

JGB Insight

Second supplementary budget and JGB issuance plan

- ✓ Japan plans to decide on a second supplementary budget by May 27.
- ✓ There is a possibility that the calendar-based JGB market issuance will increase by about ¥20 trillion.
- ✓ The Ministry of Finance will likely think about issuing shorter-dated bonds, including FILPs. The bulk of the expected calendar-based market issuance increase will likely continue to be of short- and intermediate-term JGBs including TDBs.
- ✓ In the medium to long term, it is desirable that the JGB issuance plan be a balanced one that includes superlong JGBs properly.

Strategic Memorandum DSTE382
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Calendar-based JGB market issuance may increase by about ¥20 trillion, nearly as much as with the first supplementary budget

On May 15, Prime Minister Abe instructed the government and the ruling camp to compile a FY2020 second supplementary budget to finance additional stimulus for combating the fallout from the coronavirus pandemic, aiming for a Cabinet Office decision by May 27 and passage in the current session of the Diet (by June 17). The expected additional stimulus will likely to consist primarily of (1) capital support for second-tier and large companies, (2) beefed up employment adjustment subsidies, (3) rent support for tenants, (4) student relief, and (5) provisional local revitalization grants to local governments. This will apparently be paid for with additional revenue in the general budget (increased issuance of "special deficit-financing bonds" etc.) and an expansion of the FILP plan (increased issuance of FILP bonds; Table 2).

There is currently a possibility that additional spending from the supplementary budget for the general account will total ¥10-15 trillion, according to our estimation. On top of this, assuming the additional revenue from the Fiscal Loan Fund Special Account is about the same as with the first supplementary budget (¥9.5 trillion, including FILP bonds of ¥9.4 trillion), there is also a possibility that total JGB issuance will increase by about ¥20 trillion relative to the first supplementary budget. Given that the first supplementary budget included a drawdown of front-loaded JGBs to above ¥20 trillion, there is a possibility that the calendar-based JGB market issuance will increase by about ¥20 trillion, on par with the increase from the first supplementary budget. As it is unclear at this point how much the FILP plan will increase, we need to closely watch the course of discussions within the government and the ruling parties that is likely to unfold this week. We should be aware of the possibility, however, that calendar-based JGB market issuance will increase substantially starting as early as July.

Most of the issuance increase may again be of short-term to intermediate JGBs including TBs

It looks likely that the increase in the calendar-based JGB market issuance will be concentrated in short- to intermediate-term JGBs, including TBs, just as with the first supplementary budget, 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 also that the amount of refunding bonds will be low at less than ¥100 trillion just in FY21 compared to those in FY2020 and FY2020. Table 1 shows our forecast of the calendar-based JGB market issuance by maturity after the second supplementary budget, based on current data.

It is desirable that the issuance plan be a balanced one that includes superlong JGBs properly

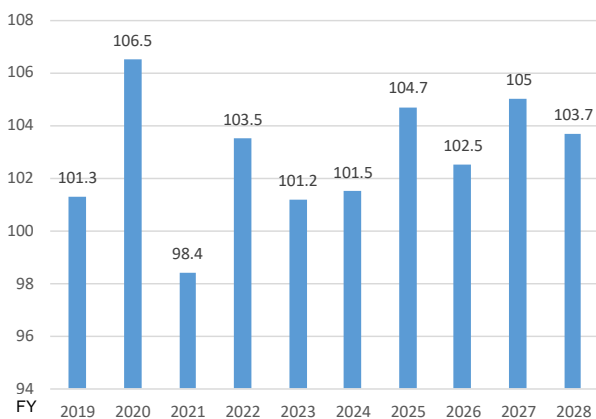
In the evening on May 14, the government decided to lift its state of emergency for 39 prefectures. Following Europe and the US, Japan is also gradually resuming social and economic activities that had been shut down because of the pandemic. As caution about a second wave of infections remains strong, however, it is difficult for market participants to become completely optimistic about a V-shaped economic recovery. Deep-seated anxiety over the economic outlook, combined with an expected sharp decline in tax revenue on the horizon, leaves us the possibility of a third and even fourth supplementary budget in FY2020. That could result in further increase in the calendar-based JGB market issuance this fiscal year. With the BOJ expected to extend its policy of yield curve control, there will

probably be an increased need to deal with the side effects, and given also the strong preference investors have for positive yields and the outlook for the post-covid-19 bond market, a balanced issuance plan that includes superlong bonds would be preferable in the medium to long term.

