

Daiwa's View

Signs of stabilization in front end of curve

- Will this serve as bridgehead for stabilizing the entire curve?

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Daiwa Securities Co. Ltd.

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Signs of stabilization in front end of curve

In the JGB market yesterday, the media focused on the fact that the level of the accepted yield reached 0.5% in the 10-year JGB auction, which was the first auction since the widening of the trading band. While this was, of course, important, what should be noted from yesterday was not what was implemented, but what was not implemented—i.e., that the BOJ did not conduct fixed-rate purchase operations in the 2-year or 5-year sectors for the first time since 28 December 2022.

Because the short-term and intermediate zones, the foundation of the yield curve, are quite important, we will look at them in detail. Firstly, the BOJ conducted fixed-rate purchase operations at 0.02% for 2-year JGB #443 and at 0.17% for 5-year JGB #154 on 20 December 2022, the day of the Monetary Policy Meeting (MPM). Then, fixed-rate purchase operations were implemented at 0.03% for 2-year JGB #443 and at 0.24% for 5-year JGB #154 on both 28 and 29 December. Therefore, at the time, these levels were considered new benchmarks¹. Meanwhile, fixed-rate purchase operations were conducted at 0.03% for 2-year JGB #444 and at 0.23% (1bp lower than the level at end-2022) for 5-year JGB #154 on 4 January. Then, on 5 January, when the 10-year JGB auction was held, fixed-rate purchase operations in the 2-year and 5-year sectors ended up not being implemented.

BOJ's Operations in 2-year and 5-year Sectors

	20-Dec	28-Dec	29-Dec	30-Dec	4-Jan	5-Jan
2-year JGB (1- to 3-year)	#443 0.02%	#443 0.03%	#443 0.03%	#444 0.04%	#444 0.03%	-
5-year JGB (3- to 5-year)	#154 0.17%	#154 0.24%	#154 0.24%	#154 0.24%	#154 0.23%	-
Funds-Supplying Operations Against Pooled Collateral	-	-	-	-	Y1tn 2 years	Y2tn 2 years

Source: BOJ; compiled by Daiwa Securities.

We should focus on the fact that yesterday 2-year and 5-year JGB yields closed at the low levels of 0.015% and 0.205%, respectively, despite the lack of fixed-rate purchase operations. This implies that the front end of the curve is regaining stability in the JGB market, which had faced severe turmoil since the widening of the trading band. The fixed-rate funds-supplying operations, which were implemented for the first time since the introduction of the yield curve control (YCC) policy as one of [the double backstops](#), is probably a significant factor having a positive impact here. Of course, we are not yet at all in a situation in which we can say that the entire JGB curve has been stabilized, and there are many factors that could disrupt the market, such as the MPM and the process of selecting the new BOJ Governor. That said, if we assume that the front end, the foundation of the curve, has regained stability, this could serve as a bridgehead for regaining the stability of the entire yield curve. In that sense, we feel the truly noteworthy point yesterday was not the 10-year JGB auction logging 0.5%, but that there were signs of stabilization in the front end of the curve.

¹ On 30 December 2022, fixed-rate purchase operations were conducted at 0.04% for 2-year JGB #444, but this was an adjustment to the level, reflecting the change in the maturity basket of 2-year JGBs (from #443 to #444). Therefore, there was no change as pertained to the level on the curve.

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