

JGB Insight

Further increase in calendar-based JGB market issuance via a revised draft FY2020 supplementary budget

- ✓ On Apr 20, Japan adopted a revised draft FY20 supplementary budget to finance a popped-up cash payout plan delivering Y100,000 to each of Japanese people
- ✓ Calendar-based JGB market issuance upped by Y5.8tn to Y152.8tn; further increases in TBs (6M, 1Y), 2Y and 5Y JGBs
- ✓ Yield curve flattened in reaction to pre-released headlines implying no additional increase in superlong JGBs
- ✓ Further increases in 10Y and superlong JGBs will become a real possibility

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FICC Research Dept.

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

Deficit bonds increased by Y8.9tn compared to supplementary budget as of Apr 7

At the cabinet meeting on April 20, the Japanese government decided on a revised draft FY20 supplementary budget to finance measures in the economic stimulus package, which was amended to include a cash payout of Y100,000 to each of Japanese people (the initial draft supplementary budget was decided on Apr 7). Additional spending on the general account came in around Y25.6tn (Y16.7tn as of Apr 7), and this together with the Y125.9bn (Y99.9bn) added to the special account for national debt consolidation funds brings the total additional spending from the supplementary budget to about Y25.7tn (Y16.8tn). The revenue to fund that spending will all come from issuing public debt: Y2.3tn (unchanged) in construction bonds and Y23.4tn (Y14.5tn) in special deficit JGBs. The size of the supplementary budget set a record high, exceeding the previous high as of April 7 (Chart 1). Under the initial FY20 budget at a record high of Y102tn, the government compiled a record-high supplementary budget by issuing the largest amount of deficit bonds (fiscal-year basis, Chart 2).

Another Y5.8tn increase in calendar-based JGB market issuance

Reflecting the revision to the supplementary budget, the JGB issuance plan have some changes from that decided on April 7 (Table 1). The total JGB issuance amount was raised by Y8.9tn from that in the April 7 plan to Y188.6tn as additional issuance in special deficit-financing bonds (or deficient bonds). By types of bonds based on financing methods, the calendar-based JGB market issuance was increased by Y5.8tn, the second noncompetitive auction was upped by Y63bn, and adjustments related to front-loaded issuance were increased by Y3tn.

Issuance amount upped again in short-term/intermediate zone via retrospective approval

Tables 2 and 3 show the increase in calendar-based JGB market issuance by maturity, which attracts market attention. TBs (6-month, 1-year), 2-year JGBs and 5-year JGBs were increased by the upper limit of the range on the acceptable increase set by the MOF through the JGB Market Special Participants meeting and the Meeting of JGB Investors. Those increases are expected to begin in July. After the decision on the cash payout of Y100,000 to each of Japanese people by the government/ruling parties on April 16, time was extremely limited until the decision at the cabinet meeting expected on April 20. Therefore, the MOF gave retrospective approval without holding the JGB Market Special Participants meeting and the Meeting of JGB Investors, which is an extremely rare case. Reacting to a wave of headlines related to those changes in calendar-based JGB market issuance released in afternoon trading on April 20, the JGB market firmed up toward the close of the session in positive reaction to those implying no additional issuance of 10-year and superlong JGBs. The JGB yield curve faced flattening pressure as an initial reaction..

Further increases in 10-year and superlong JGBs becoming a real possibility

Meanwhile, it is almost impossible to measure the scope of the coronavirus threat to markets and economies and the time frame until the waning of the virus at this point, as the sense of crisis is mounting about the infection in Japan as witnessed by the nationwide expansion of the state of emergency by the government. Also with the need to offset declines in tax revenue looming, multiple supplementary budgets will likely be required in FY20. As the latest supplementary budget is set to draw down front-loaded JGB issuance

by about Y10tn, further increases in calendar-based JGB market issuance are easily expected during FY20. Expecting the BOJ to maintain the yield curve control policy for quite a long time, we think that it will be more necessary to deal with the side-effects from the policy. In addition, given the strong preference among investors for JGBs with positive yields, we think that further increases in 10-year and superlong JGBs will become a real possibility toward this fall. From the issuance perspective, we see that steepening bias will likely remain on the yield curve.

Table 1: FY2020 JGB Issuance Plant

<Breakdown by Legal Grounds>

(Yen billions)

	FY2020 initial <a>	FY2020 supplementary budget		FY2020 supplementary budget revised		
			-<a>	<c>	<c>-	<c>-<a>
Newly-issued Bonds	32,660.5	49,361.9	16,805.7	58,247.6	8,885.7	25,691.4
Construction bonds	7,110.0	9,439.0	2,329.0	9,439.0	-	2,329.0
Deficit bonds	25,446.2	39,922.9	14,476.7	48,808.6	8,885.7	23,362.4
Reconstruction Bonds	924.1	924.1	-	924.1	-	-
FILP Bonds	12,000.0	21,400.0	-	21,400.0	-	9,400.0
Refunding Bonds	107,981.8	107,981.8	-	107,981.8	-	-
For matured Reconstruction bonds	1,693.2	1,693.2	-	1,693.2	-	-
TOTAL	153,462.1	179,667.8	26,205.7	188,553.5	8,885.7	35,091.4

<Breakdown by Financing Methods>

(Yen billions)

	FY2020 initial <a>	FY2020 supplementary budget		FY2020 supplementary budget revised		
			-<a>	<c>	<c>-	<c>-<a>
Financed in the Market	146,462.1	172,667.8	26,205.7	181,553.5	8,885.7	35,091.4
JGB Market Issuance (calendar based)	128,800.0	147,000.0	18,200.0	152,800.0	5,800.0	24,000.0
Non-price Competitive Auction II etc.	7,988.4	8,991.0	1,002.6	9,054.0	63.0	1,065.6
Adjustment between fiscal years	9,673.7	16,676.8	7,003.1	19,699.5	3,022.7	10,025.8
Households	4,800.0	4,800.0	-	4,800.0	-	-
BOJ Rollover	2,200.0	2,200.0	-	2,200.0	-	-
TOTAL	153,462.1	179,667.8	26,205.7	188,553.5	8,885.7	35,091.4

• 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.

