

JGB Insight

Outlook for BOJ's September JGB purchases: Uncertainty of T-bill purchases may trigger moves

- ✓ We expect the BOJ to keep its range of offer amounts, number of operations per month, and initial offer amounts unchanged from August, and adjust offer amounts during the month if necessary.
- ✓ There are some factors the BOJ may pay attention to, including instability in the 1-3Y zone and the decline in the bid-to-cover ratio in the 5-10Y zone, but they are not immediate concerns to force the BOJ's hand at this stage.
- ✓ Uncertainty in its T-bill purchases may trigger moves. Preferably it will issue a guideline with more clarity.

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We expect the BOJ to keep both its range of offer amounts and number of operations per month unchanged from August

The BOJ will release its *Monthly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method)* for September 2020 on Friday, August 28. We expect the range of offer amounts and number of operations per month in the zones targeted for purchase to be unchanged from the August schedule.

Auctions of coupon-bearing JGBs in August generally ranged from satisfactory to successful, and the MOF supply has not reached the point of amplifying upward pressure on JGB yields. The 10-year JGB yield, the benchmark for the long-term policy-rate target, has been extremely stable at around 0%. In fact, with that yield trading in such a narrow range, the bid-to-cover ratio in the over-5-year to 10-year zone has frequently dropped below 2x, and there does not seem to be much expectation in the market for purchase increases. Likewise, the current enhancement of monetary easing via "more active purchasing of JGBs" makes it unlikely that expectations of purchase reductions will take hold. Although intermediate-term JGBs in the over-1-year to 5-year zone remain unstable, the distortions in and softening of supply-demand do not appear to have gotten to the point of pushing 10-year JGB yields higher. Based on current yield levels and curve shape, we think the BOJ is unlikely to be in a hurry to increase purchases in the superlong zone, which it has decided to "leave up to market forces."

We also expect the initial offer amount to be unchanged from August

We think the initial offer amounts in September are likely to be the same as the amounts offered in the last operation of August for each zone¹. Offer amounts in August were generally either at or below the median of the offer range (the exception was the over-25-year zone, see the table on the following page). There appears to be ample room for raising purchase amounts within the current offer range during the month, if needed.

Uncertainty in its T-bill operations may trigger moves

Expectations of the BOJ September purchases seem to be more pressing for T-bills than for coupon-bearing JGBs. The August market for T-bills was heavily impacted by the significant increase in issuance (although it has calmed down recently), and T-bill yields edged higher with each auction (Chart 1). We think one reason for this is that amid thinning demand from nonresident investors and demand for collateral from domestic investors not keeping up with the pace of issuance increases (Chart 2), there has been rising uncertainty over the BOJ's stance for T-bill purchase operations since it surprised the market by reducing purchases at its T-bill purchasing operations on August 4, and this has made it harder for dealers to build and/or maintain T-bill positions.

The BOJ has provided no guidance other than what it wrote in its *Outline of Outright Purchases of Japanese Government Securities (Outline of Purchases)* released on April 27, which was "the Bank will decide the purchase size per auction considering the effects on financial markets. The Bank will purchase about ¥500 billion to ¥3.0 trillion of T-bills per auction for the time being." It is reassuring that the GC repo market has settled down, but

¹ We expect the offer amounts for each zone in its JGB buying operations scheduled for August 26, 28 and 31 to be unchanged from what they are as of August 25.

instability in the T-bill market is likely to spread further out the JGB curve, into the over-1-year to 3-year and possibly the over-3-year to 5-year zones. It would be better if the BOJ provided a guideline with more clarity and in conformance with market trends.

Table 1: BOJ's JGB Purchase in September (exp.)

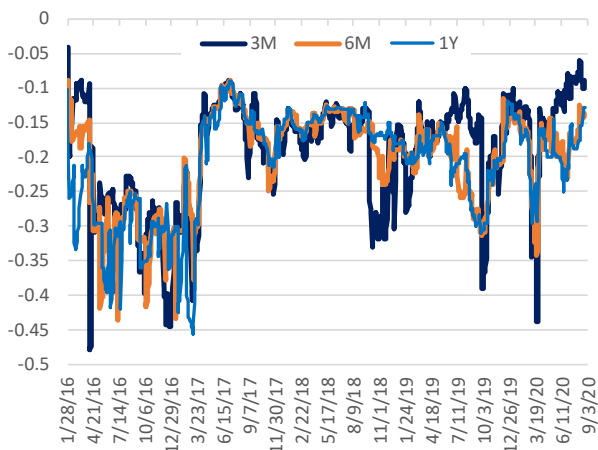
(Yen billions)

	Offer size per operation		Number of Offers (per month)	First offer size in Sept.		Monthly Total exp. in Sept. (a)	MOF issuance in Sept.* (b)	(a)/(b) (%)	
	Min	Mid		Min	Last offer in Aug.			YCC Avg.***	
JGBs ex Linkers and Floaters									
1 year and less	50	150	100	3	100	100	300	-	-
Over 1 to 3 years	250	600	425	6	420	420	2,520	3,000	84.0 76.2
Over 3 to 5 years	200	500	350	6	350	350	2,100	2,500	84.0 88.2
Over 5 to 10 years	250	600	425	5	420	420	2,100	2,600	80.8 104.8
Over 10 to 25 years	50	200	125	2	120	120	240	1,200	20.0 78.4
Over 25 years	0	50	25	2	30	30	60	1,400	4.3 30.8
Linkers	30	-	-	2	30	30	60	-	-
Floaters (in even months)	100	-	-	1	-	100	-	-	-
TOTAL**:							7,320	10,700	68.4

(Note) "Last offer in Aug." is as of Aug. 25 * Excluding auction II and AEL ** Excluding JGB floaters and JGB linkers *** Based on the sum of 30Y JGB issuance amount and one-half of 40Y JGB issuance amount

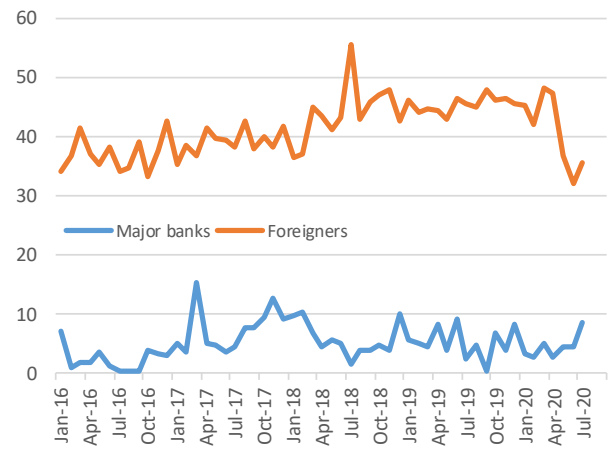
Source: Bank of Japan, Ministry of Finance, Daiwa Securities

Chart 1: TDB Yields (%)



Source: Bloomberg

Chart 2: BOJ's JGB Purchase Ratio to Issuance (%)



Source: JSDA, Daiwa Securities

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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- 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.

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