

JGB Insight

Huge economic stimulus package and JGB issuance plan for FY2020 (revised)

- ✓ Strong likelihood of **increase in JGB market issuance (calendar basis)** owing to a much-larger-than-initially expected economic stimulus package
- ✓ **Substantial issuance increase expected for short- and intermediate-term JGBs** due to an expected issuance increase for FILP bonds and refunding bonds expected to be smaller in FY21 v. FY20/FY22
- ✓ **A bold increase in the issuance amount of superlong JGB would be very desirable**, given the need to address the policy's side effects expected to be stronger under the BOJ's yield curve control policy and also investors' strong preference for positive yields etc.

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FICC Research Dept.

Senior JGB Strategist
Keiko Onogi
+813 5555 8788
keiko.onogi@daiwa.co.jp

Daiwa Securities Co. Ltd.

Strong likelihood of increase in JGB market issuance (calendar basis) owing to a much-larger-than-initially expected economic stimulus package

The LDP, under the guidance of Policy Research Council Chairman Fumio Kishida, reportedly prepared on March 30 a proposed **Y60 trillion economic stimulus package, partly financed by Y20 trillion of fiscal spending**, to address the COVID-19 outbreak and submitted it to Prime Minister Abe on March 31. The proposal is said to be in line with what Prime Minister Abe expected. The size of the proposed package is greater than the economic package (worth Y56.8 trillion, including Y15.4 trillion of government spending) implemented in April 2009, in the aftermath of the global financial crisis, so-called the Lehman shock. As a result, and with the compilation of a first FY2020 supplementary budget to be approved by the cabinet in early April, the total JGB issuance will likely and, as a consequence, the JGB market issuance (calendar base) will likely be increased from the initial FY2020 budget. It will be the first time since FY2011, when the government dealt with the effects of the massive earthquake that hit northeastern Japan, that the JGB market issuance on calendar basis is increased from the initial budget. Initially, I expected that the JGB market issuance on calendar basis would not be increased because of Japan's commitment to the fiscal soundness and the large outstanding of the front-loaded JGB issuance. Confirming that the Japanese government has no hesitation for a large fiscal expansion to deal with the current "national crisis" derived from the worldwide spreading of the new coronavirus, I have decided to revise my view on the JGB issuance plan for FY2020.

Substantial issuance increase expected for short- and intermediate-term JGBs

The increase in the JGB market issuance (calendar basis) would be Y16 trillion, from the originally budgeted Y128.8 trillion to just over Y145 trillion, according to some reports on March 30. All sectors would be subject to increases, except for 40yr JGBs, JGB linkers, and tap-issued JGBs, and a resumption of issuance of 6M TBs is apparently under consideration. The increases are likely to center on bills and short- and intermediate-term notes because of the apparent need to increase the amount of FILP bonds with relatively short maturities, given that the economic package is for addressing the effects of the COVID-19 pandemic, and the small amount of refunding bonds in FY2021 compared with the amounts in earlier and later fiscal years. We expect, starting as soon as June, the Ministry of Finance will likely increase the issuance amounts for 6M and 1Y TDBs by Y500 billion, respectively, 2Y JGBs by Y300 billion, 5Y JGBs, 10Y JGBs and 20Y JGBs by Y200 billion, and 30Y JGBs by Y100 billion (Table 1). However, there is still the possibility that the increases will be Y300 billion for 5yr JGBs and Y100 billion for 20yr JGBs, given that the BOJ is to substantially increase its purchases of JGBs with maturities of more than 1 year and less than 5 years starting in April but has maintained its purchases of those with maturities of more than 10 years unchanged from March (Table 2).

Bold increase in superlong JGB issuance would be very desirable

With strong uncertainty on when the COVID-19 pandemic will come under control, it is currently very difficult to measure impact on economies etc. by the pandemic precisely. Several supplementary budgets will probably be needed in FY2020, at a time when a slump in tax revenue will need to be addressed as well. Depending on how big the packages are, the JGB market issuance (calendar basis) may need to be increased further through this

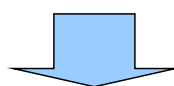
fiscal year. With the BOJ likely to stick with its yield curve control policy for a long time, a bold increase in the amount of superlong JGB issuance would be very desirable, given a rise in the need to address the side effects of the policy and investors' strong preference for positive yields.

