

Daiwa's View

Amplifying pressure on increase in JGB issuance

- Cash payout of Y100,000 to all citizens requires additional JGB issuance of Y8tn

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Daiwa Securities Co. Ltd.

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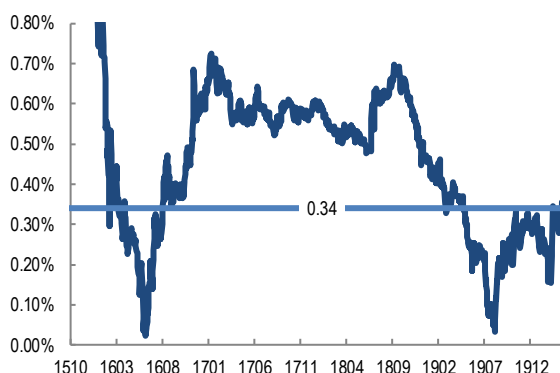
Amplifying pressure on increase in JGB issuance

Yesterday, the media reported that the government would “expand the state of emergency to include all prefectures” and “deliver a cash payout of Y100,000 to all citizens.” The initial plan of a cash payout of Y300,000 to households whose incomes have declined due to the COVID-19 pandemic will be withdrawn. The initial plan targeted around 13mn households, with an estimated budget of around Y4tn. However, due to expansion of the new plan’s target to all citizens, finance measures worth around Y12tn appear to be necessary. If we assume that the entire amount will be raised by the issuance of new JGBs, the necessary additional issuance amount is calculated at Y8tn.

Since the previous JGB Market Special Participants meeting, the market has been strongly aware of the direction of the “compilation of several rounds of supplementary budgets” and an “increase in JGB issuance in around October.” The news is thus not new in terms of the additional issuance. However, the fact that the cash payout of Y100,000 to all citizens requires such a large amount of money gives us the impression once again that the current COVID-19 shock is having a tremendous impact on national finance¹. In the [previous increase in calendar-basis market issuance](#), of the aggregate amount of Y18.2tn, Y11.4tn was financed by Treasury Bills with maturity of less than one year. From next time, pressure to increase the issuance of coupon-bearing JGBs is likely to increase finally.

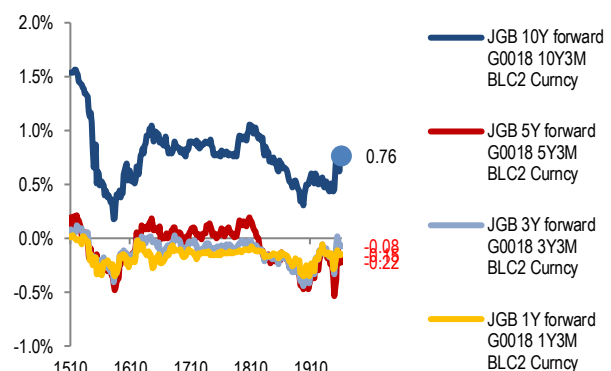
It is fairly certain that this is the background of the recently [increasing pressure to steepen the JGB yield curve](#), which has pushed up the 20Y JGB yield to around 0.35% and 10-year forward 3-month yield to around 0.76%. As the issuance size may be upped further, depending on the developments of the pandemic, we should avoid speed-before-quality moves as far as the current situation goes.

Chart: 20-year JGB Yield



Source: Bloomberg; compiled by Daiwa Securities.

Chart: JGB Forward 3-month Yields



Source: Bloomberg; compiled by Daiwa Securities.

¹ Yesterday, Fitch Ratings released cautious comments regarding Japan’s sovereign rating. Going forward, we are likely to see more of such releases.

That said, New York Fed president John Williams stated yesterday that inflation pressure may weaken, rather than strengthen, due to the COVID-19 shock. As such, it is true that there will be downward pressure on the appropriate interest rate level over the long term. Such yield levels would be attractive in ordinary circumstances. However, given the current situation, we think that the “leveling” purchase stance would be one choice if investors dare to buy.

At the JGB Market Special Participants meeting and others, there are many cases of participants pointing out weak demand in the 5-year zone. The weak demand is probably caused by the vagueness of the zone’s positioning under the current YCC policy. There is no room for doubt that potential demand for the key maturity 5-year zone is high. If the trend of the increase in JGB issuance continues, it would be desirable to quickly eliminate the instability of the 5-year yield. A more direct resolution measure would be the addition of the 5-year yield to the YCC target. However, given the difficulty in setting a consistent level with the 0% target for the 10-year yield and the convincing explanation for the logic at overseas central banks adopting a similar policy, we think [the addition of the 3-year yield \(or 2-year yield\) to the YCC target would be effective, as mentioned before.](#)

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

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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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