

Daiwa's View

FICC Research Dept.

Unexpected plan to reduce issuance of 20-year JGBs

- Contrary to media reports on 19 Jun, issuance of 20-year JGBs to be reduced by Y200bn/auction starting Jul
- This, together with Jun BOJ MPM, makes it clearer the care and consideration authorities are giving to 20-year sector
- Probably aiming to use 20-year sector as bulwark to prevent turmoil in 30- and 40-year yields from spreading to intermediate/long-term sectors

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On 20 June, the MOF held the 114th Meeting of JGB Market Special Participants (Primary Dealer meeting) and released explanatory materials on the same day. The materials included its JGB issuance plan from July onwards, which proposed a reduction of Y100bn per auction for both 40-year and 30-year JGBs, a reduction of Y200bn for 20-year JGBs, a reduction of Y100bn for liquidity enhancement in the superlong zone, and increases for 2-year JGBs, T-Bills, and liquidity enhancement in the intermediate zone. On 19 June, the media had reported that issuances/per auction in the superlong zone would be reduced by Y100bn each ([as we reported](#)), which was regarded as being in line with the consensus, so the plan to reduce the issuance of 20-year JGBs by Y200bn came as a surprise.

Chart 1: Outline of Proposed FY25 JGB Issuance Plan Revised in Jun (Y tn)

- Given the market's needs, the MOF plans to immediately reduce the issuance of 40-year and 30-year JGBs by Y100bn/auction and reduce the issuance of 20-year JGBs by Y200bn/auction starting July. It also plans to reduce the issuance of liquidity enhancement in the superlong zone by Y100bn/auction.
- The reduced issuance in superlong JGBs is to be addressed by increasing the issuance of 2-year JGBs and T-Bills, as well as by reflecting the results of upturns in sales to households.
- Going forward, the MOF will continue to implement appropriate debt management, carefully watching market conditions and investor trends.

FY25 JGB Issuance Plan (by financing method, Y tn)

	Issuance amount (per auction)			Annual issuance amount		
	Current	After revision	Change	Current	After revision	Change
Market issuance by periodic auctions				172.3	171.8	-0.5
40yr JGBs	0.5	0.4 (Jul-)	-0.1	3.0	2.5	-0.5
30yr JGBs	0.8	0.7 (Jul-)	-0.1	9.6	8.7	-0.9
20yr JGBs	1.0	0.8 (Jul-)	-0.2	12.0	10.2	-1.8
10yr JGBs	2.6	2.6	-	31.2	31.2	-
5yr JGBs	2.4	2.4	-	28.8	28.8	-
2yr JGBs	2.6	2.7 (Oct-)	+0.1	31.2	31.8	+0.6
TBs (1yr)	3.2	3.3 (Jan-)	+0.1	38.4	38.7	+0.3
TBs (6mo)	0.4	0.7 (Oct-)	+0.3	2.4	4.2	+1.8
Liquidity enhancement auction: 15.5-39yr	0.45	0.35 (Aug-)	-0.1	2.7	2.3	-0.4
5-15.5yr	0.65	0.65	-	7.8	7.8	-
1-5yr	0.5	0.6 (Sep-)	+0.1	3.0	3.4	+0.4
10yr JGB linkers				2.2	2.2	-
Climate Transition JGBs						
Others (sales to household, etc.)				4.6	5.1	+0.5
Total				176.9	176.9	-

Source: MOF; compiled by Daiwa

Note: Our translation.

Care and consideration given to 20-year JGBs

This unexpected reduction has made clearer the care and consideration authorities are giving to the superlong sector, particularly the 20-year sector. The latest reduction plan probably reminded many market participants of the amounts to be offered in Jul-Sep that were announced at [the BOJ's June Monetary Policy Meeting \(MPM\)](#). In the latest quarterly schedule, the BOJ maintained the amounts for purchase in the 10- to 25-year zone, in which the ratio of the amounts to be purchased to the amounts to be issued is relatively high, which made it clear the consideration being given to that sector. Due to the latest plan to reduce the issuance of 20-year JGBs, the ratio of purchases to issuances is expected to rise to 50.6%, which is about 10ppt higher than in the intermediate/long-term sector. This implies that the BOJ and the MOF are acting in concert.

