

JGB issuance considering meetings with market special participants, investors

Government may finance second supplementary budget with increased issuance of T-bills, turn to medium/long-term JGBs if funding insufficient

- Opinions: Give priority to 6-month in case of T-bills, 5-year in case of medium/long-term JGBs

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Support for first increasing issuance of T-bills, then medium/long-term JGBs

The FY22 second supplementary budget implications for the JGB market, based on what we gleaned from the materials and minutes for MOF's 25 October Meeting of JGB Market Special Participants (PD meeting) and Meeting of JGB Investors (investors meeting), are as follows.

(1) The market supports increased issuance of T-bills. In particular, there was apparently the opinion that among T-bills, priority should be given to increased issuance of 6-month T-bills. Also, one opinion apparently expressed concern about a further deterioration of liquidity when "considering market impacts."

(2) After T-bills, there was support for increased issuance of medium/long-term JGBs for which yield levels are managed to some degree by the BOJ's yield curve control (YCC) policy. While some saw no difference in terms of the leeway for increasing issuance among the various medium/long-term maturities, others wanted priority given to increasing issuance of 5-year JGBs. The reason cited for this preference was that the 5-year JGB yield has moved into positive territory.

(3) There were some cautious opinions about increasing issuance of super-long JGBs, regardless of the maturity. That said, none of the participants called for reducing issuance of super-long JGBs during the current fiscal year.

The second supplementary budget raises the probability of an increase in calendar-based market issuance of JGBs. The actual size of the increase remains unpredictable. However, if JGB issuance is increased, we think MOF will first increase issuance of T-bills. If that is not sufficient, priority will most likely be given to increasing issuance of medium/long-term JGBs.

Reports on the size of the second supplementary budget seem to change with each passing day. The *Nikkei* predicted that the supplementary budget will exceed Y29 trillion in a 27 October article. If that is the case, we think that T-bills alone would not suffice and the government would likely need to increase issuance of other interest-bearing JGBs.

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