trillion, the second noncompetitive auctions will increase Y1 trillion, and adjustments related to front-loaded issuance will increase Y7 trillion.

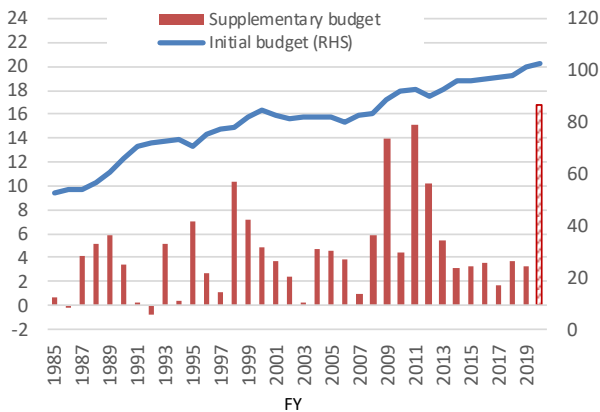
### The increase in market issuance on a calendar basis is within market expectations and no surprise

Tables 2 and 3 show the increase in calendar-basis market issuance by maturity. This comprises the leeway, and the lower bound of the range, for MOF to increase issuance through the JGB Market Special Participants meeting and the JGB Investors Conference. The increase is expected to begin in July. Both the amount of the increase and the timing was within market expectations and no surprise, so we expect minimal impact on the JGB market over the near term. In contrast, Japan is operating under a state of emergency with

**Large increase in superlong JGB issuance is strongly desired**

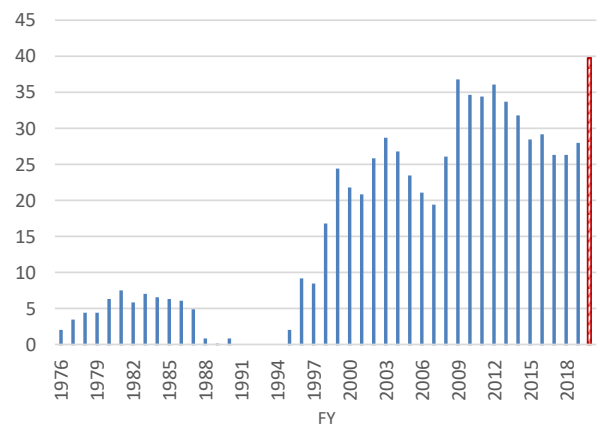
no clear end of the spread of new coronavirus in sight, and it is almost impossible to measure the impacts from the pandemic at this point. With the need to offset declines in tax revenue looming, there is a possibility that multiple supplementary budgets will be required in FY20. As this supplementary budget is set to draw down front-loaded JGB issuance by about Y7 trillion, there is still a possibility of further increases in calendar-basis market issuance during FY20. Expecting the BOJ to keep the policy of yield curve control for a quite long, we think that it will be more necessary to deal with side-effects from the policy. There is the strong preference among investors for positive yields as well. A bold increase in superlong JGB issuance is strongly desired.

**Chart 1: Initial and Supplementary Budgets (Yen trillions)**



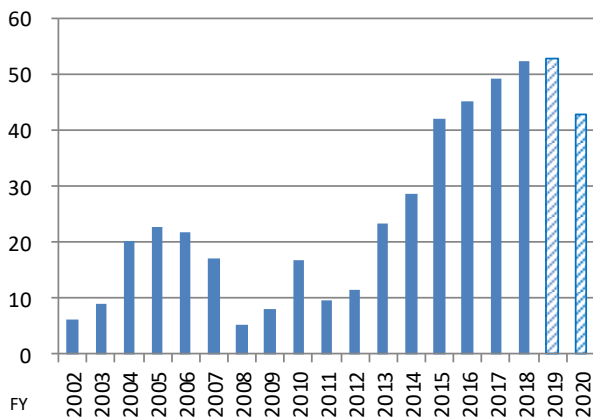
Note: The first supplementary budget for FY2020  
Source: Ministry of Finance