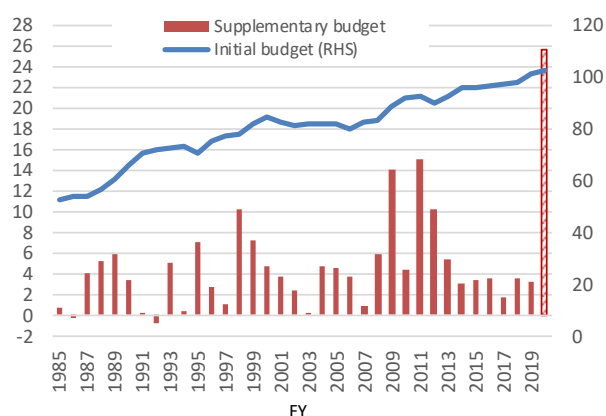
(Note2) "JGB Market Issuance (Calendar Base)" refers to JGBs issued at face value by scheduled auctions from April to next March (normal auctions).

(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.

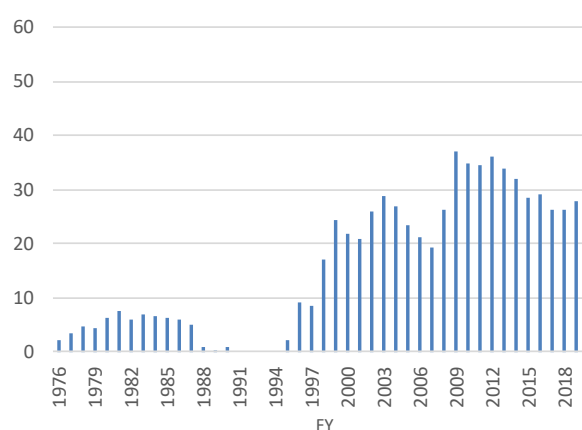
Source: Ministry of Finance

Chart 1: Initial and Supplementary Budgets (Yen trillions)



Note: Supplementary budget as of Apr. 20 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

Table 2: JGB Market Issuance on Calendar Basis

(Yen trillions)

	FY2020 initial			FY2020 supplementary budget revised				Increase from initial per auction acceptable for
	per time	# of auctions per year	total <a>	per time	# of auctions per year	total 	-<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
20Y JGBs	0.9	× 12	= 10.8	0.9	× 3	= 2.7	0.9	0.1-0.2
10Y JGBs	2.1	× 12	= 25.2	2.1	× 3	= 6.3	1.8	0.2
5Y JGBs	1.9	× 12	= 22.8	1.9	× 3	= 5.7	1.8	0.1-0.2
2Y JGBs	2.0	× 12	= 24.0	2.0	× 3	= 6.0	3.6	0.3-0.4
1Y TBs	1.8	× 12	= 21.6	1.8	× 3	= 5.4	5.4	0.5-0.6
6M TBs			-			10.0	10.0	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			152.8	24.0	

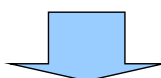
Note: Changes from Apr. 7 in red
Source: Ministry of Finance, Daiwa Securities

Table 3: FY2020 JGB Market Issuance (calendar-based) Schedule after Supplementary Budget Revised

<FY2020 initial>

(Yen trillions)

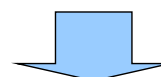
FY2020	6M TDB	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
May-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.4	0.90	11.2
Jun-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
Aug-20	-	1.8	2.0	1.9	2.1	0.9	0.7		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
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



<FY2020 after the initial supplementary budget>

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



<FY2020 after the supplementary budget revised>

(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	0.3	0.90	11.1
Jun-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
Aug-20	-	2.4	2.4	2.1	2.3	1.0	0.8		0.3	1.00	12.3
Sep-20	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
1H Total	-	12.6	13.2	12.0	13.2	5.7	4.5	1.5	0.6	5.7	69.0
Oct-20	-	2.4	2.4	2.1	2.3	1.0	0.8			1.00	12.0
Nov-20	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5	0.3	0.90	12.7
Dec-20	-	2.4	2.4	2.1	2.3	1.0	0.8			1.00	12.0
Jan-21	-	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
Feb-21	-	2.4	2.4	2.1	2.3	1.0	0.8		0.3	1.00	12.3
Mar-21	10.0	2.4	2.4	2.1	2.3	1.0	0.8	0.5		0.90	12.4
2H Total	-	14.4	14.4	12.6	13.8	6.0	4.8	1.5	0.6	5.70	73.8
TOTAL	10.0	27.0	27.6	24.6	27.0	11.7	9.3	3.0	1.2	11.4	152.8
Change v. initial supp. budget	3.1	0.9	0.9	0.9	-	-	-	-	-	-	5.8

Note: 6M TB as in March 2021 pre-fixed
Source: Ministry of Finance, Daiwa Securities

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February 2020

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- 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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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

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