December 24, 2025
Financial Markets Department
Bank of Japan

Minutes of the 23rd Round of the "Bond Market Group" Meetings

1. Outline

(1) Date	Commercial banks group	December 8 at 3:45 pm
	Securities firms group	December 8 at 5:30 pm
	Buy-side group	December 9 at 4:10 pm

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

(3) Participants

- Persons in charge of bond market issues in financial institutions including those who participate 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.

<u>Recent trends in the Japanese government bond market</u>

- ➢ Short- to long-term interest rates have risen since the last meeting, as concerns over U.S. tariff policy have receded somewhat and the market has factored in future policy rate hikes by the Bank.
- ➢ Although some demand has been observed for JGBs in the super-long-term zone from overseas investors and pension funds, interest rates have risen against the

backdrop of subdued demand from life insurers, as well as factors such as investor speculation about fiscal policy and developments in economic activity and prices at home and abroad.

- The plan for the reduction of the Bank's purchase amount of JGBs decided at the Monetary Policy Meeting held in June was already factored into the market and thus did not cause substantial market moves.

Functioning and liquidity of the Japanese government bond market

- The Bank's purchase amount of JGBs has been reduced in a gradual and predictable manner without any surprises. Therefore, there has been no unnecessary market volatility.
- The overall market functioning and liquidity have been improving moderately because the amount of JGBs, particularly on-the-run issues, in the market has been increasing owing to the reduction in the Bank's purchases.
- The recent rise in long-term interest rates reflects fundamentals and market participants' views on monetary and fiscal policies. This seems to be the result of the market's price discovery function working effectively.
- Market functioning has been recovering, reflecting the increase in the amount outstanding of JGBs in the market. The correlation of interest rates has been gradually increasing between the maturity zone of up to 10 years and the super-long-term zone.
- The change in the treatment of the reduction in the Bank's repurchase amount under the Securities Lending Facility (SLF) in June has eased excessive tightening in the supply and demand conditions of off-the-run issues around the cheapest-to-deliver (CTD) issues. This has contributed to the recovery of the function of JGB futures as a hedging tool and to the improvement in the price discovery function in the medium- to long-term zone.
- The improvement in order and trading volumes remains insufficient, and it will take time for market depth to increase.
- Due to the high volatility early this fiscal year, securities firms' risk tolerance has remained low. This has undermined their market-making capacity. Consequently, JGB prices, particularly in the super-long-term zone, are becoming more prone to move in one direction.

- In the super-long-term zone, supply and demand imbalances between on-the-run and off-the-run issues have caused distortions in the yield curve. As these distortions remain unresolved, relative value trading strategies are less effective in certain parts of this zone.

The Bank's operations

(Views on how to proceed with the reduction in each maturity segment and bond type and on others)

- It is desirable for the Bank to reduce its JGB purchases while maintaining predictability in order to avoid increasing market volatility.
- Further increasing the amount outstanding of JGBs in the market is necessary to restore liquidity and the price discovery function of the market.
- We would like the Bank to continue to reduce its purchases of JGBs in a predictable manner, while maintaining its basic stance of prioritizing reducing the purchases of zones where the share of its purchases in the issuance amount is high.
- Given the high volatility in the super-long-term zone, we expect the Bank to maintain the current moderate pace of reduction in its purchase amount of JGBs in order to ensure market functioning.
- As the issuance of JGBs in the super-long-term zone is expected to decrease further, we would like the Bank to flexibly determine its purchase amount for this zone, taking into account supply and demand conditions.
- The supply and demand balance in the super-long-term zone should be adjusted by the supply side and is not something the Bank should proactively address.
- Given the supply and demand conditions of off-the-run issues, it might be an option for the Bank to determine the amount of its JGB purchases in each maturity segment by considering the share of its JGB holdings in the outstanding amount, in addition to the share of its purchases in the issuance amount, a factor that it has already taken account of.
- It will be desirable to consolidate maturity segments at the stage where the reduction in the Bank's purchase amount of JGBs has progressed and the purchase amount has become small. Broadening the range of maturities among the issues being bid through the consolidation is expected to reduce the market's

dependence on the Bank's purchases and allow interest rates to move more freely.

- There is no problem with the Bank reducing its purchases of inflation-indexed bonds and Japan Climate Transition Bonds while paying attention to supply and demand conditions.
- We expect the Bank to carefully consider the reduction in its purchase amount of inflation-indexed bonds as the liquidity of these bonds has remained low.
- As in the past, it is desirable for the Bank to continue to reduce the frequency of monthly purchases, taking into account the reduction in the amount of its JGB purchases for each maturity segment.
- In the event of a significant market shock, we would like to ask the Bank to make nimble responses by, for example, conducting unscheduled purchases of JGBs.

(Views on the SLF)

- The timing for normalizing the series of relaxations of the terms and conditions for the SLF may gradually approach. When that time comes, we would like to ask the Bank to communicate carefully with the market, while continuing to pay attention to the supply and demand conditions of individual issues.
- Although the functioning of the bond market has improved, it is still in the midst of recovery. Therefore, we would like the Bank to maintain its current operations of the SLF.
- As indicated by the decline in bids for the SLF, the liquidity of issues around the CTD has improved owing to the reduction in the Bank's repurchase amount of JGBs under the SLF thus far. While the supply and demand conditions of certain issues have been tight, concerns about the impact of these conditions on the overall yield curve are no longer warranted. In this situation, the Bank does not need to further expand the measure of the reduction.
- Given that the Bank's holding share of the CTD issues is expected to gradually decline, we are emerging from a situation requiring the reduction in the repurchase amount of JGBs under the SLF, which is an exceptional measure regarding the SLF.
- The supply and demand conditions of the CTD issues have been improving owing to the reduction in the Bank's repurchase amount under the SLF. However, there are certain issues with relatively low SC repo rates due to the insufficient

recovery in their outstanding amounts in the market. Therefore, we expect the Bank to further expand the issues applicable to the reduction and increase the upper limit on the reduction.