

## JGB Insight

### BOJ's JGB Purchases and Yield Curve

- ✓ The BOJ decided at the April 27 policy meeting to further enhance monetary easing through further active purchases of JGBs etc.
- ✓ Based on the May Outline of Purchases, which was announced on April 27 earlier than initially scheduled, and JGB purchases offered on April 28, we expect the BOJ to further increase its purchases in the over-3-year to 5-year zone in May
- ✓ Despite aiming for a low and stable yield curve by sealing off "preference for steepening," flattening is unlikely to proceed aggressively in May

**[Box] BOJ's JGB purchases in May: Reacting to more active purchases of JGBs**

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**The BOJ will more actively purchase JGBs to stabilize the entire yield curve at a low level**

At its policy meeting on April 27, the BOJ committed to further enhance monetary easing by (1) increasing in purchases of CP and corporate bonds, (2) strengthening the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), and (3) **purchasing JGBs more actively**. It made the following decisions on further purchases of JGBs.

In a situation where the liquidity in the bond market remains low, the increase in the amount of issuance of JGBs and T-Bills in response to the government's emergency economic measures will have an impact on the market. Taking this into account, the Bank will conduct further active purchases of both JGBs and T-Bills for the time being, with a view to **maintaining stability in the bond market and stabilizing the entire yield curve at a low level**.

Under its policy of yield curve control, it kept its target for short-term rates unchanged while making the following changes to its long-term rate target:

The Bank will **purchase a necessary amount of JGBs without setting an upper limit** so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

**Successfully removing "Y80tn" guideline, but it would be very difficult to make enough purchases to increase holdings by more than Y80tn**

With the annual increase in the BOJ's JGB holdings having peaked at Y83.6tn in October 2015 and declined to around Y14tn at end-March 2020 (Chart 1), the BOJ changed the language in the policy statement for JGB purchase guideline by replacing "so that their amount outstanding will increase at an annual pace of about Y80tn" with "a necessary amount of JGBs without setting an upper limit." Asked at his press conference after the policy meeting what this removal of the Y80tn target means, Governor Kuroda emphasized that the change "makes it clearer that the BOJ will purchase whatever amount is needed without limit, including exceeding the Y80tn figure, to control the yield curve." Having understood that its large JGB purchases have reduced both liquidity and functionality of the JGB market, however, the BOJ has greatly reduced the amount of its purchases over the last few years. Even considering the planned increase in JGB market issuance from July, we think it would be quite difficult for the Bank to make purchases exceeding the Y80tn annual increase. This is evident from the lack of any significant upward momentum in the JGB market following the policy meeting.

**Flattening may be accepted, but...**

At that same press conference, Mr. Kuroda said regarding the yield curve "it is still the case that a flattening of the yield curve in the superlong zone itself is undesirable, but at this point more important than fretting about that is to use yield curve control to ensure the overall yield curve remains low and stable." With the government and the BOJ committed to work together to overcome this national crisis, the BOJ governor appears ready to accept some flattening of the yield curve in the superlong zone within the context of yield curve control (Chart 2).

**Flattening momentum unlikely to gain that much in May**

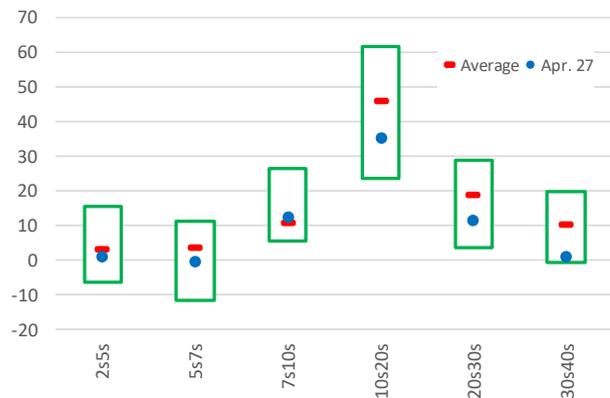
Under the directive of further enhancing monetary easing through more active purchases of JGBs, the Outline of Outright Purchases of Japanese Government Securities was released on April 27 earlier than initially scheduled. According to the outline, the BOJ will likely increase purchases in the over-1-year to 10-year zone and keep purchases in the over-10-year zone unchanged vs. April (see Box). In addition to auctions for 20-year and 30-year JGBs, a 40-year JGB auction is also scheduled for May. The difference between the amount of issuance from MOF and the amount purchased by the BOJ will, relative to April, become less in the short-term to long-term zones and become larger in the superlong zone (see with the red circle in Box Table 1). From the perspective of the MOF issuance and BOJ purchase balance, we see that flattening momentum is unlikely to gain that much in May.

