

# Daiwa's View

## 20-year JGB auction

- Trouble-free auction is expected, but slightly cautious about secondary trends

Fixed Income Research Section  
FICC Research Dept.

Strategist  
**Kazuya Sato**  
(81) 3 5555-8773  
kazuya.sato@daiwa.co.jp



Daiwa Securities Co. Ltd.

### Trouble-free auction is expected, but slightly cautious about secondary trends

#### 20-year JGB auction

A 20-year JGB auction is to be conducted on Thursday, 26 August. The scheduled maturity date is 20 June 2041, and the planned issuance amount is around Y1.2tn, the same as in the previous auction. These new 20-year JGBs will be a reopening of the July issue (JL177). As of 15:00 on 24 August, the yield of JL177 closed at 0.405% on a conventional basis (up 0.5bp vs. previous day's close).

Reflecting very strong US jobs data for July, Fed officials commented on a timeline for asset purchase tapering taking into consideration buying time for rate hikes. This has led to a slight change in the consensus in the bond market. The 10-year US Treasury yield, which had been trending just below 1.30%, rose briefly. However, the University of Michigan's Consumer Sentiment Index, released on 13 August, tumbled to its lowest level in ten years due to the spreading Delta variant and concerns about inflation. These conditions contributed to the emergence of a stagflation scenario and the 10-year Treasury yield again turned sharply lower. Due to the aftereffects of US yield trends, the JGB market has been posting slight fluctuations within its range. The 20-year JGB yield has remained range bound at around 0.40%. We will consider points regarding tomorrow's auction under these circumstances.

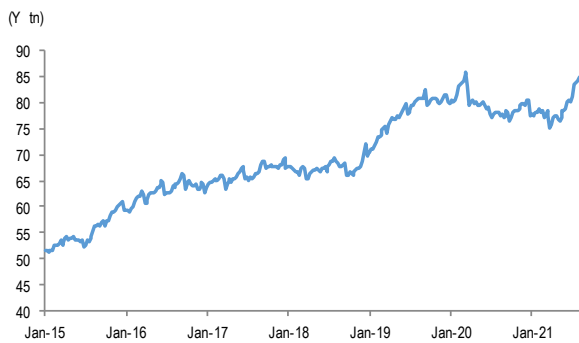
With US yield trends having an impact on the JGB market recently, trends with foreign investors, which are a transmission channel, are also attracting attention. Since April, with no major issues arising from the BOJ's assessment meeting, uncertainty about the JGB market has receded. Probably due to this, net buying by foreign investors, which had quieted down before then, increased. Based on the MOF's weekly published "Portfolio Investment Liabilities," we can presume that the outstanding amount of JGBs held by overseas investors has increased to its peak level logged in March 2020.

Net buying by foreign investors is currently focused on medium/long-term bonds. However, as long as there is no change in the 10-year forward 10-year yield, the 10-year yield could serve as a major factor in changing the 20-year yield. Therefore, the movements of foreign investors, who support the long-term bond market, are likely to indirectly support 20-year JGBs.

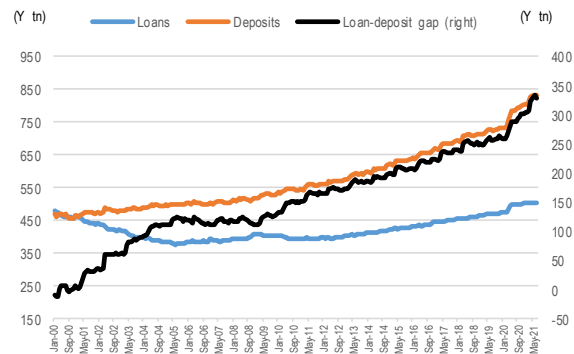
One topic of mention in Japan is that the loan-deposit gap at both major banks and regional banks narrowed in July compared to June. A drop in deposits was the main contributor to the narrowing of the gap. From a nationwide standpoint, however, the state of emergency and "manbo" quasi-state of emergency measures were suspended in July.<sup>1</sup> Therefore, it appears that the increase in household consumption took place through the withdrawal of deposits.

<sup>1</sup> Except for four prefectures in the Tokyo Metropolitan area, Osaka, and Okinawa, no other regions in Japan were subject to a state of emergency or the "manbo" quasi-state of emergency measures from 12 Jul to 1 Aug.

**Outstanding Amount of JGBs Held by Overseas Investors (estimate)<sup>2</sup>**      **Loan-deposit Gap at Major Banks and Regional Banks**



Source: MOF; compiled by Daiwa Securities.



Source: BOJ; compiled by Daiwa Securities.

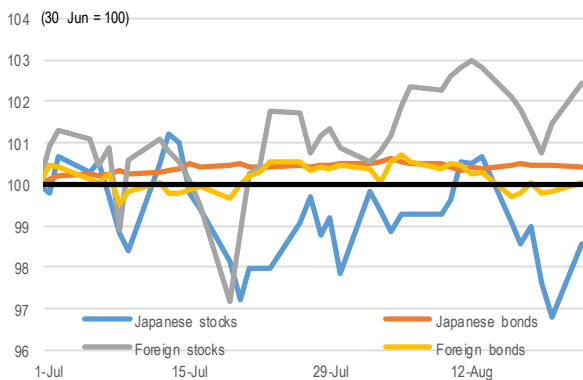
However, the number of COVID-19 infections is currently spiking nationwide in line with the spread of the Delta variant. On 20 August, the area covered by the state of emergency was expanded. Under the circumstances, excess money may be increasing due to a re-accumulation of deposits at depository institutions.

