

# Daiwa's View

## Increasing stock effects due to rise in BOJ's share of JGB holdings

- The effects may have pushed down 10-year JGB yield by 10bp
- Substantial cut in scale of purchases in *Rinban* operations remains unlikely

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### The effects may have pushed down 10-year JGB yield by 10bp

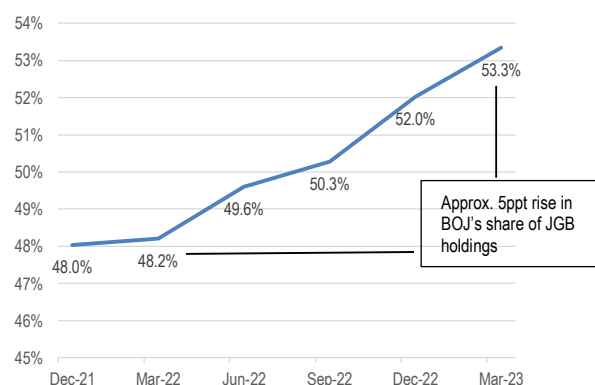
### Increasing stock effects due to rise in BOJ's share of JGB holdings

Yesterday, the BOJ announced the Flow of Funds Accounts Statistics. The BOJ's share of JGB holdings (excluding TBs), which is garnering a lot of attention from market participants, came in at 53.3% as of end-March 2023, up 5.3ppt from 48% as of end-December 2021.

In its March 2021 assessment report, the BOJ announced that it estimated that the 10-year JGB yield's sensitivity to changes in the BOJ's share of JGB holdings was 0.02%. Based on this sensitivity, we used the increase in the outstanding amount of JGBs held by the BOJ to estimate the stock effects (effects from the cumulative amount of bonds purchased via the BOJ). The result was 0.106 (= 5.3 × 0.02). Therefore, it can be estimated that increasing stock effects since the beginning of last year resulted in the 10-year JGB yield being pushed down further by slightly more than 10bp<sup>1</sup>.

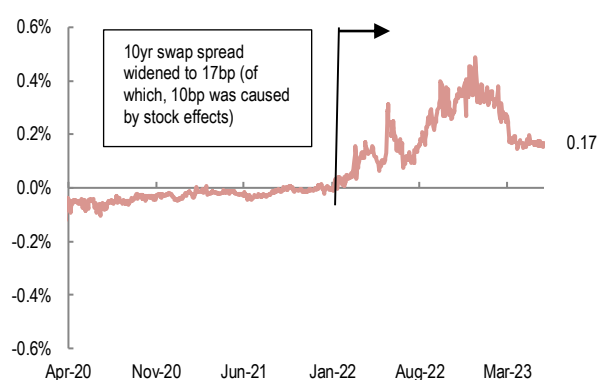
Meanwhile, spreads between swap rates and JGB yields (swap spreads), which were zero at the beginning of 2022, have been stable at around 15-18bp since the beginning of FY23 (chart below). As there are various factors affecting swap spread movements, not all of them can be explained by the BOJ's operations alone. However, if we venture to assume that the widening of the swap spread since the beginning of FY23 (from 0 to 17bp) was caused solely by stock effects and flow effects (effects from the scale of bond purchases in each period), it can be calculated that 10bp was caused by stock effects and 7bp was caused by flow effects.

BOJ's Share of JGB Holdings (excl. TBs)



Source: Bloomberg; compiled by Daiwa Securities.

10yr Swap Spread



Source: Bloomberg; compiled by Daiwa Securities.

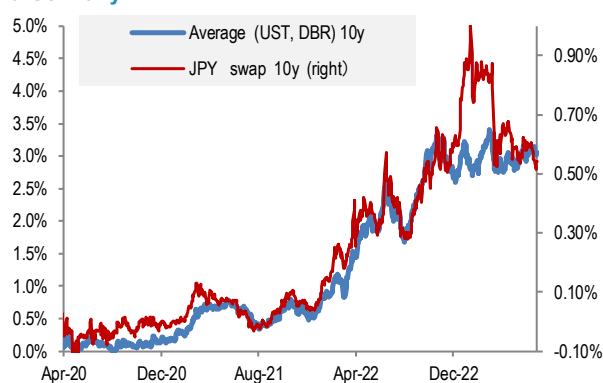
<sup>1</sup> The BOJ held ¥578tn in outstanding JGBs as of 23 Jun 2023, which is not much more compared to the beginning of FY23 when that figure was ¥576tn as of 31 Mar 2023.

### Substantial cut in scale of purchases in *Rinban* operations remains unlikely

Assuming that this is generally an appropriate tentative calculation, we estimate that the 10-year JGB yield will rise from its current level of 0.37% to 0.44% if flow effects are decreased to 0, given the 10-year JPY swap rate level of 0.54% as of yesterday (the swap rate minus 10bp is regarded as the level for the 10-year JGB yield). Furthermore, if we set 0.60%, which was the swap rate at the beginning of June, as the starting point, it can be calculated that the 10-year yield will rise to 0.50%, which coincides with the upper limit of the YCC trading band.

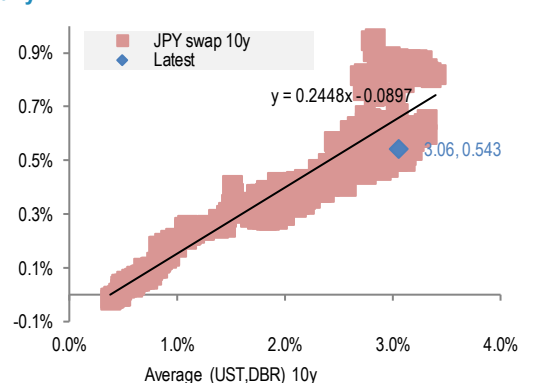
In light of the estimations above, if flow effects were reduced at this point, there would be a good chance that the 10-year JGB yield would rise to 0.5% once again, depending on swap rates and the overseas yield trends that have an influence on swap rates. If so, although the 10-year JGB yield has temporarily declined to around 0.35%, we think that it would still be hard to see a substantial cut being made in the scale of purchases in *Rinban* operations, given the upper limit of the current YCC policy (10-year yield of 0.5%)<sup>2</sup>.

10yr JPY Swap Rate, Average for 10yr Gov't Bond Yield in US and Germany



Source: Bloomberg; compiled by Daiwa Securities.

10yr JPY Swap Rate, Average for 10yr Gov't Bond Yield in US and Germany



Source: Bloomberg; compiled by Daiwa Securities.

<sup>2</sup> To begin with, since last year's decision to make YCC more flexible, the BOJ has stated that "in order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations." This eliminates the possibility of a substantial cut in the scale of purchases in *Rinban* operations.

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