

# Daiwa's View

## Effects and sustainability of BOJ's corporate bond purchases

- Aggressive Japan, Europe vs. limited US, UK
- Investment in corporate bonds in 7-year zone attractive

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Daiwa Securities Co. Ltd.

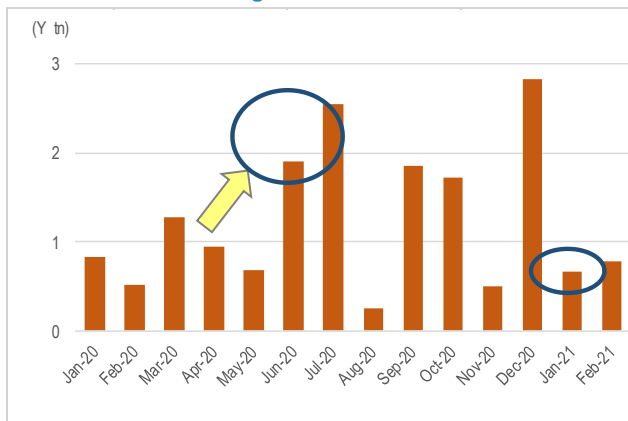
### Aggressive Japan, Europe vs. limited US, UK

## Effects and sustainability of BOJ's corporate bond purchases

At its March Monetary Policy Meeting (MPM), the BOJ will announce the result of the assessment for further effective and sustainable monetary easing. Discussions are ranging over various points, such as ETF purchases, a trading band to control the yield curve, and a deepening of negative interest rates. Here, we look at another powerful monetary policy—measures to support corporate financing. In particular, we consider purchases of corporate bonds. First, we state our conclusion that investment in 7-year corporate bonds is becoming attractive due to the continuation of corporate bond operations.

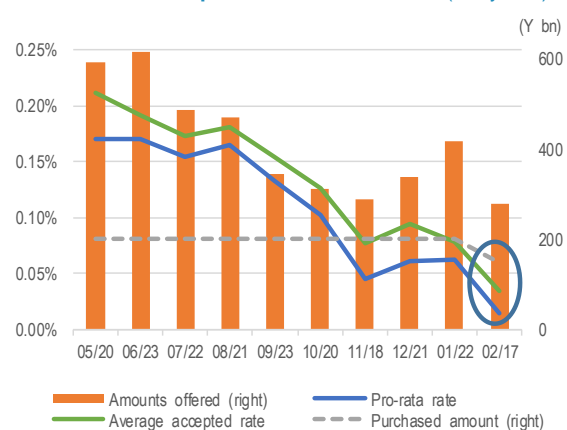
In spring 2020, the BOJ expanded the maximum purchase amount of corporate bonds from around Y3tn to Y10.5tn at a stroke (Y3tn under normal period + special purchase amount of Y7.5tn), especially to resolve a rise in CP issuance rates and a difficult corporate financing situation such as wider corporate spreads, amid increased tension in the financial market due to a declaration of the state of emergency caused by the first wave of COVID-19 infections. As witnessed by the subsequent sharp recovery of the corporate bond issuance market, we can say that large-scale easing, the “[Kuroda credit bazooka](#),” functioned quite effectively by supporting corporate fundraising activities. Meanwhile, the BOJ had conducted corporate bond purchase operations at a high pace of around Y500bn/month. In purchase operations of corporate bonds with residual maturity of 3-5 years on 17 February, the purchase amount was reduced for the first time since May 2020, but the pro-rata rate declined close to 0%. The sustainability of operations is questioned amid the pause in fundraising demand among companies. As shown in our chief credit analyst Toshiyasu Ohashi's reports, market participants are pointing out various adverse effects, such as the size of operations in comparison to the corporate bond market, uncertainty about the target of purchased issues, and a purchase method that does not reflect the difference in creditworthiness.

Issuance Amount of Straight Bonds



Source: Japan Securities Dealers Association, Bloomberg; compiled by Daiwa Securities.