Table 1: Image of JGB Market Issuance (calendar basis) after the First Supplementary Budget in FY2020

< FY2020 initial >

(Yen trillions)

FY2020	6M TDB	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
May-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.4	0.90	11.2
Jun-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jul-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
Aug-20	-	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.00	10.8
Sep-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
1H Total	-	10.8	12.0	11.4	12.6	5.4	4.2	1.5	0.8	5.7	64.4
Oct-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Nov-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.4	0.90	11.2
Dec-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
Jan-21	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
Feb-21	-	1.8	2.0	1.9	2.1	0.9	0.7		0.4	1.00	10.8
Mar-21	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5		0.90	10.8
2H Total	-	10.8	12.0	11.4	12.6	5.4	4.2	1.5	0.8	5.70	64.4
TOTAL	-	21.6	24.0	22.8	25.2	10.8	8.4	3.0	1.6	11.4	128.8

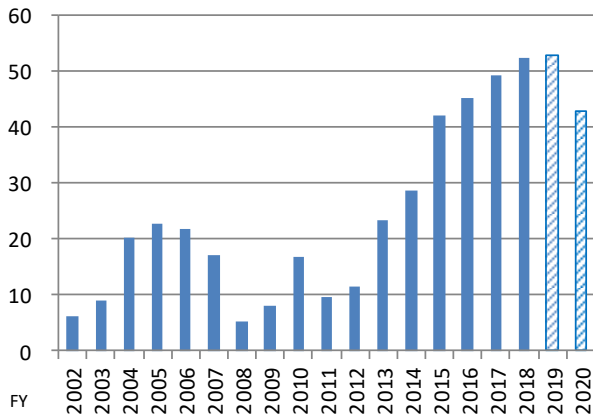


< Image after the first supplementary budget >

FY2020	6M TDB	1Y TDB	2Y JGB	5Y JGB	10Y JGB	20Y JGB	30Y JGB	40Y JGB	JGBi	AEL	TOTAL
Apr-20	-	1.8	2.0	1.9	2.1	0.9	0.7			1.00	10.4
May-20	-	1.8	2.0	1.9	2.1	0.9	0.7	0.5	0.3	0.90	11.1
Jun-20	0.5	2.3	2.3	2.1	2.3	1.1	0.8			1.00	11.9
Jul-20	0.5	2.3	2.3	2.1	2.3	1.1	0.8	0.5		0.90	12.3
Aug-20	0.5	2.3	2.3	2.1	2.3	1.1	0.8		0.3	1.00	12.2
Sep-20	0.5	2.3	2.3	2.1	2.3	1.1	0.8	0.5		0.90	12.3
1H Total	2.0	12.8	13.2	12.2	13.4	6.2	4.6	1.5	0.6	5.7	70.2
Oct-20	-	2.3	2.3	2.1	2.3	1.1	0.8			1.00	11.9
Nov-20	-	2.3	2.3	2.1	2.3	1.1	0.8	0.5	0.3	0.90	12.6
Dec-20	0.5	2.3	2.3	2.1	2.3	1.1	0.8			1.00	11.9
Jan-21	0.5	2.3	2.3	2.1	2.3	1.1	0.8	0.5		0.90	12.3
Feb-21	0.5	2.3	2.3	2.1	2.3	1.1	0.8		0.3	1.00	12.2
Mar-21	0.5	2.3	2.3	2.1	2.3	1.1	0.8	0.5		0.90	12.3
2H Total	2.0	13.8	13.8	12.6	13.8	6.6	4.8	1.5	0.6	5.70	73.2
TOTAL	2.0	26.6	27.0	24.8	27.2	12.8	9.4	3.0	1.2	11.4	145.4
Change v. initial budget	2.0	5.0	3.0	2.0	2.0	2.0	1.0	-	-0.4	-	16.6

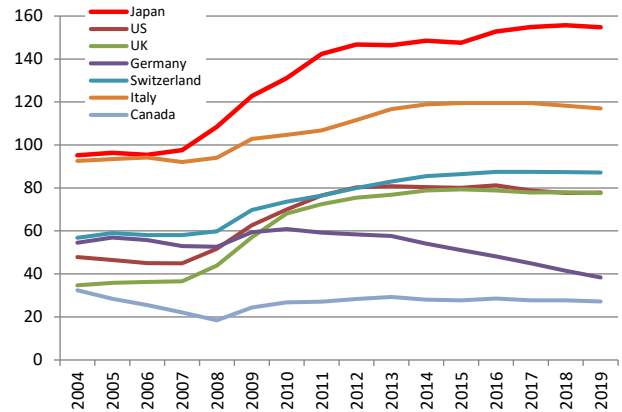
Source: Daiwa Securities

Chart 1: Front-loading Issuance of Refunding Bonds (Yen trillions)



