

Daiwa Memorandum

MOF's Nov JGB Market Special Participants/JGB Investors meetings: Proposal for twice-yearly revisions to issuance plans

- Proposal could ensure consistent absorption of JGB issuance, benefit both MOF and market participants

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On 27 November, the Ministry of Finance (MOF) held its Meeting of JGB Market Special Participants and Meeting of JGB Investors. It also released the meeting materials on the same day; we expect it to publish details including the key points discussed in future. Several media sources reported yesterday evening on the topics discussed at the meetings.

Based on 27 November media reports, we think the key points for bond market participants regarding MOF's upcoming issuance plans are as follows.

- MOF proposed increasing issuance of Treasury Discount Bills (TDBs) and 2-year/5-year JGBs in its FY25 plan.
- Some participants argued that MOF should reduce superlong JGB issuance and increase issuance of long-, medium-, and short-term issues in its FY26 plan.
- There was a proposal to review issuance plans every six months starting in FY26.

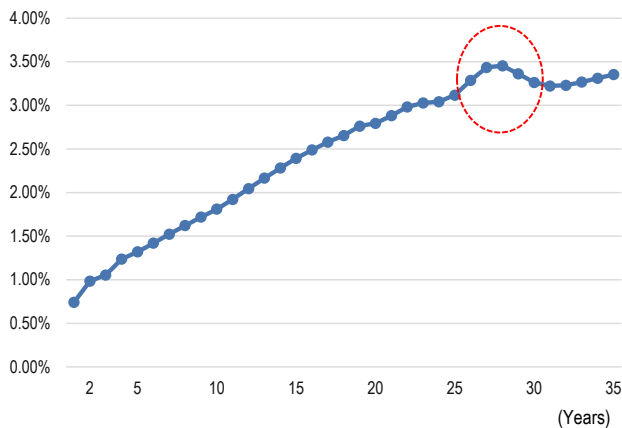
The first of the above points comes from media reports, but we think it is broadly in line with the market consensus. The proposal in the second is also in line with the market's base case. The proposed review in the third point would represent a major change in the cadence at which MOF draws up issuance plans. We comment on the second and third points below.

FY26 issuance plans

Media reports indicate that meeting participants called on MOF to reduce issuance of superlong JGBs and increase issuance of long-, medium-, and short-term issues in its FY26 issuance plan. Particularly for superlong JGBs, many participants apparently stated that MOF should prioritize reducing 30-year JGB issuance.

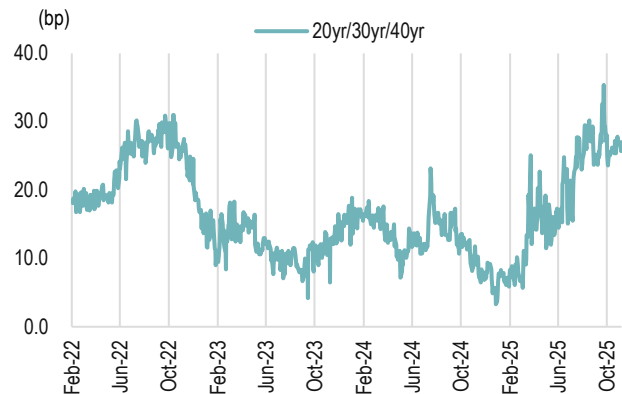
Off-the-run 30-year issues have notably cheapened on the curve this fiscal year due to demand from life insurers rotating their portfolios (Chart 1). We therefore think MOF could implement measures to improve supply/demand for 30-year issues that involve supplying liquidity for issues with remaining maturities of 15.5-39 years rather than simply targeting the on-the-run 30-year issue.

Chart 1: JGB Par Yield Curve



Source: Compiled by Daiwa.

Chart 2: 20yr/30yr/40yr Butterfly Spread



Source: Bloomberg; compiled by Daiwa.

Proposed twice-yearly review of issuance plans

The materials from the recent Meeting of JGB Market Special Participants and Meeting of JGB Investors include extracts from materials on the frequency of JGB issuance plans, which were submitted as the main material (NB: not reference material) at the previous November meeting of the Study Group on Government Debt Management. The materials note that while publishing JGB issuance plans more frequently makes issuance amounts less predictable, it increases the flexibility of these issuance plans.

Media reports indicate that some participants welcomed the proposal to conduct a semi-annual assessment. We think this may reflect the potential benefits both for MOF (as an issuer) and for market participants.

While the details of the scheme are unclear, we considered the case where MOF revises issuance amounts for individual maturities every six months. This would enable it as an issuer to shift issuance from maturities where supply/demand has worsened and yields have risen sharply (i.e., issuance costs have risen) toward those where supply/demand is firm and costs are lower in order to more efficiently raise funds. It would also create more frequent opportunities to hear and reflect market participants' views.

We think market participants could also expect more frequent reviews of issuance plans to enable MOF to even out the kind of increase in market volatility caused by worsening supply/demand for specific maturities seen in FY25. While FY25 saw MOF make the unusual move of changing its plans in June, in the middle of the fiscal year, if the timing of reviews is preset at once every six months, this could reduce uncertainty about whether reviews will take place.

On the downside, the twice-yearly process of drawing up and reviewing issuance plans would likely create short-term volatility around the extent of the adjustments between maturities. We would also note that this would make it more difficult for investors to draw up full-year JGB investment plans. That said, given the rapidly changing yield environment, MOF is likely to see the flexibility from twice-yearly reviews of issuance plans as a greater benefit in terms of enabling the market to consistently absorb JGB issuance.

Conclusion

MOF's proposal discussed at the recent Meeting of JGB Market Special Participants and Meeting of JGB Investors will likely be seen as demonstrating careful consideration for market yield conditions and concerns about an increase in issuance. We expect considerable benefits for both MOF and market participants from the proposal to review issuance plans every six months.

Assuming MOF reduces superlong JGB issuance in its FY26 plan, this would bring it closer to the Y300bn-900bn per month reduction (versus its initial FY25 plan) that [we previously estimated](#) would be needed to improve superlong JGB supply-demand conditions. On the flipside, MOF appears likely to substantially increase medium-term JGB issuance in FY26, raising concerns about the narrowing loan-deposit gap at banks, which are major investors in these maturities. We will be watching for any changes in supply-demand conditions for medium-term JGBs.

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