

Daiwa's View

Implications of Meeting of JGB Market Special Participants and Meeting of JGB Investors

- Increase in issuance of 40-year JGBs gained considerable support

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On 29 November, the Meeting of JGB Market Special Participants and the Meeting of JGB Investors were held. Presentation materials for both meetings were released on the day of meetings and the gist of proceedings on the following day¹. In this report, we summarize key points of these materials and implications for the FY22 budget.

Implications for the FY22 JGB issuance plan are summarized as follows.

- (1) The probability of an increase in the issuance of 40-year JGBs has risen. In addition, a change to monthly issuance also gained support from some participants, and therefore, this would be discussed with regard to the FY22 issuance plan.
 - (2) As the bid-to-cover ratio of bonds with remaining maturities of 1-5 years in liquidity enhancement auctions has been high, there is a good chance of an increase in the issuance amount.
 - (3) The outstanding amount of JGB linkers may be increased via an increase in issuance or reduction in buybacks.
- In the superlong zone, the probability of an increase in the issuance of 40-year JGBs has risen. Regarding 30-year JGBs, status quo was the majority opinion. As for 20-year JGBs, participants requested an increase in issuance or retention of the status quo.
 - At a press conference on 29 November after these meetings, the Ministry of Finance (MOF) announced that there were many opinions calling for an increase in the issuance of 40-year JGBs.
 - Slide 21 of the presentation materials for the Meeting of JGB Market Special Participants quoted the discussion from the Advisory Council on Government Debt Management held in June 2021 regarding reduction in short-term JGBs and an increase in the issuance of 40-year JGBs. This glimpse suggests that the MOF explained its policies for each of the maturities.
 - Some participants requested a change from the current bimonthly issuance to monthly issuance. In addition, the gist of proceedings says that “there was an opinion to request an increase in the issuance to Y400bn/auction when shifting to monthly issuance.”
 - 30-year JGBs transferred to the conventional method in the ninth year after their debut, and shifted to monthly issuance in the 15th year. In the case that 40-year JGBs change to monthly issuance going forward, we should be aware of the possibility that the shift to the conventional method will be implemented simultaneously (or ahead of the shift to monthly issuance), given the developments of 30-year JGBs.

¹ Links are https://www.mof.go.jp/about_mof/councils/meeting_of_jgbsp/proceedings/index.html for Meeting of JGB Market Special Participants and https://www.mof.go.jp/about_mof/councils/meeting_of_jgbsp/proceedings/index.html for Meeting of JGB Investors (both Japanese only).

- Increase in the issuance of bonds with remaining maturities of 1-5 years in liquidity enhancement auctions

It is stated that many participants requested an increase in the issuance of bonds with remaining maturities of 1-5 years in liquidity enhancement auctions. If the amount is increased, it could be increased by roughly Y100bn/auction from the standpoint of returning the bid-to-cover ratio to the FY20 level.

- Increase in the outstanding amount of JGB linkers

Regarding JGB linkers as well, it appears that there were requests to increase the outstanding amount via an increase in issuance or reduction in buybacks, in order to cope with the ongoing rise in the BEI amid concerns about inflation.

In the FY21 JGB issuance plan after compilation of a supplementary budget, the issuance of 6-month TBs was reduced by Y9.2tn. Due to this, the issuance of refunding bonds in FY22 is expected to decrease. The gist of proceedings of the Meeting of JGB Market Special Participants noted that “regarding the short-term zone, there were many opinions that displayed an understanding of the authorities’ policy of reducing the issuance of short-term JGBs by reining in the aggregate issuance of JGBs.” This shows the situation where the MOF again clarified its policy of reducing TBs. Meanwhile, the gist also said that “some called for retention of the status quo given the need for those bonds as collateral.”

If we see an increase in the issuance of 40-year JGBs, linkers, and bonds with remaining maturities of 1-5 years in liquidity enhancement auctions, the reduction in TB issuance would not be that large if the calendar-basis market issuance remains largely unchanged from the current FY21 issuance plan. However, if the calendar-basis market issuance is reduced as is the case in the latest supplementary budget, this would need to warrant attention.

Developments of Superlong JGB Market (40-year and 30-year JGBs)

(FY)	40-year JGBs			30-year JGBs		
	(Scheduled) issuance amount (Y bn)	Issuance frequency	No. of issues	(Scheduled) issuance amount (Y bn)	Issuance frequency	No. of issues
99	-	-	-	500	2	2
00	-	-	-	700	2	2
01	-	-	-	600	2	2
02	-	-	-	900	3	3
03	-	-	-	1,600	4	4
04	-	-	-	2,000	4	4
05	-	-	-	2,000	4	4
06	-	-	-	2,300	4	4
07	100	1	1	2,400	4	2
08	600	3	1	2,900	5	2
09	1,100	4	1	4,000	7	2
10	1,200	4	1	4,800	8	2
11	1,600	4	1	5,600	8	2
12	1,600	4	1	5,600	8	2
13	1,600	4	1	6,800	12	4
14	1,600	4	1	8,000	12	4
15	2,000	5	1	9,600	12	4
16	2,800	6	1	9,600	12	4
17	3,000	6	1	9,600	12	4
18	2,400	6	1	8,400	12	4
19	2,400	6	1	8,400	12	4
20	3,000	6	1	10,200	12	4
21	3,600	6	1	10,800	12	4

Source: MOF; compiled by Daiwa Securities.

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