If the BOJ were to combine its purchase operation categories in the superlong zone (10-25yr zone and over 25yr zone), the ratio purchased in the 10- to 25-year zone would decline due to averaging out. As the BOJ moves forward with QT, the market will be increasingly interested to know which sectors will see a prioritization of reductions in purchases. That said, a certain degree of consideration will be required with respect to whether the high ratio of purchases in the 10- to 25-year zone should automatically serve as a reason to reduce purchases there.

Chart 2: BOJ's JGB Purchases Since Start of QT by Remaining Maturity and Type (Y bn, %)

Target zone	2024				2025		
	Aug-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep Jun MPM	Jul-Sep Media reports (19 Jun)	Jul-Sep PD meeting (20 Jun)
Up to 1yr	150.0 -	150.0 -	150.0 -	100.0 -	100.0 -	100.0 -	100.0 -
1-3yr	1,400.0 <53.8>	1,300.0 <50.0>	1,200.0 <46.2>	1,100.0 <42.3>	975.0 <37.5>	975.0 <37.5>	975.0 <37.5>
3-5yr	1,500.0 <65.2>	1,300.0 <56.5>	1,200.0 <52.2>	1,100.0 <45.8>	975.0 <40.6>	975.0 <40.6>	975.0 <40.6>
5-10yr	1,600.0 <61.5>	1,500.0 <57.7>	1,300.0 <50.0>	1,200.0 <46.2>	1,050.0 <40.4>	1,050.0 <40.4>	1,050.0 <40.4>
10-25yr	450.0 <45.0>	450.0 <45.0>	450.0 <45.0>	405.0 <40.5>	405.0 <40.5>	405.0 <45.0>	405.0 <50.6>
More than 25yr	150.0 <12.0>	150.0 <12.0>	150.0 <12.0>	150.0 <15.5>	150.0 <13.2>	150.0 <15.5>	150.0 <15.5>
Inflation-indexed bonds	60.0 <72.0>	60.0 <72.0>	50.0 <60.0>	50.0 <60.0>	50.0 <60.0>	50.0 <60.0>	50.0 <60.0>
Total	5,310.0	4,910.0	4,500.0	4,105.0	3,705.0	3,705.0	3,705.0

Source: BOJ, MOF; compiled by Daiwa.

Note: While figures in upper columns denote monthly purchases (amounts offered, Y bn), those in lower columns show the ratio of purchases to issuances (%).

After the Primary Dealer meeting, MOF officials were reported as having commented that the market called for a reduction in the issuance of 20-year JGBs. We cannot ignore that these calls as well as concerns about the schedule (the 20yr JGB auction is scheduled for 24 Jun) may have been factors in prioritizing reductions in the issuance of 20-year JGBs. However, we think that the authorities had more important macro-level considerations, besides these factors.

At the end of May, BOJ Governor Kazuo Ueda stated in the Diet that, if superlong yields were to fluctuate significantly, the BOJ would closely monitor the impact on market trends and the economy, keeping in mind that the impact from this could spread to long-term and even short-term/intermediate yields. In terms of the macro economy, there is a significant difference between a situation in which a surge in superlong yields is contained within that sector and one in which

the impact spreads to the intermediate/long-term zone, which is the main funding maturity zone for companies.

We believe that this series of recent decisions aims to improve the supply/demand balance in the 20-year sector and to use the 20-year sector as a bulwark to prevent turmoil in 30- and 40-year yields from spilling over into the intermediate/long-term sectors (which would have a major impact on the macro economy).

Implications for market

The MOF probably decided on this unexpected reduction in the issuance of 20-year JGBs after giving overall consideration to the extent of the impact on the entire yield curve and macro economy, rather than just the superlong sector. In the zones up to 20 years, we anticipate a marginal decline in the risk of a yield surge due to deterioration of supply/demand conditions in the superlong JGBs. The 20-year JGB auction on the 24th and the 30-year JGB auction slated for early July will serve as a test for how effective the announcement of reductions in JGB issuance proves to be for zones over 20 years.

The latest explanatory materials included a chart indicating that (1) the average maturity on a stock basis (after the reduced issuance) would be shortened by two months vs. that in the initial plan and (2) it would be shorter than that in the previous fiscal year. In [our previous report](#), we pointed out that one reason for the deteriorating supply/demand balance for superlong JGBs was the fact that the average maturity on a stock basis has been lengthening since FY20. The shortening of the average maturity on a stock basis due to the latest reductions means a straightforward reduction in the amount of interest rate risk in the market. While this may tend to be overshadowed by the unexpected reduction in the issuance of 20-year JGBs, we think it is also an important point in the latest materials.

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