The environment surrounding Japanese risk assets has also changed. With Chinese authorities starting to crackdown on the IT and education sectors, prices of related Chinese stocks have plunged. Also, the other day Toyota Motor announced that it would cut global output by 40% in September, which aggravated the situation, and led to bearish stock prices in Japan.

In terms of textbook logic, we can say that these risk-off movements partially support bond investment. However, we can also say that such movements may trigger asset allocation from Japanese bonds to Japanese stocks by trust banks, which had been major buyers in the JGB market up until now.

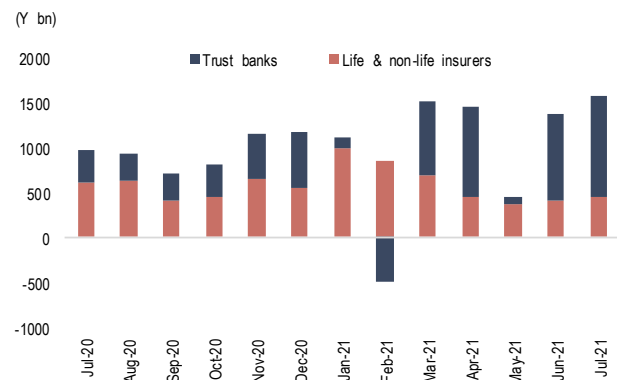
In [the Trends in Bond Transactions \(July\) report](#) released on 20 August, it was confirmed that the level of superlong JGB net buying by trust banks was the highest since these figures began being tallied, while the amount of superlong JGBs purchased by life and non-life insurers was modest y/y similar to the Apr-Jun quarter. However, we need to keep in mind to a certain degree the possibility that these flows could change.

**Price Trends of Japanese/Foreign Assets Since End-Jun<sup>3</sup>**



Source: Bloomberg; compiled by Daiwa Securities.

**Net Buying of Superlong JGBs by Life & Non-life Insurers and Trust Banks**



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

<sup>2</sup> Net inward bond investment (medium/long-term JGBs) accumulated on end-2014 external debt balance (JPY, medium/long-term bonds).  
<sup>3</sup> For asset indexes, we simply used TOPIX (incl. dividends) for Japanese stocks, DC DOMESTIC BOND INDEX F BPI for Japanese bonds, MSCI Kokusai Index (World Ex Japan) NETR JPY for foreign stocks, and FTSE Non-JPY WGBI JPY for foreign bonds.

Turning to the fiscal and political situations, a candidate supported by Prime Minister Yoshihide Suga lost big in the Yokohama mayoral election, for which voting and vote counting were conducted on 22 August. The outcome caused a change in the consensus regarding the schedule for dissolution of the lower house and the supplementary budget. We now assume that 1) the Cabinet decision on the supplementary budget will happen around Nov-Jan 2022 and 2) factors that increase the JGB issuance amount and those that decrease it are likely to cancel each other out<sup>4</sup>.

Given the aforementioned factors, we think that the auction itself tomorrow will go smoothly at a level above 0.40%. However, considering the trend with trust banks, we should be slightly concerned about the secondary market. In terms of relative value, as well, 20-year JGBs have been expensive in the long end, but it is relatively easy to buy them compared to 10-year JGBs. Although market factors are mixed, we would like to place our bids under the assumption that 1) upward pressure on US yields is unlikely to intensify and 2) 20-year JGBs can perform better in terms of the carry and roll-down return, similar to 10-year JGBs whose auction had an average result.

### 20-year JGB Auction Results

Auction date	Issue #	Maturity date	Coupon (%)	Issuance amount (¥ bn)	Bid-to-cover ratio (X)	Average accepted yield (%)	Highest accepted yield (%)	Weighted average price (¥)	Lowest accepted price (¥)	Tail (Y)	Allotment	Bloomberg consensus (¥)
26-Aug-21	177R	20-Jun-41	0.40	1,200*								
13-Jul-21	177	20-Jun-41	0.40	1,266	3.51	0.404	0.408	99.92	99.85	0.07	9.4%	99.80
24-Jun-21	176R	20-Mar-41	0.50	1,207	3.62	0.433	0.436	101.21	101.15	0.06	31.1%	101.15
21-May-21	176R	20-Mar-41	0.50	1,219	3.48	0.445	0.450	101.00	100.90	0.10	37.5%	100.90
20-Apr-21	176	20-Mar-41	0.50	1,225	3.34	0.438	0.439	101.12	101.10	0.02	79.6%	101.00
11-Mar-21	175R	20-Dec-40	0.50	1,300	3.40	0.513	0.519	99.75	99.65	0.10	33.2%	99.60
18-Feb-21	175R	20-Dec-40	0.50	1,273	3.13	0.482	0.488	100.31	100.20	0.11	47.0%	100.20
18-Jan-21	175	20-Dec-40	0.50	1,209	3.35	0.443	0.448	101.04	100.95	0.09	78.8%	100.95

Source: MOF; compiled by Daiwa Securities.

\*Scheduled issuance amount.

<sup>4</sup> Refer to Daiwa's View—[Schedule for supplementary budget, taking into consideration Yokohama mayoral election results](#) (DWVE977 dated 24 Aug 2021).

**IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

**Ratings**

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

**Target Prices**

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

**Disclosures related to Daiwa Securities**

Please refer to [https://lzone.daiwa.co.jp/l-zone/disclaimer/e\\_disclaimer.pdf](https://lzone.daiwa.co.jp/l-zone/disclaimer/e_disclaimer.pdf) for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

**Explanatory Document of Unregistered Credit Ratings**

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

<https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

**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