

## Minutes of the 17th Round of the "Bond Market Group" Meetings

### 1. Outline

|          |                        |                   |
|----------|------------------------|-------------------|
| (1) Date | Commercial banks group | June 5 at 3:45 pm |
|          | Securities firms group | June 5 at 5:30 pm |
|          | Buy-side group         | June 6 at 4:00 pm |

(2) Place           The Head Office of the Bank of Japan

### (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," (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

- From the end of 2022 through January 2023, there was strong selling pressure in the market with speculation over a change in the Bank's policy heightened after an expansion in the range of fluctuations in long-term interest rates was decided at the Monetary Policy Meeting held in December 2022.
- Yields on JGBs have declined, due in part to the Bank's various measures

concerning market operations, such as increasing the amounts of its outright purchases of JGBs, and a decline in overseas interest rates since March 2023. Long-term interest rates remain stable recently below the upper limit on the range of fluctuations set under the Bank's yield curve control.

- The supply and demand conditions of JGBs have been tight recently, particularly in the super-long-term zone due to strong demand from investors.

#### Functioning and liquidity of the Japanese bond market

- The degree of functioning of the JGB market has improved with distortions in the yield curve decreasing.
- Although it is hard to expect significant improvement in the functioning of the JGB market under the Bank's yield curve control, the functioning is recovering from the situation where it was hard to make deals.
- Given the recent situation on the use of the Bank's Securities Lending Facility, there seems to be no significant stress in the market at the moment. However, there tends to be a shortage of collateral in the repo market with the supply and demand conditions of JGBs tightening. In this situation, the market occasionally exhibits unstable movements, such as a somewhat significant decline in repo rates.
- Due to the impact of the Bank's large-scale purchases of JGBs, it was extremely difficult to make deals, especially when market liquidity deteriorated markedly. We recognize that the functioning and liquidity of the JGB market have improved compared with a while ago, but their levels remain low.
- The latest results of the Bank's Bond Market Survey on market functioning came out close to market forecasts and we are interested in how the Bank assesses these results.
- Depending on market conditions, there is a possibility that the yield curve would distort again, thereby bringing about deterioration in the functioning of the bond market, and we are cautious about this.

#### The Bank's operations and others

- The Bank has been gradually decreasing the amounts of its outright purchases of JGBs in the super-long-term zone after it increased the amounts from the second

half of 2022 through the beginning of 2023. Still, we would like to ask the Bank to continue making flexible responses, such as by further reducing the purchase amounts, taking into account developments in the supply and demand conditions and interest rates.

- We would like to ask the Bank not to change the amount of its outright purchases of JGBs unless interest rates fluctuate significantly, in order not to evoke excessive speculation over its market operations.
- In order to minimize market impacts, it might be better for the Bank to further disperse the scheduled dates of its outright purchases of JGBs.
- With regard to the announcement of purchase size per auction in "Quarterly Schedule of Outright Purchases of Japanese Government Bonds," we are interested in whether the Bank will make any change in the current announcement method in which it indicates the purchase size in a range form into a method in which it specifies a purchase amount, when uncertainties in the bond market become less heightened.
- While the Bank announced a variety of measures concerning market operations, it sometimes took a certain time for the intention of the measures to be fully understood by foreign investors. Although it is recognized that securities firms which make direct contact with foreign investors have some challenges on communication, we would like to ask the Bank to keep making efforts to send a clear message.

#### Views and risks on the outlook for the Japanese bond market

- If the Bank's monetary policy were to be changed, it is expected that the market would fluctuate greatly. We are mindful of the impact of such a shock on market functioning.
- If Japanese long-term interest rates rise in a stable manner, it is expected that a certain proportion of investors would increase their purchases of bonds in line with changes in the duration of liabilities.
- It is quite possible that upward pressure on interest rates would increase again, depending on the developments in overseas interest rates as well as prices and wages in Japan.