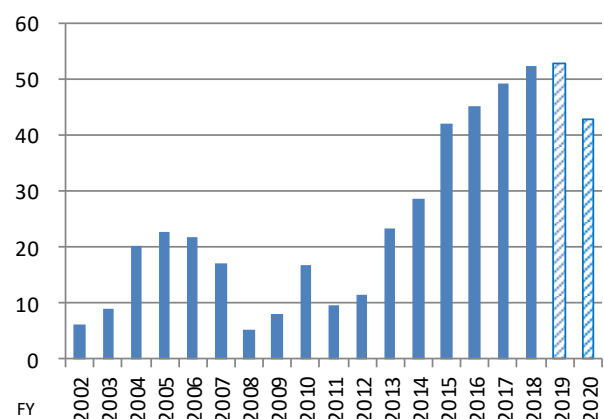
Table 1: Image of Calendar-based JGB Market Issuance after Second Supplementary Budget (Yen trillions)

	FY2020 initial				FY2020 after 1st supplementary budget revised				FY2020 after 2nd supplementary budget (exp.)					
	per time	# of auctions per year	total <a>		per time	# of auctions per year	total 		-<a>	per time	# of auctions per year	total <c>		<c>-
40Y JGBs	0.5	×	6	= 3.0	0.5	×	6	= 3.0	-	0.5	×	6	= 3.0	-
30Y JGBs	0.7	×	12	= 8.4	0.7 0.8	×	3 9	= 2.1 7.2	0.9	0.7 0.8	×	3 9	= 2.1 7.2	-
20Y JGBs	0.9	×	12	= 10.8	0.9 1.0	×	3 9	= 2.7 9.0	0.9	0.9 1.1	×	3 9	= 2.7 9.9	0.9
10Y JGBs	2.1	×	12	= 25.2	2.1 2.3	×	3 9	= 6.3 20.7	1.8	2.1 2.5	×	3 9	= 6.3 22.5	1.8
5Y JGBs	1.9	×	12	= 22.8	1.9 2.1	×	3 9	= 5.7 18.9	1.8	1.9 2.4	×	3 9	= 5.7 21.6	2.7
2Y JGBs	2.0	×	12	= 24.0	2.0 2.4	×	3 9	= 6.0 21.6	3.6	2.0 3.0	×	3 9	= 6.0 27.0	5.4
1Y TBs	1.8	×	12	= 21.6	1.8 2.4	×	3 9	= 5.4 21.6	5.4	1.8 3.0	×	3 9	= 5.4 27.0	5.4
6M TBs	-				10.0				10.0	15.0				5.0
10Y JGBis	0.4	×	4	= 1.6	0.2	×	4	= 0.8	▲ 0.8	0.2	×	4	= 0.8	-
AEL	- = 11.4				- = 11.4				-	- = 11.4				-
TOTAL	128.8				152.4				23.6	173.6				21.2

Source: Ministry of Finance, Daiwa Securities

Chart 1: Future Path of Refunding Bonds (Yen trillions)


Note: Based on the FY2019 plan
 Source: Ministry of Finance

Chart 2: Deficit Bond Issuance (Yen trillions)


Note: Issuance limit for FY2019 and FY2020
 Source: Ministry of Finance

Table 2: FY2020 JGB Issuance Plant

<Breakdown by Legal Grounds>				<Breakdown by Financing Methods>			
	FY2020 (Initial)	FY2020 (Supplementary Budget (Revised))			FY2020 (Initial)	FY2020 (Supplementary Budget (Revised))	
	(a)	(b)	(b) - (a)		(a)	(b)	(b) - (a)
Newly-issued Bonds	32,556.2	58,247.6	25,691.4	JGB Market Issuance (Calendar Base)	128,800.0	152,800.0	24,000.0
Construction Bonds	7,110.0	9,439.0	2,329.0	Non-Price Competitive Auction II, etc.	7,988.4	9,054.0	1,065.6
Special Deficit- Financing Bonds	25,446.2	48,808.6	23,362.4	Adjustment between fiscal years	9,673.7	19,699.5	10,025.8
Reconstruction Bonds	924.1	924.1	—	Subtotal Financed in the Market	146,462.1	181,553.5	35,091.4
FILP Bonds	12,000.0	21,400.0	9,400.0	Sales for Households	4,800.0	4,800.0	—
Refunding Bonds	107,981.8	107,981.8	—	BOJ Rollover	2,200.0	2,200.0	—
For matured Reconstruction Bonds	1,693.2	1,693.2	—	Total	153,462.1	188,553.5	35,091.4
Total	153,462.1	188,553.5	35,091.4				

• Buy-back program in FY2020 is planned to be implemented based on market conditions and through discussions with market participants.

• The maximum amount of front-loading issuance of Refunding Bonds in FY2020 is 43 trillion yen.

(Note1) Figures may not sum up to the total because of rounding.

(Note2) "JGB Market Issuance (Calendar Base)" refers to JGBs issued at face value by scheduled auctions from April to next March (normal auctions).

(Note3) Non-price competitive auction II is an additional issuance for JGB Market Special Participants after the normal auction (the amount assignable to each Market Special Participant does not exceed 10% of the amount awarded to it in the normal auction), and the price for the additional issuance is equal to the weighted average accepted price in the normal auction.
The amount of the non-price competitive auction II is calculated by multiplying the amount of "JGB Market Issuance (Calendar Base)" (40-Year, 30-Year, 20-Year, 10-Year, 5-Year and 2-Year Bonds) by 7% (the amount reflects the impact of reduction in the maximum issuance amount).

(Note4) "Adjustment between fiscal years" refers to leveling-off of the issuance amount between fiscal years through front-loading issuance and deferred issuance in the accounting adjustment term.

Source: Ministry of Finance

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[Standard & Poor's]

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[Moody's]

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February 2020

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