

Daiwa's View

MOF mulling JGB buybacks: Mobilizing all possible policies

- MOF considers buying back some previously-issued JGBs in addition to new issuance reductions
- Clarified stance on mobilizing all possible policies in conjunction with BOJ's QT slowdown

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Comprehensive measures exceeding new JGB issuance reductions

A review of its FY25 JGB issuance plan has revealed that MOF is considering buybacks for super-long JGBs with low-coupons, in addition to reducing issuance of new super-long JGBs. This policy change will be discussed at the 20 June meeting of the JGB Market Special Participants and the 23 June Meeting of JGB Investors.

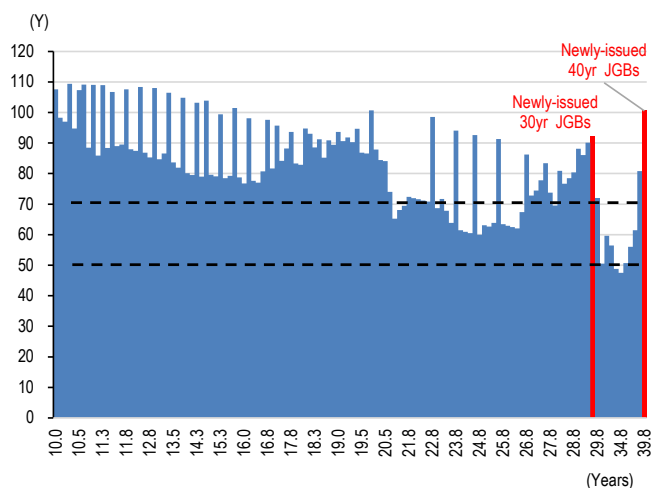
Until now, MOF has considered improving the JGB supply/demand balance by reducing the amount of newly issued JGBs. However, the proposed plan to buy back JGBs is a more in-depth response to the structural changes in the market. MOF is now presenting a more direct approach to the fundamental supply/demand problem, which cannot be solved by just reducing the amount of new JGBs issued.

Response to changing investment behavior among life insurers

Behind this policy shift is a structural change in the investment behavior of life insurers. Life insurers, which have fulfilled their policy reserve requirements, have been selling off previously-issued low-priced JGBs with low coupons and prices (below ¥70), which carry impairment risk, and replacing them with new JGBs.

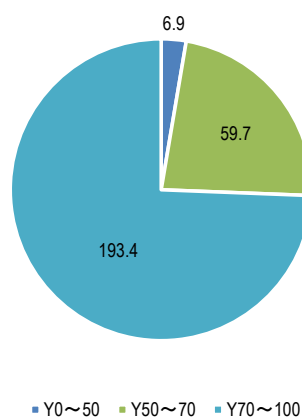
This move has created selling pressure in both the secondary market as well as the market for new JGBs. There was the risk that a reduction in newly issued JGBs alone would not be sufficient to absorb such selling pressure on previously-issued JGBs, while the supply/demand balance for the overall super-long JGB market would continue to deteriorate. Calls from market participants for JGB buybacks reflects their concerns about these structural supply/demand issues.

Prices by Issue for JGBs with Remaining Maturity of More than 10 Years



Source: Bloomberg; compiled by Daiwa.

By Price of JGBs with Remaining Maturity of More than 10 Years ~ Outstanding Amount in Market (¥ tn)

Source: Bloomberg; compiled by Daiwa.
Note: Issuance amount minus BOJ holdings.

Policy coordination with BOJ

The MOF's consideration of JGB buybacks is also in step with the BOJ's policy stance. The BOJ is now considering whether to halve the current pace of its JGB reductions from Y400bn each quarter to Y200bn or to maintain the status quo with respect to its JGB purchasing plan from April 2026.

MOF is considering JGB issuance reductions and buybacks, while the BOJ is considering slowing its quantitative tightening (QT). Both approaches are consistent in terms of improving the supply/demand balance for the super-long JGB market. The coordinated efforts of MOF and the BOJ to stabilize the super-long JGB market will provide an important source of support for the market.

Institutional challenges and feasibility

As for the realization of JGB buybacks, media outlets have reported that additional funding would be needed for buybacks via the Government Debt Consolidation Fund. Also, the institutional design must be ironed out, which would take a reasonable amount of time. That said, considering the strong sense of urgency within MOF, [this may not actually take as long as suggested in the press.](#)

MOF's consideration to take comprehensive measures beyond the reduction of newly issued JGB is significant. In roughly two weeks from the start of considering JGB reductions in late May, the scope of the policy response was significantly expanded. The unusual response following the JGB issuance plan review during the fiscal year again indicates the sense of crisis and seriousness held by MOF.

Market impact

The super-long JGB market has already responded positively to MOF's series of actions. The yield on the 30-year JGB has fallen sharply from a record high of 3.185% in late May to its recent level of around 2.9%.

If JGB buybacks are realized, that would have a comprehensive effect in terms of improving the supply/demand balance for both new and existing JGBs. In particular, the absorption of JGBs with low coupons that life insurers are selling is expected to ease selling pressure in the secondary market. This will likely spill over into stabilization of the market for newly issued JGBs and contribute to the normalization of the overall super-long JGB market.

With the BOJ and MOF indicating plans to mobilize all possible policy responses, the super-long JGB market could enter a new stabilization phase. The specifics of the discussions with JGB market participants at the 20 and 23 June meetings will be the focus of attention.

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