Public Finance Watch

FICC Research Dept

Envisioning FY24 JGB issuance plan

- Total JGB issuance in FY24 may decrease by around Y20tn (mainly refunding bonds)
- Meeting of JGB Investors and Meeting of JGB Market Special Participants held on 6 Dec; in addition to 6-mo and 1yr TBs, expect reduced issuance for JGBs with various maturities (such as 2yr, 5yr, 10yr) in FY24; probably earlier reductions for 20yr JGB starting in January 2024

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Total JGB issuance in FY24 is expected to decline by around Y20tn (mainly refunding bonds). The Meeting of JGB Investors and the Meeting of JGB Market Special Participants were held on 6 December and the main points from these proceedings were released on 7 December. Based on the opinions provided at these meetings, in addition to the 6-month and one-year T-bills, reductions are expected for JGBs with various maturities (such as 2yr, 5yr, 10yr) in FY24. The reduction for 20-year JGB issuance is expected to start earlier than that for other maturities (from Jan 2024). There could be increased issuance of JGBs with remaining maturities between 5 and 15 years at liquidity supply auctions.

Total JGB issuance in FY24 is expected to decrease by about Y20tn

Compared to the initial plan for FY23, total JGB issuance in FY24 is expected to decrease by about Y20tn (mainly refunding bonds).

As of the budget request stage, the issuance of refunding bonds in FY24 decreased Y22.3tn compared to the initial plan for FY23. Considering the factors that change the numbers from the budget request, the actual issuance of T-bills in FY22 acts as a decreasing factor. Meanwhile, compilation of the FY23 supplementary budget will probably act as an increasing factor. With these two factors offsetting each other, the planned refunding bonds issuance amount for FY24 will likely to be close to the budget request amount.

The amount of new JGBs issued in FY24 is likely to increase from the initial plan for FY23. We note that income tax cuts are scheduled at a time when tax revenue growth is losing momentum. Social security and debt (JGB) redemption expenditures are also very likely to increase compared to FY23.

Even taking into account the increase in new JGBs, total JGB issuance in FY24 is expected to decrease by about Y20tn compared to the initial plan for FY23.

Expect lower issuance for T-bills, as well as 2yr, 5yr, and 10yr JGBs; 20yr JGB reductions from Jan 2024

Key opinions provided at the Meeting of JGB Investors and Meeting of JGB Market Special Participants for each maturity are compiled in Chart 1 on the next page. It is important to keep in mind that the main points from these meetings are chosen and summarized from among many opinions. Decreased issuance is likely, mainly for T-bills, but also for 2-year, 5-year, and 10-year JGBs. The reduction for 20-year JGB issuance is expected to start earlier than that for other maturities (from Jan 2024).

No changes are expected for 40-year JGB issuance. Investors have indicated a desire to continue investing in this maturity.

No changes are also expected for 30-year JGB issuance. Among primary dealers, there was the opinion that there is room for reduced issuance, but also the opinion that maintaining the status quo would be appropriate. Investors expressed a desire to continue investing in this maturity.

20-year JGB issuance will likely be reduced starting from January 2024. Primary dealers mentioned that priority should be given to reducing 20-year JGB issuance. Investors commented that they are shifting from the 20-year JGB to shorter maturities. Primary dealers also opined that 20-year JGB reductions should start earlier than other reductions, such as within FY23. The market is likely to welcome early reductions, as bids for the 20-year JGB have been weak in FY23.

Reductions are expected for 10-year JGB issuance. Sentiment among investors and primary dealers is that 10-year JGB issuance should be reduced assuming the issuance of climate transition bonds.

Issuance will likely be reduced more for the 5-year JGB than for the 10-year JGB. 5-year climate transition bonds are expected to be issued in the same manner as the 10-year climate transition bonds. Furthermore, primary dealers pointed out that the 5-year maturity is more susceptible to the influence of monetary policy.

Chart 1: Opinions for each JGB Maturity from 6 Dec Meeting of JGB Investors and Meeting of JGB Market Special Participants

Maturity	Meeting of JGB Investors	Meeting of JGB Market Special Participants
40-year	Continued investment from ALM perspective	
30-year	Continued investment from ALM perspective	Room for reductions Certain demand continues, maintaining status quo is appropriate
20-year	Shifting investment target from 20-year JGB to shorter maturities	Should give priority to reduction as demand is declining Earlier reductions within FY23 possible
10-year	Phase in which demand emerging from market conditions Reduced issuance possible as issuance of climate transition bonds is assumed	Reduced issuance possible as issuance of climate transition bonds is assumed
5-year	Phase in which demand emerging from market conditions Reduced issuance possible as issuance of climate transition bonds is assumed	Reduced issuance possible as issuance of climate transition bonds is assumed Susceptible to monetary policy developments, reduced issuance possible
2-year	Better to reduce issuance of short maturities for which issuance was increased in response to coronavirus	Susceptible to monetary policy developments, reduced issuance possible
T-bills	Better to reduce issuance of short maturities for which issuance was increased in response to coronavirus Increased issuance in response to coronavirus handled with short-term bonds as emergency shelter Normalization going forward may be appropriate	6-mo T-bill could revert to financing bills-only issuance seen prior to coronavirus Reduced issuance possible
Liquidity Supply	Desire increase due to insufficient liquidity in medium/long-term zones	Desire increased issuance of JGBs with remaining maturities between 5 and 15.5 years to ensure sufficient liquidity

Source: MOF materials; compiled by Daiwa.

Reductions are expected for 2-year JGB issuance. Primary dealers pointed out that, like the 5-year JGB, the 2-year JGB is sensitive to monetary policy. Investors commented (without specifying exact maturities) that it would be better to reduce the shorter maturities for which issuance was increased in response to the coronavirus outbreak. The amount of 2-year JGBs issued in the initial FY20 plan was Y2.0tn per month. The initial plan for FY23 was Y2.9tn per month.

Significant reductions are expected for T-bill issuance with no issuance for 6-month T-bills. Reduced issuance for the 1-year T-bill is also possible. Without specifying exact maturities, investors have the opinion that issuance should be reduced for the short maturities for which issuance was increased to respond to the coronavirus outbreak. Primary dealers commented that the 6-month T-bill could revert to financing bills-only issuance seen prior to the coronavirus outbreak. The 6-month T-bill issuance amount in the initial plan for FY23 was Y8.7tn. 1-year T-bill issuance was Y1.8tn each month in the initial plan for FY20. The initial plan for FY23 calls for issuance of Y3.5tn each month.

There could be increased issuance of JGBs with remaining maturities between 5 and 15.5 years at liquidity supply auctions. Investors and primary dealers are requesting such an increase.

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