**Chart 2: Deficit Bond Issuance (Yen trillions)**



Note: Actual revenue basis; actual by FY2018; including supplementary budgets for FY2019 and FY2020  
Source: Ministry of Finance

**Chart 3: Front-loading Issuance of Refunding Bonds (Yen trillions)**



Note: Revenue basis; maximum allowance for FY2019 and FY2020  
Source: Ministry of Finance

Table 1: FY2020 JGB Issuance Plan after Supplementary Budget

<Breakdown by Legal Grounds>				<Breakdown by Financing Methods>			
	FY2020 (Initial)	FY2020 (Supplementary Budget)			FY2020 (Initial)	FY2020 (Supplementary Budget)	
	(a)	(b)	(b) - (a)		(a)	(b)	(b) - (a)
Newly-issued bonds	32,556.2	49,361.9	16,805.7	JGB Market Issuance (Calendar Base)	128,800.0	147,000.0	18,200.0
Construction Bonds	7,110.0	9,439.0	2,329.0	Non-Price Competitive Auction II, etc.	7,988.4	8,991.0	1,002.6
Special Deficit- Financing Bonds	25,446.2	39,922.9	14,476.7	Adjustment between fiscal years	9,673.7	16,676.8	7,003.1
Reconstruction Bonds	924.1	924.1	—	Subtotal Financed in the Market	146,462.1	172,667.8	26,205.7
FILP Bonds	12,000.0	21,400.0	9,400.0	Sales for Households	4,800.0	4,800.0	—
Refunding Bonds	107,981.8	107,981.8	—	BOJ Rollover	2,200.0	2,200.0	—
For matured Reconstruction Bonds	1,693.2	1,693.2	—	Total	153,462.1	179,667.8	26,205.7
Total	153,462.1	179,667.8	26,205.7				

\* Buy-back program in FY2020 is planned to be implemented based on market conditions and through discussions with market participants.

\* The maximum amount of front-loading issuance of Refunding Bonds in FY2020 is 43 trillion yen.

(Note1) Figures may not sum up to the total because of rounding.

(Note2) "JGB Market Issuance (Calendar Base)" refers to JGBs issued at face value by scheduled auctions from April to next March (normal auctions).

(Note3) Non-price competitive auction II is an additional issuance for JGB Market Special Participants after the normal auction (the amount assignable to each Market Special Participant does not exceed 10% of the amount awarded to it in the normal auction), and the price for the additional issuance is equal to the weighted average accepted price in the normal auction. The amount of the non-price competitive auction II is calculated by multiplying the amount of "JGB Market Issuance (Calendar Base)" (40-Year, 30-Year, 20-Year, 10-Year, 5-Year and 2-Year Bonds) by 7% (the amount reflects the impact of reduction in the maximum issuance amount).

(Note4) "Adjustment between fiscal years" refers to leveling-off of the issuance amount between fiscal years through front-loading issuance and deferred issuance in the accounting adjustment term.

Source: Ministry of Finance

Table 2: JGB Market Issuance on Calendar Basis

(Yen trillions)

	FY2020 initial			FY2020 supplementary budget				Increase from initial per auction acceptable for
	per time	# of auctions per year	total <a>	per time	# of auctions per year	total <b>	<b>-<a>	
40Y JGBs	0.5	× 6	= 3.0	0.5	× 6	= 3.0	-	-
30Y JGBs	0.7	× 12	= 8.4	0.7	× 3	= 2.1	0.9	0.1
				0.8	× 9	= 7.2		
20Y JGBs	0.9	× 12	= 10.8	0.9	× 3	= 2.7	0.9	0.1-0.2
				1.0	× 9	= 9.0		
10Y JGBs	2.1	× 12	= 25.2	2.1	× 3	= 6.3	1.8	0.2
				2.3	× 9	= 20.7		
5Y JGBs	1.9	× 12	= 22.8	1.9	× 3	= 5.7	0.9	0.1-0.2
				2.0	× 9	= 18.0		
2Y JGBs	2.0	× 12	= 24.0	2.0	× 3	= 6.0	2.7	0.3-0.4
				2.3	× 9	= 20.7		
1Y TBs	1.8	× 12	= 21.6	1.8	× 3	= 5.4	4.5	0.5-0.6
				2.3	× 9	= 20.7		
6M TBs	-	-	-	2.3	× 3	= 6.9	6.9	10-20 trillions for 1Y and 6M
10Y JGBis	0.4	× 4	= 1.6	0.3	× 4	= 1.2	▲ 0.4	-
AEL	-	-	= 11.4	-	-	= 11.4	-	-
TOTAL			128.8			147.0	18.2	

