

# 20yr JGB Auction

## We expect a satisfactory auction

- Absolute levels are a concern, but relative value should make this an easy buy
- Shrinkage of special pandemic support programs may be a positive for long-term and superlong JGBs

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### Absolute levels are a concern, but relative value should make this an easy buy

A 20yr JGB auction will be held on Thursday, 16 October. With a scheduled maturity date of 20 September 2041 and planned issuance of about Y1.2 trillion, unchanged from the previous auction, this will be a reopening of the October issue (JL178). As of 3:00 PM on 14 December, the on-the-run JL178 was trading at a simple yield of 0.45% (unchanged day-on-day).

### Summary

We expect the upcoming auction to be a satisfactory one. Although absolute yield levels and the timing of the auction right after the December FOMC meeting are reasons for concern, we think the lack of any upward rate catalysts and the supply schedule until early 2022 should support the market. Additionally, the shrinkage of the BOJ's special pandemic programs expected in either December or January may encourage banks to shift funds out of their BOJ reserve accounts and into bond investments, and this would be a medium-term positive for long-term and superlong bonds.

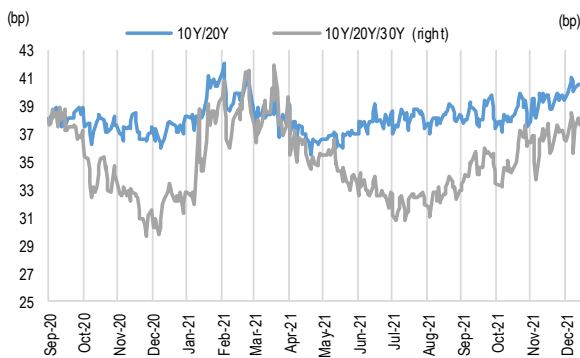
Since the previous auction, discovery of the Omicron variant has reduced both risk sentiment and growth expectations and caused a significant flattening of the yield curve in Europe and the US. Japan's domestic markets initially reacted with declines in share prices and yields on shared themes with the European and US rates markets, but JPY yields reacted with declines led by JGB futures, unlike the reaction of European and US yields. The 20yr yield held firm during that process and heading into tomorrow's auction is trading lower than it was at the previous auction.

The long-term to superlong portions of the curve show the 20yr JGB to be attractive based on relative value. The 10yr/20yr spread has risen to over 40bp, its highest since March this year. The 10yr/20yr/30yr butterfly spread provides another indication that the 20yr JGB is attractive.

One of the upcoming events on the domestic side that may garner market attention is the maturity composition of the FY22 issuance plan for coupon JGBs. [As we already noted](#), if there is an issuance increase, we expect it to be in the 40yr sector, and this would be supportive of 20yr JGBs. After this auction, except for through auctions for enhanced liquidity there will not be any more superlong JGBs supplied until the 30yr auction scheduled for 7 January 2022.

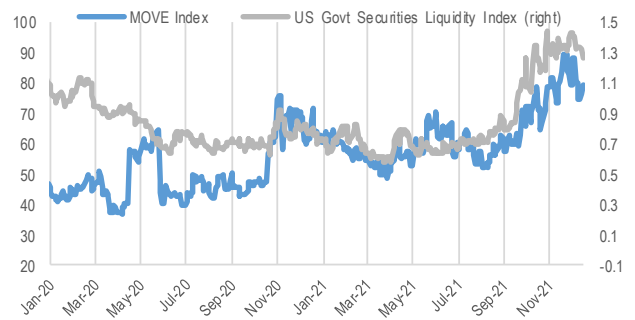
Turning to overseas, although the upcoming auction will be held knowing the results of the December FOMC meeting and Summary of Economic Projections as well as the reaction to those events in overseas markets, with the holiday mood having already settled over and reduced liquidity in overseas markets, we expect many participants to stay on the sidelines.

10yr/20yr Spread, 10yr/20yr/30yr Butterfly Spread



Source: Bloomberg; compiled by Daiwa Securities.

MOVE Index, US Govt Securities Liquidity Index

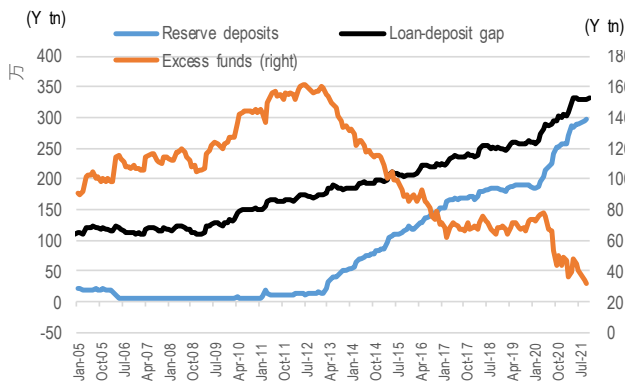


Source: Bloomberg; compiled by Daiwa Securities.

