

# Daiwa's View

## Change in BOJ's monthly operation schedule $\neq$ promotion of rise in yields

- Emergence of essential market fluctuation factors more likely

Fixed Income Research Section  
FICC Research Dept.

Chief Strategist  
**Eiichiro Tani, CFA**  
(81) 3 5555-8780  
eiichiro.tani@daiwa.co.jp



Daiwa Securities Co. Ltd.

### Emergence of essential market fluctuation factors more likely

### Change in BOJ's monthly operation schedule $\neq$ promotion of rise in yields

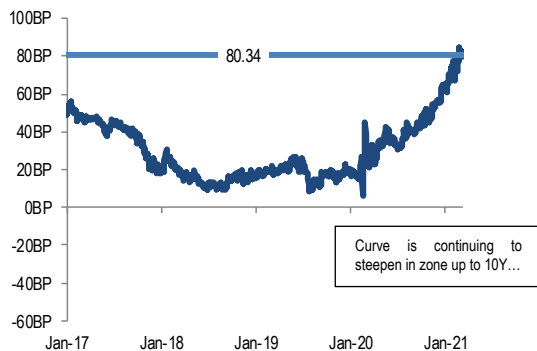
- ◆ Further twisted flattening of the yield curve

Yesterday, the 5-year, 10-year, and 30-year US Treasury yields closed at around 0.92%, 1.73%, and 2.4%, respectively. The weakness in the intermediate zone was notable. Comparing the levels on 18 March when the 30-year yield logged the recent highest level, yesterday's closing levels were +6bp in the 5-year yield, +1bp in the 10-year yield, and -5bp in the 30-year yield. As such, the yield curve has twisted and flattened (5-year, 10-year, 30-year yields closed at 0.86%, 1.71%, 2.45% on 18 Mar).

One background factor of the yield fluctuation is that the market is aware of a speech by President Joe Biden—i.e., the second round of Biden's fiscal plan, which is garnering strong interest as a next market theme. However, given the continued correction in high prices of commodities (such as copper) and the fact that the rise in yields has been led by the intermediate zone (minimal impact on terminal rate), we think the market does not regard these figures as the final proposal.

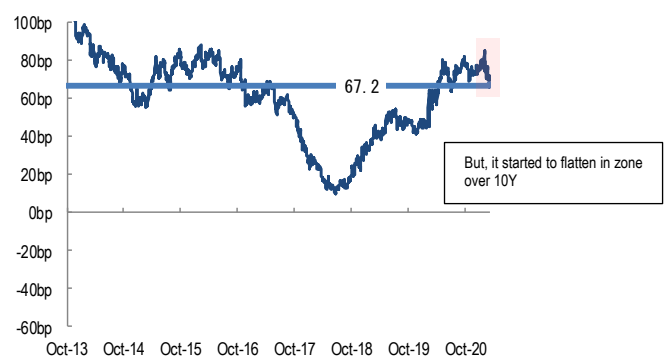
Reportedly, \$2.25tn will be invested in infrastructure over an eight-year period and the expenditures will be fully covered over 15 years via tax hikes. If so, this is not fiscal spending but a policy with a strong feature of reallocation. Over the last-half seven-year period, the fiscal contraction effects would be left. Of course, there is a certain degree of caution about the possibility that fiscal expenditures will become enormous similar to the case of the first round of the fiscal plan ("American Rescue Plan"). This time, however, the Democratic Party is promoting tax hikes (amid difference in opinion within party), while the Republican Party is opposing tax hikes. Therefore, even if the Democrats use a budget reconciliation process again, the focus on expansion of fiscal spending is likely to be less than that in the first round. Limited upside in the long-term/superlong yields is expected to serve as one factor behind further twisted flattening of the yield curve.

US Treasury 5Y/10Y Spread



Source: Bloomberg; compiled by Daiwa Securities.

US Treasury 10Y/30Y Spread



Source: Bloomberg; compiled by Daiwa Securities.