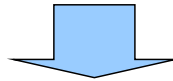
Source: Ministry of Finance, Daiwa Securities

Table 3: JGB Market Issuance (calendar basis) Schedule after the First Supplementary Budget in FY2020

&lt; FY2020 initial &gt;

(Yen trillions)

FY2020	6M TDB	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
Sep-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
<b>1H Total</b>	-	<b>10.8</b>	<b>12.0</b>	<b>11.4</b>	<b>12.6</b>	<b>5.4</b>	<b>4.2</b>	<b>1.5</b>	<b>0.8</b>	<b>5.7</b>	<b>64.4</b>
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
<b>2H Total</b>	-	<b>10.8</b>	<b>12.0</b>	<b>11.4</b>	<b>12.6</b>	<b>5.4</b>	<b>4.2</b>	<b>1.5</b>	<b>0.8</b>	<b>5.70</b>	<b>64.4</b>
<b>TOTAL</b>	-	<b>21.6</b>	<b>24.0</b>	<b>22.8</b>	<b>25.2</b>	<b>10.8</b>	<b>8.4</b>	<b>3.0</b>	<b>1.6</b>	<b>11.4</b>	<b>128.8</b>



&lt; FY2020 after the first supplementary budget &gt;

FY2020	6M TDB	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	0.3	0.90	11.1
Jun-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>	0.5		0.90	12.1
Aug-20	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>		0.3	1.00	12.0
Sep-20	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>	0.5		0.90	12.1
<b>1H Total</b>	-	<b>12.3</b>	<b>12.9</b>	<b>11.7</b>	<b>13.2</b>	<b>5.7</b>	<b>4.5</b>	<b>1.5</b>	<b>0.6</b>	<b>5.7</b>	<b>68.1</b>
Oct-20	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>			1.00	11.7
Nov-20	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>	0.5	0.3	0.90	12.4
Dec-20	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>			1.00	11.7
Jan-21	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>	0.5		0.90	12.1
Feb-21	-	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>		0.3	1.00	12.0
Mar-21	<b>6.9</b>	<b>2.3</b>	<b>2.3</b>	<b>2.0</b>	<b>2.3</b>	<b>1.0</b>	<b>0.8</b>	0.5		0.90	12.1
<b>2H Total</b>	-	<b>13.8</b>	<b>13.8</b>	<b>12.0</b>	<b>13.8</b>	<b>6.0</b>	<b>4.8</b>	<b>1.5</b>	<b>0.6</b>	<b>5.70</b>	<b>72.0</b>
<b>TOTAL</b>	<b>6.9</b>	<b>26.1</b>	<b>26.7</b>	<b>23.7</b>	<b>27.0</b>	<b>11.7</b>	<b>9.3</b>	<b>3.0</b>	<b>1.2</b>	<b>11.4</b>	<b>147.0</b>
<b>Change v. initial budget</b>	<b>2.0</b>	<b>4.5</b>	<b>2.7</b>	<b>0.9</b>	<b>1.8</b>	<b>0.9</b>	<b>0.9</b>	<b>-</b>	<b>-0.4</b>	<b>-</b>	<b>18.2</b>

Source: Daiwa Securities

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- 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), Daiwa Securities Living Investment Corporation (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%.
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(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

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association