**Chart 1: Annual Increase in BOJ's JGB Holding (Yen trillions)**



Source: Bank of Japan

**Chart 2: JGB Yield Spread Range under YCC (bp)**



Note: Based on on-the-run and CTD compound yields  
Source: Daiwa Securities

**[BOX] BOJ's JGB purchases in May: Reacting to more active purchases of JGBs**

On April 27, the BOJ announced the Outline of Outright Purchases of Japanese Government Securities ahead of schedule (initially planned on April 30). The plan to conduct operations and purchase schedule for May have been thus clarified. The earlier release on the day of its monetary policy meeting was the first time since December 2015 when the BOJ decided to introduce supplementary measures for quantitative and qualitative monetary easing. The changes from the previous release for April are as follows:

- ✓ The upward revision to the upper limit of the offer range in the over-1-year to 3-year zone (Y200-450bn → Y200-500bn)
- ✓ The reduction in the number of offers (from six times to five) and the upward revision to the offer range (Y150-400bn → Y200-500bn) in the over-3-year to 5-year zone
- ✓ The upward revision to the upper limit of the offer range in the over-5-year to 10-year zone (Y200-500bn → Y200-550bn)
- ✓ Purchase operations in the over-10-year to 25-year zone and those in the over-25-year zone are to be offered on different days

The number of monthly offers was decreased from ten times in April to eight times (nine times if operations targeting bonds in the up-to-1-year zone and JGBs are offered on 27th). We summarize the background of these changes as follows:

- Reacting to the further enhancement of monetary easing via measures such as “further active purchases of JGBs” etc.
- As the amount of JGB market issuance is expected to increase further due to the amendment to the FY20 supplementary budget (decided on April 20 at the cabinet meeting), the BOJ was aware of moving in step with the MOF in terms of the cooperation between fiscal and monetary policies.

In the purchase operations conducted today (April 28) in the over-1-year to 3-year, the over-3-year to 5-year, and the over-5-year to 10-year zones, which were the last operations

in April, the offer amount was increased by Y20bn each in all zones from their previous operations. Given the changes from the April schedule, we forecast the offer size at the first operations in each targeted zone in May as follows:

- The over-1-year to 3-year zone: Y340bn (unchanged from last operation in April)
- The over-3-year to 5-year zone: Y350bn (up Y50bn)
- The over-5-year to 10-year zone: Y370bn (unchanged)
- The over-10-year to 25-year zone: Y120bn (unchanged)
- The over-25-year zone: Y300bn (unchanged)

Based on these forecasts, the total purchase amount in May (excluding JGBs) is expected to increase from around Y5.95tn in April (excluding JGBs and floaters) to around Y6.24tn (Table 1).

Table 1: BOJ's JGB Purchase and MOF Issuance

(Yen billions)

	Offer size per operation		Number of Offers (per month)	Offer size exp. at the first operation in May	Offer size at the last operation in Apr.	Monthly Total exp. in May (a)	MOF issuance in May* (b)	(b)-(a)	[Ref.] April
	Min	Mid							
<b>JGBs ex Linkers and Floaters</b>									
1 year and less	50	100	75	3	80	80	240	-	-
Over 1 to 3 years	200	500	350	6	340	340	2,040	2,000	-40
Over 3 to 5 years	200	500	350	5	350	300	1,750	1,900	150
Over 5 to 10 years	200	550	375	5	370	370	1,850	2,100	250
Over 10 to 25 years	50	200	125	2	120	120	240	900	660
Over 25 years	0	50	25	2	30	30	60	1,200	1,140
Linkers	30	-	-	2	30	30	60	300	-
Floaters (in even months)	100	-	-	1	-	100	-	-	-
<b>TOTAL**:</b>						<b>6,240</b>	<b>8,400</b>	<b>2,160</b>	
<b>April :</b>						<b>5,950</b>	<b>7,600</b>	<b>1,650</b>	

(Note) "Offer size per operation" and "Number of offers (per month)" are as released by the BOJ on April 27 and "Offer size expected at the first operation in May" is expected by Daiwa Securities as on Apr. 28 \* Excluding auction II and AEL \*\* Excluding JGB floaters  
Source: Bank of Japan, Ministry of Finance, Daiwa Securities

Table 2: BOJ's JGB Purchase Schedule for May

BOJ offer day / JGB auction day	(BOJ start day/ MOF settlement day)	Up to 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 to 25 years	Over 25 years	JGB Linker	TDBs	MOF Buyback
5/1/20	F 5/7/20	AEL for 2Y, 5Y, 10Y and 20Y JGBs with over 1 to 5 years left to maturity							3M	
5/4/20	M -	Public Holiday (Green Day)							-	-
5/5/20	T -	Public Holiday (Children's Day)							-	-
5/6/20	W -	National Holiday (Constitution Memorial Day obs)							-	-
5/7/20	TH 5/8/20	○	◎		◎				6M	
5/8/20	F 5/11/20	10Y JGB Auction							3M	
5/11/20	M 5/12/20		◎	◎			◎			
5/12/20	T 5/13/20	10Y JGB Auction							○	
5/13/20	W 5/14/20		◎	◎		◎		○		
5/14/20	TH 5/15/20	30Y JGB Auction								
5/15/20	F 5/18/20	○			◎				3M	
5/18/20	M 5/19/20	5Y JGB Auction								
5/19/20	T 5/20/20		◎		◎		◎		1Y	○
5/20/20	W 5/21/20	20Y JGB Auction								
5/21/20	TH 5/22/20		◎	◎						
5/22/20	F 5/25/20	AEL for 10Y and 20Y JGBs with over 5 to 15.5 years left to maturity							3M	
5/25/20	M 5/26/20		◎	◎	◎					
5/26/20	T 5/27/20	40Y JGB Auction							○	
5/27/20	W 5/28/20	○						○		
5/28/20	TH 6/1/20	2Y JGB Auction								
5/29/20	F 6/1/20		◎	◎	◎				3M	

Note: ◎ Announced by BOJ, ○ Daiwa forecast as of April 28

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

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February 2020

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