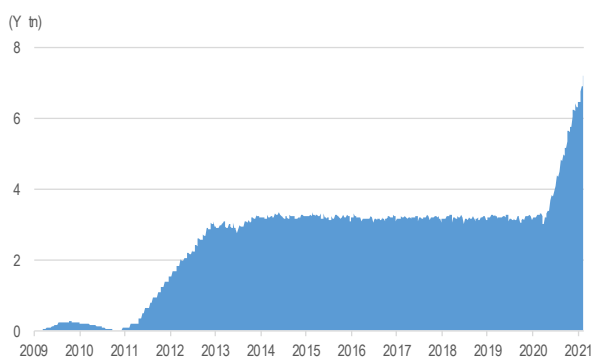
Results of BOJ's Corporate Bond Purchases (3-5 years)



Source: BOJ; compiled by Daiwa Securities.

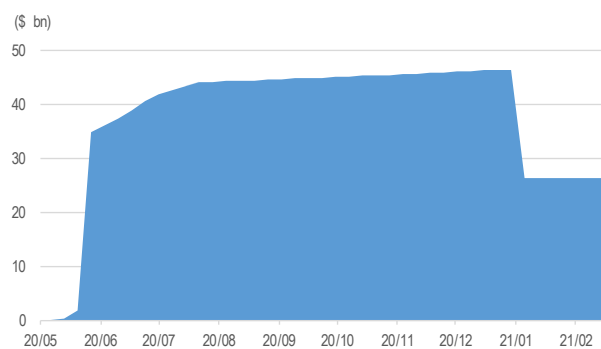
We confirm monetary policy in the US, UK, and Europe in terms of corporate bond purchases. In the US, the FOMC decided to introduce the SMCCF/PMCCF programs in March 2020. Purchases actually started in May, with an upper limit of \$750bn, but the purchase amount did not increase due to a recovery of the market environment. These programs thus ended at the end of December. Also in the UK, the Corporate Bond Purchase Scheme (CBPS) started in August 2016, with a size of £10bn. In March 2020 amid the pandemic, the size was increased to £20bn. However, when additional easing was conducted in November 2020, the purchase amount was increased only for UK government bonds (no increase for corporate bonds) and the size appears to have been limited. In contrast, the ECB started the corporate sector purchase programme (CSPP) in June 2016 as a part of asset purchase program (APP). Although it was temporarily suspended in 2018, it resumed in November 2019. Aggressive purchases have been conducted amid the pandemic. Moreover, the ECB decided to introduce the pandemic emergency purchase programme (PEPP) in March 2020, under which funds are partially allocated to corporate bonds

#### Amount of Corporate Bonds Held by BOJ



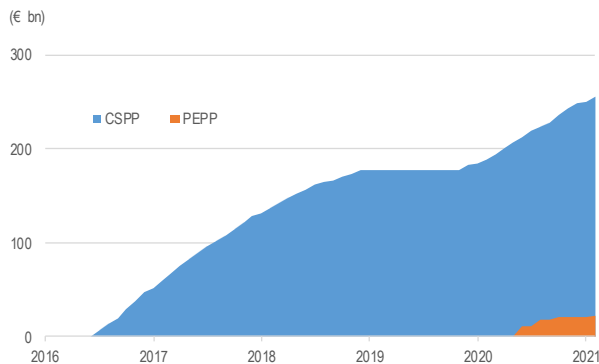
Source: Bloomberg; compiled by Daiwa Securities.

#### Amount of Corporate Bonds Held by Fed



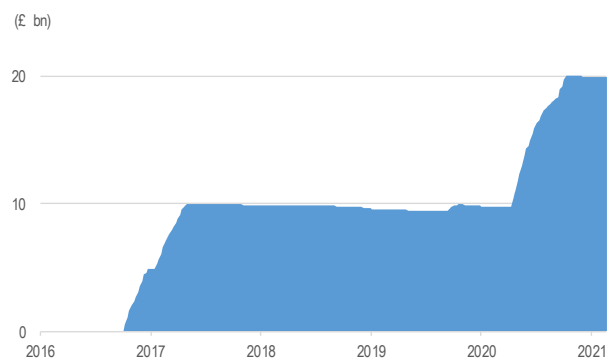
Source: Bloomberg; compiled by Daiwa Securities.

#### Amount of Corporate Bonds Held by ECB



Source: Bloomberg; compiled by Daiwa Securities.