◆ What does BOJ intend via reduction in offer amount in monthly schedule?

In yesterday's JGB market, the BOJ [announced](#) the *Monthly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method)* for April 2021. In the monthly schedule from April, it was decided that the offer amount per auction would be described as a specific amount, instead of showing it in a range. Therefore, the degree of attention prior to the announcement appears to have been high (refer to [another report](#) for details of JGB purchases).

Comparing the disclosed number of days and figures with those in the previous month, the number of offers was reduced by one time each in all target zones, alongside a slight cut in the cumulative monthly offer amount. The rate of decline in the offer amount in the superlong zone is large (down 16.7%). However, as the purchase amount was already small, the total amount of the actual reduction in the superlong zone was only ¥50bn/month. This is likely to have an only minor impact on the market. Rather, it is striking that the reduction in the over 5-year to 10-year zone was an influential ¥300bn/month.

The above-mentioned reduction apparently contradicts a remark by BOJ governor Haruhiko Kuroda—"it is critical to keep the entire yield curve low and stable during the pandemic." However, the BOJ has prepared exhaustively for a rise in yields at the March Monetary Policy Meeting (MPM) by introducing the "fixed-rate purchase operations for consecutive days." Partly because of this, we should take the reduction in the monthly schedule as the BOJ's stance focusing more on market functions. Given the fact that the stock effects of JGB purchases are increasing day by day, we think that the flow effects of JGB purchase (monthly purchase amount) should be gradually reduced. The market does not necessarily take the reduction as the intention to promote a rise in yields<sup>1</sup>, in our view. As the hurdle to deter a decline in yields is higher than that to contain a rise in yields, yesterday's action appears to be good as a basic approach of the yield curve control (YCC) policy.

#### Monthly Schedule of Outright Purchases of JGBs

Monthly offer amount (Y bn, %)						
	March		April		Change (Y bn)	Change (%)
Zone up to 1 year	200 (= 100*2)		150 (=150*1)		-50	-25.0
Over 1-year to 3-year zone	2,000 (=400*5)		1,900 (=475*4)		-100	-5.0
Over 3-year to 5-year zone	1,850 (=370*5)	→	1,800 (=450*4)		-50	-2.7
Over 5-year to 10-year zone	2,100 (=420*5)		1,800 (=450*4)		-300	-14.3
Over 10-year to 25-year zone	240 (=120*2)		200 (=200*1)		-40	-16.7
Over 25-year zone	60 (=30*2)		50 (=50*1)		-10	-16.7
<b>Total</b>	<b>6,450</b>			<b>5,900</b>		<b>-550</b>

Source: BOJ; compiled by Daiwa Securities.

Regarding yesterday's information disclosure by the BOJ, another focus of attention is the following sentences in the section three (3) Amount to be purchased of [the Outline of Outright Purchases of Japanese Government Securities](#)—"In the schedule of purchases for the following month, the amount of purchases per type of JGBs/residual maturity will be specified taking account of market conditions, which the Bank, in principle, will purchase accordingly. The Bank may exceptionally adjust the amount in case the level of the yield curve changes substantially, posing the risk of long-term interest rate (10-year JGB yields) surpassing either the upper or the lower limit of the range." As the BOJ set a high hurdle to adjust the offer amounts in purchase operations during the month,<sup>2</sup> "forecasting the BOJ's operations" at a time of market fluctuation will become less important going forward. We can say that the emergence of essential market fluctuation factors would be more likely, which is a welcome change.

<sup>1</sup> If BOJ continues to buy same amount of JGBs as those when stock effects were weak, excessive decline in yields will be inevitable at some point.

<sup>2</sup> This is equal to clear statement that BOJ will not basically adjust purchase amount unless market tests upper/lower limits of fluctuation range.

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- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, 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)

##### How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (<http://www.standardandpoors.co.jp/unregistered>) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

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Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

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#### [Moody's]

##### The Name of the Credit Rating Agencies Group, etc

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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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### Other Disclosures Concerning Individual Issues:

- 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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- 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

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