

Daiwa's View

For the time being, we should carefully watch how BOJ will follow its new guidance

- Key will be whether market gains a deeper understanding about July MPM via today's *Rinban* operations and press conference by Deputy Governor Uchida

Fixed Income Research Section
FICC Research Dept.

Chief Strategist
Eiichiro Tani, CFA
(81) 3 5555-8780
eiichiro.tani@daiwa.co.jp



Daiwa Securities Co. Ltd.

Key will be whether market gains a deeper understanding about July MPM via today's *Rinban* operations and press conference by Deputy Governor Uchida

For the time being, we should carefully watch how BOJ will follow its new guidance

In the JGB market, which is looking for new levels after YCC revisions have been made, the 10-year JGB auction was largely digested without trouble, with an average accepted yield of 0.594% and a yield at the lowest accepted price of 0.603%, despite entailing a slight tail. After the auction, the market did not collapse and closed at 0.59% (there were [additional purchases](#) worth ¥189.2bn in the Non-price competitive Auction II). Of course, implementation of non-scheduled operations on 31 July when the 10-year yield was exceeding 0.6% was probably a significant contributing factor. For the time being, we should carefully watch how the BOJ will follow its new guidance of allowing the 10-year yield to exceed 0.5%—i.e., while the Bank will continue to allow the 10-year JGB yield to fluctuate in a range of around $\pm 0.5\%$ from the target level, it will regard the upper and lower bounds of the range as “references,” and not as rigid limits. Today, five *Rinban* operations are scheduled (1- to 3-year zone, 3- to 5-year zone, 5- to 10-year zone, 10- to 25-year zone, and more than 25 years), which should provide a hint. As operations will be implemented across the entire curve, they will become an important opportunity to learn how the BOJ views JGB yields after the July Monetary Policy Meeting (MPM).

Under the circumstances, the BOJ made a new announcement yesterday that Deputy Governor Shinichi Uchida would attend a Meeting with Local Leaders in Chiba Prefecture to be held today. His press conference is also scheduled from 14:00-14:30. The BOJ probably arranged this event in a hurry. We surmise that the BOJ intends to have the market digest the decisions at the July MPM via this event. Of course, Deputy Governor Shinichi Uchida will not make remarks that contradict the MPM statement or remarks made at Governor Kazuo Ueda's press conference. That said, in his press conference after the July MPM, Governor Ueda was asked if he intended to entrust yield levels to market forces, and he responded yes, but that there was a question of degree. He also replied that the volatility in other financial markets included the volatility in the currency market. As such, he made remarks at a deeper level. I get the impression that the market has not yet fully digested this aspect of the intentions behind this. We should monitor the situation, together with *Rinban* operations, and see whether this becomes an opportunity to gain a deeper understanding in this regard.

In the 7 July *Nikkei* interview with BOJ Deputy Governor Uchida, the Deputy Governor stated that, if negative rates were removed, that would mean the BOJ had judged that it was appropriate to prevent price increases by constraining demand in terms of the real economy. He also said that it was a 0.1% rate hike, and that, from the standpoint of current economic and price conditions, there was still a long way to go before making a decision about the issue. However, some market participants, particularly those in the currency market, speculate that negative interest rates might be forcefully removed if the BOJ were to induce appreciation of the yen. As such, there is an atmosphere of growing speculation about whether the aforementioned remarks will be withdrawn. When Governor Ueda made his reply, I think he was keeping in mind YCC's effect to amplify currency fluctuation—i.e., a rise in overseas yields when the 10-year yield stays at the upper limit of the YCC leads to rapid widening of the real interest rate differential, which causes rapid depreciation of the yen. I do not think he was referring to currency market volatility or moves to induce yen appreciation during ordinary times. Another point of interest regarding today's press conference by Deputy Governor Uchida will be whether or not a deeper understanding will be gained regarding these remarks about exchange rates.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Ratings

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

Target Prices

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

Disclosures related to Daiwa Securities

Please refer to https://lzone.daiwa.co.jp/l-zone/disclaimer/e_disclaimer.pdf for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

<https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association