#### Amount of Corporate Bonds Held by BOE



Source: Bloomberg; compiled by Daiwa Securities.

Under the circumstances, the BOJ decided to extend the deadline of its special funds-supplying operations to facilitate financing in response to the COVID-19 pandemic (incl. increase in purchase amount of corporate bonds) from March 2021 to September 2021 [at the December 2020 MPM](#), where it announced that it would assess monetary policy. In addition, the statement included the phrase that “the Bank will consider further extension of the program if necessary,” showing the stance of not hesitating to announce a third extension. Moreover, according to the subsequently announced Summary of Opinions at the MPM, one board member said that activities to boost creation of a deep corporate bond market should be boosted. This gave us the impression that the BOJ is aggressive toward corporate bond purchases similar to Europe. Probably, as the BOJ views that the series of corporate financing support measures (incl. corporate bond purchases) have functioned effectively, it appears to intend to continue such measures for the time being.

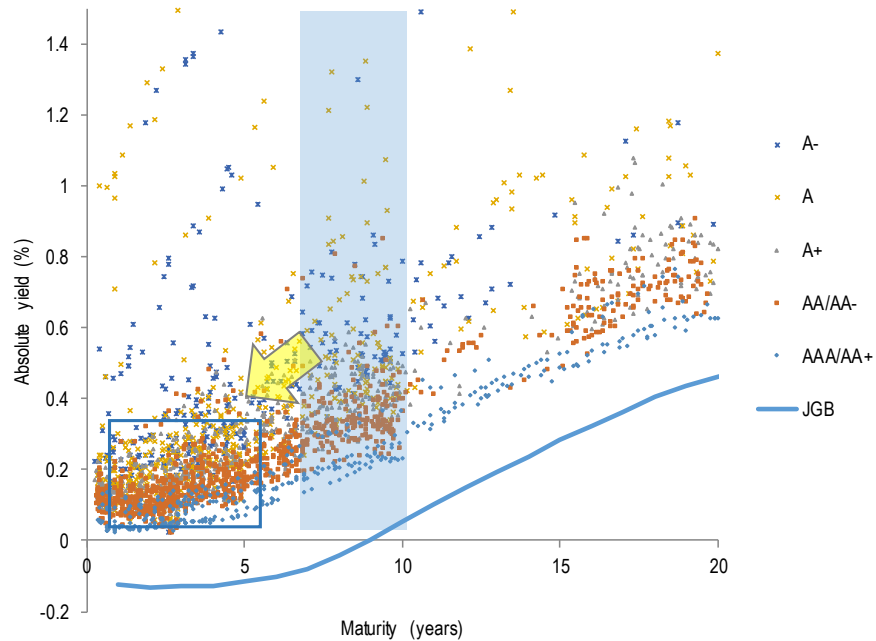
◆ Summary of Opinions at Monetary Policy Meeting on 17-18 Dec 2020

- It is important to develop and enhance direct financing through, for example, creating a deep corporate bond market so that funds for growth will be provided to firms. The Bank should encourage their activities toward sustainable growth.

**Investment in corporate bonds in 7-year zone attractive**

Finally, what kind of measures are possible to conduct effective and sustainable corporate bond purchase operations? We think that operations may become more sustainable due to contributions from more transparency via measures such as the announcement of issues to be purchased (conducted by the US and some European central banks) and the utilization of not only the secondary market but also the primary market. In addition, while market participants are pointing out that the impact of the BOJ's increased ETF holdings on corporate governance, the inclusion of debt capital that does not hold the voting rights (such as subordinated bonds) into the target of purchased issues may effectively support corporate financing. As these opinions are within intellectual exercises, it is unclear whether corporate financing support measures will be revised at the next assessment meeting. Meanwhile, at least in terms of the investment strategy, we think that the BOJ will continue to support the corporate bond market, given its aggressive stance. Accordingly, investment in corporate bonds with residual maturity of around seven years appears attractive amid tightening credit spreads up to five years<sup>1</sup>.

Corporate Bond Yield by Rating (as of end-Jan 2021)



Source: Japan Securities Dealers Association; compiled by Daiwa Securities.

<sup>1</sup> In BOJ's corporate bond purchase operations, target is corporate bonds with residual maturity of 1-5 years.

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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.
- 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

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