**Shrinkage of special pandemic support programs may be a positive for long-term and superlong JGBs**

Looking next at the trend in surplus funds at deposit-taking institutions, although the deposit-loan gap increased in November relative to October, the amount of bank reserves has increased by more than the deposit-loan gap, thereby reducing the level of surplus funds. A precondition for a sharp increase in bank reserves would be expanding eligibility for zero interest loans under the special pandemic programs, but be aware that the response to those programs has started leading to normalization recently.

Excess Funds at Major Banks and Regional Banks



Source: BOJ; compiled by Daiwa Securities.

A Reuters article dated 10 December reported that the BOJ is expected to consider reducing its special pandemic programs at either its December or January meetings. Within this context, it noted the possibility that the BOJ would extend its pandemic-related operations after narrowing eligibility for the program to proper lending by financial institutions.

In a speech he gave on 8 December, BOJ Deputy Governor Masayoshi Amamiya noted that corporate cash flows have been improving overall and that the BOJ would be checking the trend in cash flows, including in [the December Tankan survey](#), before deciding what to do with the special programs after their expiration date. The December Tankan survey confirmed that the lending attitude of financial institutions is stable and that although cash flows have stabilized, SMEs remain weak.

#### BOJ Deputy Governor Masayoshi Amamiya (8 Dec 2021)

In sum, financial conditions surrounding firms have improved on the whole, although weakness in financial positions has remained for some small and medium-sized firms in, for example, the face-to-face services industry. The Bank's Special Program is scheduled to be conducted until the end of March 2022, and the responses thereafter will be appropriately decided by examining developments in corporate financing and other factors based on, for example, the upcoming December Tankan.

We expect the BOJ to place limits on program eligibility while also shortening the period of extension from the six months that has been envisioned thus far. If the BOJ does shrink the size of its pandemic operations, it would make it easier to invest surplus deposits into over-10yr bonds by lowering the upper limit on the macro add-on balance. While the need for short- to medium-term collateral is diminishing, that should be a positive for long-term to superlong bonds.

There are still reasons for concern given absolute levels, but the sector's attractiveness based on relative value, the lack of upward yield pressures, and the schedule for supply out to early 2022 are all supportive, and we expect the upcoming auction to be a satisfactory one.

#### 20yr JGB Auction Results

Auction date	Issue #	Maturity date	Coupon (%)	Issuance amount (¥ bn)	Bid-to-cover ratio (X)	Average accepted yield (%)	Highest accepted yield (%)	Weighted average price (¥)	Lowest accepted price (¥)	Tail (Y)	Allotment	Bloomberg consensus (¥)
16-Dec-21	178R	20-Sep-41	0.50	1,200.0*								
18-Nov-21	178R	20-Sep-41	0.50	1,199.0	2.69	0.466	0.464	100.64	100.60	0.04	24.0%	100.55
19-Oct-21	178	20-Sep-41	0.50	1,199.0	2.69	0.471	0.475	100.51	100.45	0.06	81.1%	100.45
16-Sep-21	177R	20-Jun-41	0.40	1,199.0	3.20	0.412	0.416	99.77	99.70	0.07	64.1%	99.70
26-Aug-21	177R	20-Jun-41	0.40	1,281.9	3.65	0.405	0.408	99.89	99.85	0.04	72.7%	99.80
13-Jul-21	177	20-Jun-41	0.40	1,266.2	3.51	0.404	0.408	99.92	99.85	0.07	9.4%	99.80
24-Jun-21	176R	20-Mar-41	0.50	1,206.9	3.62	0.433	0.436	101.21	101.15	0.06	31.1%	101.15
21-May-21	176R	20-Mar-41	0.50	1,218.7	3.48	0.445	0.450	101.00	100.90	0.10	37.5%	100.90
20-Apr-21	176	20-Mar-41	0.50	1,225.2	3.34	0.438	0.439	101.12	101.10	0.02	79.6%	101.00
11-Mar-21	175R	20-Dec-40	0.50	1,300.2	3.40	0.513	0.519	99.75	99.65	0.10	33.2%	99.60
18-Feb-21	175R	20-Dec-40	0.50	1,273.4	3.13	0.482	0.488	100.31	100.20	0.11	47.0%	100.20
18-Jan-21	175	20-Dec-40	0.50	1,209.0	3.35	0.443	0.448	101.04	100.95	0.09	78.8%	100.95

Source: MOF; compiled by Daiwa Securities.

\*Scheduled issuance amount.

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