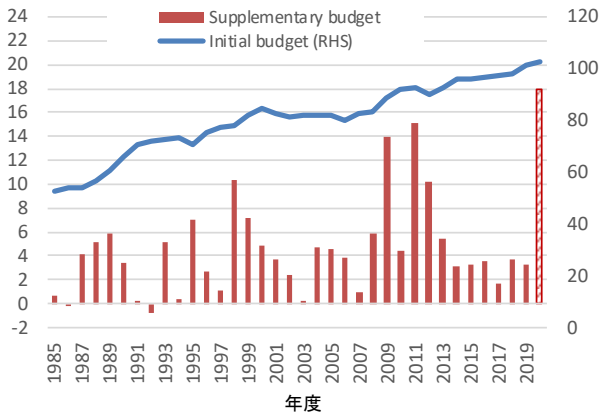
Note: Revenue basis; maximum allowance for FY2019 and FY2020
Source: Ministry of Finance, compiled by Daiwa Securities

Chart 2: Net Debt to GDP (%)



Source: Ministry of Finance, compiled by Daiwa Securities

Chart 3: Initial and Supplementary Budgets (Yen trillions)

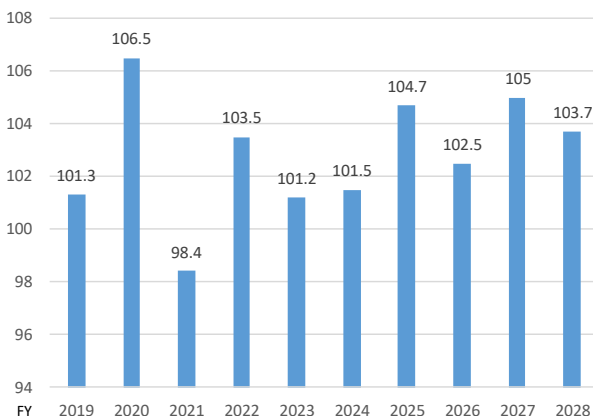


Note: Daiwa estimate for the supplementary budget in FY2020
Source: Ministry of Finance, compiled by Daiwa Securities

Chart 4: JGB Yield Curve Comparison (%)

Source: Daiwa Securities

Chart 5: Expected Refunding Bond Issuance (Yen trillions)



Note: Based on estimates in FY2019
Source: Ministry of Finance

Table 2: BOJ JGB Purchase Plan for April

(Yen billions)

	Offer size per operation		Number of Offers (per month)	Offer size expected at the first operation in Apr.	Offer size at the last operation in Mar.*	Monthly Total exp. in Apr. (a)	MOF issuance in April FY2020** (b)	(a)-(b)	
		Mid							
JGBs ex Linkers and Floaters									
Up to 1 year		50 - 100	55	3	70	50	210	-	-
Over 1 to 5 years	Over 1 to 3 years	200 - 450	425	6	350	420	2,100	2,000	100
	Over 3 to 5 years	150 - 400	325	6	280	340	1,680	1,900	-220
Over 5 to 10 years		200 - 500	350	5	350	350	1,750	2,100	-350
Over 10 years	Over 10 to 25 years	50 - 200	125	2	120	120	240	900	-660
	Over 25 years	0 - 50	25	2	30	30	60	700	-640
Linkers		30	-	2	30	30	60	-	-
Floaters (in even months)		100	-	1	100	100	100	-	-
TOTAL:						6,200	7,600	-1,400	

(Note) "Offer size per operation" and "Number of offers (per month)" are as released by the BOJ on Mar. 31 and "Offer size expected at the first operation in Apr." is expected by Daiwa Securities as on Apr. 1 (actual for over 1 to 3 years) * Offer size at the previous operation for Floaters

Source: Bank of Japan, Ministry of Finance, Daiwa Securities

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[Standard & Poor's]

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February 2020

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