

Minutes of the 12th Round of the "Bond Market Group" Meetings

1. Outline

(1) Date	Commercial banks group	December 9 at 3:30 pm
	Securities firms group	December 9 at 5:20 pm
	Buy-side group	December 10 at 3:30 pm

(2) Form of the Meeting Via Webex Meetings/conference call

(3) Participants

- Persons in charge of bond market issues in financial institutions, participating in the "Bond Market Survey"
- Director-General of the Financial Markets Department, Head of Coordination and Market Analysis Division, Head of Market Operations Division, Head of Market Infrastructure Division

2. Introduction by the Bank of Japan

- The Bank explained to each group (1) the results of the "Bond Market Survey" and "Tokyo Money Market Survey," (2) liquidity in the JGB market, and (3) recent developments in the financial markets and market operations.

3. Views provided by participants

- The Bank exchanged views with participants on the above topics. Views provided by participants are as follows.

Recent trends in the Japanese bond market

- Although there were concerns over the impact of an increase in the amount of issuance of JGBs, the 10-year JGB yield has remained stable since the last meeting in June within a narrow range, at around 0 percent, under the Bank's yield curve control. The 20-year JGB yield has been more or less flat against the backdrop of strong demand from banks. On the other hand, the yields on super-long-term JGBs, including the 30-year JGBs, the amount of which the Bank

purchases is relatively small have been rising somewhat, partly due to the increase in the amount of issuance of those JGBs since July 2020 and a rise in overseas interest rates.

- Demand for investing surplus funds in JGBs has been increasing, mainly due to an increase in deposits at depository institutions in line with the government's economic measures.
- Regarding the super-long-term JGBs, transactions by regional financial institutions and foreign investors have been increasing, in addition to stable demand from life insurance companies.

Functioning and liquidity of the Japanese bond market

- During the period when the government declared a state of emergency, the degree of functioning and liquidity of the JGB market declined significantly due to changes in the business operations by market participants (e.g., working from home or at alternative business sites). Thereafter, as market participants have become skilled in the new forms of business operations, the degree of functioning of the JGB market has mostly returned to the level before the spread of COVID-19 since around this summer.
- Given that market participants' transactions are concentrated on the timing of the JGB auctions by the Ministry of Finance and the Bank's outright purchases, trade volume in the secondary market has remained at a low level and it is difficult to say that liquidity of the JGB market is sufficient.
- While it can be assessed that the JGB market has remained stable even in a phase where stock prices and overseas interest rates fluctuated, the low level of volatility is not necessarily favorable in terms of stimulating transactions of JGBs.
- The supply and demand conditions of some off-the-run JGBs, which were issued some time ago, have been particularly tightening.
- The JGB auctions by the Ministry of Finance and the Bank's outright purchases require the BOJ-NET. If market participants can have access to it at home, business operations will be further improved.

The Bank's operations and others

- Given a resurgence of COVID-19, there is a concern over further increases in the issuance of JGBs in accordance with the supplementary budget and the budget for fiscal 2021. We would like to ask the Bank to continue to manage the outright purchases in a flexible and timely manner and to thoroughly communicate with market participants.
- We would like the Bank to prevent excessive volatility in the JGB market through a flexible adjustment in the outright purchases when the Bank sees signs of an increase in volatility.
- In response to the excessively low volatility in the JGB market, it may be necessary not only to reduce the frequency of outright purchases and to adjust the operation schedule, but also to reduce the amount of monthly purchases of JGBs.
- Among the super-long-term JGBs, supply and demand conditions for 20-year and 40-year JGBs are tightening, partly due to strong demand from investors. We expect the Bank to conduct more flexible market operations with a view to improving the functioning of the JGB market.
- As for the outright purchases of CP and corporate bonds, we consider that the Bank should continue its purchases as a backstop measure, rather than to reach the maximum amount outstanding, as the purchases as a backstop measure are more likely to contribute to the market stability.

Views and risks on the outlook for the Japanese bond market

- The JGB market is expected to remain stable under the Bank's yield curve control. However, there might be some risks, such as situations surrounding the spread of COVID-19, trends in vaccine developments, and fluctuations in interest rates induced by monetary and fiscal policies of each country in light of these factors.
- As the spread of COVID-19 continues, we are watching its impact on the real economy and fiscal policy, and their effects on the Japanese bond market.