

## Outlook for BOJ's JGB purchases (Jan. 2021)

### Hoping for BOJ's repose to market call for reduction

- ✓ We think it likely that the BOJ will keep unchanged its range of offer amounts and number of offers in January 2021.
- ✓ The initial offer amounts will likely be unchanged from the final ones in December. There is room for adjustments within the current offer amount range, if necessary. Expectations of a reduction are particularly strong in the zone of more than 1 year and up to 5 years. We hope that the BOJ will manage its purchase operations flexibly.
- ✓ We would like to see the Bank adjust policy to enable more flexible management of JGB purchase operations as a part of its policy assessment.

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### We think the offer amount ranges and the number of offers are likely to be the same as in December

The BOJ will announce its Monthly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method) (January 2021) on Monday, December 28. We think the offer amount ranges and the number of offers for all targeted zones are likely to be the same as in the December schedule.

Although the 10-year JGB yield, the benchmark for the BOJ's long-term policy rate, has been steadily declining recently, strong resistance at the 0% level appears to have kept it extremely stable at around 0%. Accepted bid levels tend to fluctuate in the over-1- to 5-year zone, in part owing to strengthening differences among issues, and expectations of purchase reductions seem to be getting stronger by the day. In some respects, it will probably be difficult for the BOJ to adjust purchase amounts without the bid-to-cover ratio dropping sharply or remaining low, for example, at the 1.0-1.5x level, however. In the superlong zone, which the BOJ wants to "leave up to market forces," there has been a pause in the temporary steepening in the 20- to -40-year zone, making it unlikely that the BOJ would be in a hurry to increase purchases.

### The initial offer amounts will likely be unchanged from the final ones in December

We think the initial offer amounts in January will likely be unchanged from what they are in the final December operation in each zone. December offer amounts were around the midpoint of the range for each zone. We see ample room for adjustments within the current offer amount range during the month, if necessary. As noted above, expectations of a reduction are particularly strong in the over-1- to 5-year zone. We hope that the BOJ will manage its purchase operations flexibly with close attention to market liquidity and function. It will probably continue making decisions on which issues to purchase in each zone based on its ownership share of the issue and the supply-demand balance.

### We would like to see it adjust policy to enable more flexible management of operations as a part of its policy assessment

At its monetary policy meeting on December 18, the BOJ indicated it will begin an assessment of monetary policy to ensure that monetary easing is more effective and more sustainable, aiming to announce the results at its March 2021 policy meeting. Under the framework of the current quantitative and qualitative monetary easing with yield curve control, which the BOJ thinks has functioned properly so far, it will assess its various measures and publish the results at its monetary policy meeting scheduled for March 2021. The fact that the BOJ introduced the quantitative and qualitative monetary easing with yield curve control (QQE-YCC) framework following a comprehensive assessment ("kensho" in Japanese) in 2016 is still fresh in the market's memory. There is also the fact that the BOJ uses "assessment", as it did in 2016, for this latest announcement in the English version of the statement, while it uses different words in Japanese ("kensho" in 2016 and more lightly "tenken" this time). Given those facts, speculations start to grow in the market. The BOJ has yet to indicate specifically which measures will be subject to this assessment or any other details. However, because it recognizes that there are problems with its management of policy under the QQE-YCC framework and given that it has already announced that it will make the assessment and announce the results, this assessment will likely increase expectations among financial market participants of adjustments in the BOJ's JGB and ETF purchases. We would like to see policy adjustments that make it possible for the BOJ to

manage operations more flexibly, particularly for its JGB purchases, including by making flexible adjustments in purchase amounts and offer amounts that lead to sustainable improvement in liquidity and the restoration of market functionality.

**It should continue aiming for T-bill purchases within a range of Y500 billion to Y3 trillion**

Once again, we do not expect any changes to its Outline of Outright Purchases of Japanese Government Securities. We therefore expect the wording on its T-bill purchases to be the same as it was in its Outline of Purchases dated 27 April 2020: "the Bank will decide the purchase size per auction considering the effects on financial markets. The Bank will purchase about 500 billion to 3.0 trillion yen of T-Bills per auction for the time being." Regarding its assessment of monetary policy in the short-term market, we think expectations for the BOJ to modify the three-tier structure of its current account balance are likely to get stronger. Some observers argue that under the current set up the BOJ already has room to improve the functionality of short-term markets and exercise more discretion than it has thus far under the three-tier structure of its current account, but from the perspective of short-term rate stability, we would like to see the assessment cover the three-tier structure, as well.

#### BOJ's JGB Purchase in January 2021 (exp.) (Yen billions)

	Offer size per operation		Number of Offers (per month)	First offer size exp.		Monthly Total exp. in Jan. (a)	MOF issuance in Jan.* (b)	(a)/(b) (%)	
	Min	Mid		Min	Last offer in Dec.			YCC Avg.***	
<b>JGBs ex Linkers and Floaters</b>									
1 year and less	100	200	150	2	150	150	300	-	-
Over 1 to 3 years	350	650	500	5	500	500	2,500	3,000	83.3 76.2
Over 3 to 5 years	250	600	425	5	420	420	2,100	2,500	84.0 88.2
Over 5 to 10 years	250	600	425	5	420	420	2,100	2,600	80.8 104.8
Over 10 to 25 years	50	200	125	2	120	120	240	1,200	20.0 78.4
Over 25 years	0	50	25	2	30	30	60	1,400	4.3 30.8
Linkers	30	-	-	2	30	30	60	-	-
Floaters	50	-	-	1	-	50	-	-	-
<b>TOTAL**:</b>						<b>7,300</b>	<b>10,700</b>	<b>68.2</b>	
<b>Dec. :</b>						<b>7,300</b>	<b>10,700</b>	<b>68.2</b>	

(Note) Floaters offered in even months \* Excluding auction II and AEL \*\*Excluding JGB floaters and JGB linkers \*\*\* Based on the sum of 30Y JGB issuance amount and one-half of 40Y JGB issuance amount  
Source: Bank of Japan, Ministry of Finance (MOF), Daiwa Securities.

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- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
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### ■ Credit Rating Agencies

#### [Standard & Poor's]

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The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

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#### [Moody's]

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The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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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.
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- 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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- 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.

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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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