

Daiwa's View

Forecast for JGB issuance plan and speculative media reports

- An increase in issuance of 10-year JGBs wouldn't be surprising, but impact on market is likely to depend on the BOJ's operations

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Daiwa Securities Co. Ltd.

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In advance of the announcement tomorrow (24 Dec) of the FY22 JGB issuance plan, the Nikkei reported yesterday that the FY22 budget bill would amount to Y107tn, with deficit-financing bonds exceeding Y30tn for the second year in a row. (This news appeared in today's Nikkei morning edition.)

Our senior fiscal policy and credit analyst Kouji Hamada and strategist Kazuya Sato issued the "Forecast for FY22 JGB issuance plan" on 20 December. This report estimated new issuance of JGBs to amount to Y38.1tn, which is Y1.2tn more than what was reported by the Nikkei (Y36.9tn). The Nikkei also stated that the general account expenditure would be Y107.6tn, which is in line with the basic scenario of Y107tn in our report. We can, therefore, say that our thinking was largely correct regarding public finance, which is the premise of the JGB issuance plan.

Our forecasts for the calendar-basis market issuance, based on various assumptions related to public finance, are shown in the chart below. There is no major difference between the market consensus and our forecasts (such as an increase in issuance of 40-year JGBs and the lack of an increase in issuance of 20-year JGBs). Regarding 40-year JGBs, the MOF could wait for gradual broadening of market participants via bimonthly issuance worth Y700bn or suddenly switch to monthly auctions (Y400bn/auction). We think the former is highly likely.

JGB Calendar-basis Market Issuance Amounts (actual and forecast) in Issuance Plan (Y tn)

	FY21				FY22 (forecast)				
	Initial	(Annual issuance amount; :a)	After extra budget	(Annual issuance amount; :b)	(b)-(a)	Initial	(Annual issuance amount; :c)	(c)-(a)	(c)-(b)
40-yr JGBs	0.6 × 6 times	3.6	0.6 × 6 times	3.6	0.0	0.7 × 6 times	4.2	0.6	0.6
30-yr JGBs	0.9 × 12 times	10.8	0.9 × 12 times	10.8	0.0	0.9 × 12 times	10.8	0.0	0.0
20-yr JGBs	1.2 × 12 times	14.4	1.2 × 12 times	14.4	0.0	1.2 × 12 times	14.4	0.0	0.0
10-yr JGBs	2.6 × 12 times	31.2	2.6 × 12 times	31.2	0.0	2.7 × 12 times	32.4	1.2	1.2
5-yr JGBs	2.5 × 12 times	30.0	2.5 × 12 times	30.0	0.0	2.5 × 12.0 times	30.0	0.0	0.0
2-yr JGBs	3.0 × 12 times	36.0	3.0 × 12 times	36.0	0.0	2.9 × 12.0 times	34.8	-1.2	-1.2
TBs		83.2		74.0	-9.2		66.0	-17.2	-8.0
10-yr JGB linkers	0.2 × 4 times	0.8	0.2 × 4 times	0.8	0.0	0.2 × 4.0 times	0.8	0.0	0.0
Liquidity enhancement auction		11.4		11.4	0.0		12.0	0.6	0.6
Total		221.4		212.2	-9.2		205.4	-16.0	-6.8

Source: MOF; compiled by Daiwa Securities.

Meanwhile, we forecast that issuance of 10-year JGBs will be increased by Y100bn/month, which differs largely from the market consensus. However, an increase wouldn't be surprising given the issues mentioned on the following page.

- ◆ Major opinions suggest possibility of cut in 2-year JGBs and increase in 10-year JGBs
The Financial Bureau's explanatory materials for the Meeting of JGB Market Special Participants (the 97th meeting) included major opinions at the Meeting of JGB Market Special Participants and the Meeting of JGB Investors, both of which were held on 29 November. Specifically, these included views that there was leeway to cut 2-year JGBs, that it would substantially help the JGB market's liquidity improve if issuance allocation in the liquidity enhancement auction were increased, and that, with residual maturities of 10 years or less being influenced by the yield curve control policy, a certain degree of increase in issuance of 10-year JGBs would be digested without any problems.

Major opinions in the Meeting of JGB Investors also included many views that see demand for 10-year JGBs as slightly strong, including the views that, from the viewpoint of the ALM, if issuance of 10-year and 20-year JGBs were reduced, supply/demand conditions would tighten, which would be a problem, and the opinion that one should accumulate holdings in the 10-year and 20-year zone from the standpoint of securing a carry and roll-down return during yield uptrends, and adjust portfolios in a timely manner during yield downtrends. We think such views regarding demand for 10-year JGBs during yield uptrends are grounds for forecasting a slight increase in issuance of 10-year JGBs under the current external environment—i.e., during rate hikes by the Fed.

If issuance of 10-year JGBs is increased in line with our forecast, an increase in purchases in the BOJ's *Rinban* operations (or deferment of reductions) could eventually curb the impact of the increased issuance on the market. The BOJ has decided to scale down credit support in response to the COVID-19 pandemic (COVID-19 operations/corporate bond operations). However, regarding JGBs, it may maintain its stance of emphasizing the policy mix with the government, which is continuing to expand fiscal expenditures. When confirming the impact of the increased issuance, we should focus on the net impact that also factors in the BOJ's operations.

