

# Daiwa's View

## How will supplementary budget change maturities of JGB issuances?

- If issuance amount is increased, increase will be with maturities desired by market

FICC Research Dept.

Senior Fiscal Policy and  
Credit Analyst

**Kouji Hamada**

(81) 3 5555-8791

kouji.hamada@daiwa.co.jp

Strategist

**Kazuya Sato**

(81) 3 5555-8773

kazuya.sato@daiwa.co.jp

Daiwa Securities Co. Ltd.

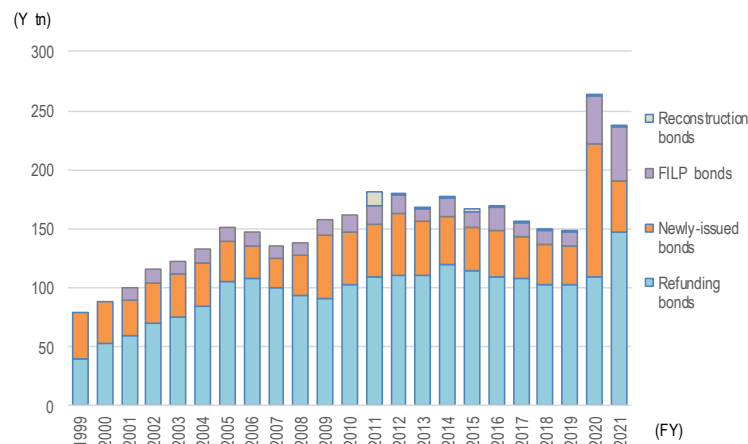
**If issuance amount is increased, increase will be with maturities desired by market**

### How will supplementary budget change maturities of JGB issuances?

Economic measures are to be formulated on 19 November. Then, the FY21 supplementary budget will be formed, followed by a revision to the JGB issuance plan. Ultimately, the focus of attention will be the changes in the issuance amount in JGB auctions by maturity. If the size of economic measures is at the currently assumed level, the amount of calendar-basis market issuance in the JGB issuance plan is likely to be largely unchanged from the initial plan. An increase in the entire issuance amount would not serve as a reason to increase the issuance amount in any particular maturity. Meanwhile, there is also the issue of once more lengthening the average maturity, which has been shortened. However, once the COVID-19 pandemic has been gotten under control, the average maturity will lengthen once more because (1) the issuance amount of newly-issued JGBs and FILP bonds will return to normal levels and (2) reduction of the issuance amount of short maturities, mainly TBs, will become possible. In the revision of the JGB issuance plan for the FY21 extra budget, the MOF is expected to increase the issuance amount of coupon JGBs only with maturities for which the market has a strong need on a long-term basis, but not raise the issuance amount with maturities for which the market does not have a particular need. For example, one candidate for further issuance would be 40-year JGBs.

Looking at trends in the JGB issuance amount, we see that the pre-pandemic figure was around Y150-180tn, but the amount significantly increased to Y263tn in FY20 as three extra budgets were formed in total to cope with the pandemic. In FY21, the amount is Y236tn due to the continuing response to the pandemic and an increase in refunding bonds owing to an increase in TB issuance in FY20.

### JGB Issuance Amount in JGB Issuance Plan



Source: MOF; compiled by Daiwa Securities.

Note: Figures after supplementary budgets shown through FY20, initial plan shown for FY21.

The post-pandemic issuance amount of newly-issued JGBs and FILP bonds depends on the economic environment and fiscal policy at the time. However, if we assume that the issuance amount will return to pre-pandemic levels, it is expected to decrease by around ¥35tn in total compared to the FY21 initial plan (chart below).

#### Estimate of Decrease in JGB Issuance Amount vs. FY21, Assuming Issuance Will Return to Pre-Pandemic Levels as Pandemic Is Gotten Under Control (¥ bn)

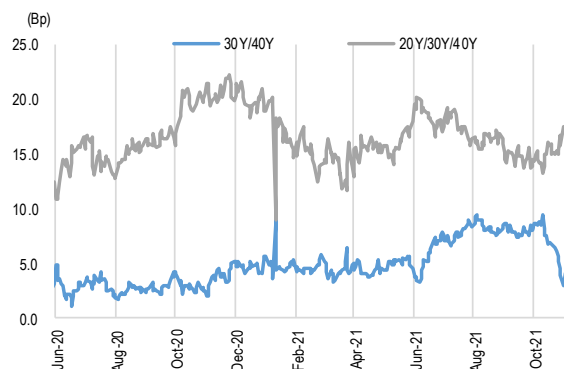
(FY)	Pre-pandemic normal period							During pandemic		Avg for normal period	Postpandemic period (estimate)	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2013-19	202X	
	After extra budgets	After extra budgets	After extra budgets	After extra budgets	After extra budgets	After extra budgets	After extra budgets	After extra budgets	Initial	After extra budgets	After extra budgets	Difference with 2021
Newly-issued bonds	45,462.0	40,492.9	36,418.3	39,034.6	35,554.6	33,692.2	32,660.5	112,553.9	43,597.0	37,616.4	40,000.0	▲ 4,000.0
FILP bonds	11,000.0	16,000.0	14,000.0	19,600.0	12,000.0	12,000.0	12,000.0	40,700.0	45,000.0	13,800.0	14,000.0	▲ 31,000.0

Source: MOF; compiled by Daiwa Securities.

The market consensus regarding maturities for which the market has a strong need on a long-term basis is likely to be formed going forward. Given the shape of the curve of 40-year JGBs, we think there may be room to consider further issuance in the sector. Since June, concerns had lingered about a substantial increase in the issuance amount of coupon JGBs to fund economic measures. However, after political events such as the Liberal Democratic Party's leadership election and the lower house election, uncertainties about the size of the supplementary budget have diminished. As a result, 40-year JGBs are now noticeably overvalued vs. 30-year JGBs.

Regarding 40-year JGBs, market participants have been pointing out the distortion of supply/demand conditions month by month because of the current practice of bimonthly issuance. The possibility of changing to monthly issuance from FY22 onwards can be considered to some extent. That said, the average maturity is expected to lengthen naturally in line with a decrease in newly-issued JGBs and FILP bonds. Therefore, lengthening of the average maturity due to further issuance of 40-year JGBs is not required at the moment, and the increase in the issuance amount depends on demand in the market.

#### JGB: 30/40-year Spread, 20/30/40-year Butterfly Spread



Source: Bloomberg; compiled by Daiwa Securities.

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