The following is an abridged version of the "Forecast for FY22 JGB issuance plan," issued on 20 December by Kouji Hamada and Kazuya Sato.

Forecast for FY22 JGB issuance plan (20 Dec 2021)

Forecast for FY22 JGB issuance plan

Reduction expected for TBs and 2-year JGBs, but increase anticipated for 40-year and 10-year JGBs, as well as for liquidity enhancement auction in 1- to 5-year zone

The FY22 JGB issuance plan is scheduled to be announced on 24 December, following the Cabinet decision on the FY22 initial budget on the same day. Total JGB issuance is expected to decrease by around Y6.6tn from the total of the FY21 initial budget and supplementary budget. Although FILP bonds and refunding bonds are expected to be increased, a substantial decrease is expected for newly issued bonds.

The calendar-basis market issuance is expected to decrease by around Y6.8tn from the total of the FY21 initial budget and supplementary budget. We anticipate a reduction of around Y8tn in TBs and a Y100bn/auction cut in 2-year JGBs. Issuance of 40-year JGBs, which are garnering market attention, is likely to be increased by Y100bn/auction, but the auction frequency is expected to remain bimonthly. We also expect a Y100bn/auction increase in the liquidity enhancement auction in the 1- to 5-year zone. Issuance of 10-year JGBs may also be increased by Y100bn/auction.

JGB Issuance Amounts by Legal Grounds (actual and forecast) in Issuance Plan (Y tn)

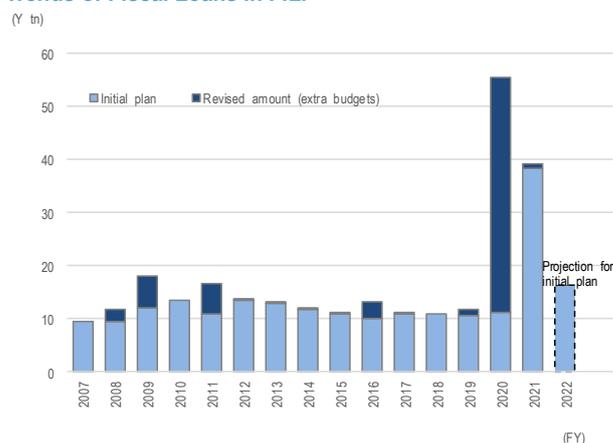
	FY21			FY22 (forecasts)		
	Initial	Total of initial budget and extra budget		Initial		
	Amount	Amount	FY21 initial → After FY21 extra budget	Amount	FY21 initial → FY22 initial	After FY21 extra budget → FY22 initial
Newly-issued bonds	43.6	65.7	22.1	38.1	-5.5	-27.6
Reconstruction bonds	0.2	0.0	-0.2	0.0	-0.2	0.0
FILP bonds	45.0	15.0	-30.0	25.0	-20.0	10.0
Refunding bonds	147.2	143.7	-3.5	154.7	7.5	11.0
Total	236.0	224.4	-11.6	217.8	-18.2	-6.6

Source: Ministry of Finance (MOF); compiled by Daiwa Securities.

FILP bonds

Issuance of FILP bonds is estimated to be around Y25tn, an increase of around Y10tn from the total of the FY21 initial budget and supplementary budget. There appears to have been considerable leeway to finance the FY21 supplementary budget due to (1) progress with fiscal investments and loans being almost in line with that of normal times and (2) an increase in deposits from the special account. Therefore, issuance of FILP bonds in the FY21 supplementary budget was reduced to Y15tn, a Y30tn reduction from what was planned in the initial budget. The amount to be issued in FY22 is expected to rise by comparison.

Trends of Fiscal Loans in FILP



Source: MOF; compiled by Daiwa Securities.

JGB Issuance Amounts by Financing Methods (actual and forecast) in Issuance Plan (Y tn)

	FY21			FY22 (forecasts)		
	Initial	Total of initial budget and extra budget		Initial		
	Amount	Amount	FY21 initial → After FY21 extra budget	Amount	FY21 initial → FY22 initial	After FY21 extra budget → FY22 initial
Calendar-basis market issuance	221.4	212.2	-9.2	205.4	-16.0	-6.8
Non-price competitive auctions II	8.2	7.0	-1.2	6.4	-1.9	-0.7
Fiscal year adjustment	0.1	0.1	0.0	0.0	-0.1	-0.1
Subtotal financed in market	229.7	219.3	-10.4	211.8	-17.9	-7.5
Sales to individual investors	4.1	2.8	-1.3	3.8	-0.3	1.0
Public sector (BOJ rollovers)	2.2	2.2	-	2.2	0.0	0.0
Total	236.0	224.4	-11.6	217.8	-18.2	-6.6

Source: MOF; compiled by Daiwa Securities.

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2-yr JGBs	3.0 × 12 times	36.0	3.0 × 12 times	36.0	0.0	2.9 × 12.0 times	34.8	-1.2	-1.2
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