

## Minutes of the 13th Round of the "Bond Market Group" Meetings

### 1. Outline

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

(2) Form of the Meeting Via 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," (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

- In the first quarter of 2021, long-term interest rates temporarily rose to a level exceeding 0.15 percent due to (1) heightened uncertainties over the Bank's "assessment" published in March where there were reports on expectations for an expansion in the range of fluctuations in long-term interest rates, as well as (2) rises in overseas long-term interest rates, particularly in the United States. Thereafter, long-term interest rates had been fluctuating at a low level in a narrow

range, partly because (1) the vigilance against the rise in interest rates had diminished after the Bank's Monetary Policy Meeting held in March and the release of the Monthly Schedule of Outright Purchases of Japanese Government Bonds at the end of the same month and (2) the range of fluctuations in overseas interest rates had narrowed since the beginning of April amid an increase in investors' demand.

- The interest rates of the long-term JGBs continued not to increase easily, as the widening of the gap between depository institutions' loans and deposits (loan-deposit gap) was making the purchases of the long-term JGBs easier and it was expected to take a while before the effects of the vaccination would appear.
- The rise in interest rates of the super-long-term JGBs had been curbed, mainly supported by the stable demand from life insurance companies that continued to exist.

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

- The functioning and liquidity of the bond market were maintained to a considerable extent at the timing of the JGB auctions by the Ministry of Finance and the Bank's outright purchases; however, they were not at high levels during other times.
- Transactions had been decreasing in the bond market after a further decline in bond market volatility. The current level of interest rate had been hardly realized based on transactions made by various investors, given the large shares of the Bank's holding of JGBs.
- There had only been a small number of inter-dealer transactions for a broad range of maturities throughout the month of May, resulting in a further deterioration in market liquidity.
- The "fixed-rate purchase operations for consecutive days" might have been preventing fluctuations in long-term interest rates by setting a powerful upper limit on them, after the range of fluctuations was clarified at the Bank's Monetary Policy Meeting in March.
- There were concerns about maintaining the functioning and liquidity of the market in the medium to long term, as investors and securities companies were exiting from the bond market or reducing their operations due to a decline in

transactions.

- The state of emergency and priority measures to prevent the spread of disease had a very limited impact on the functioning and liquidity of the bond market, as financial institutions had enhanced their business continuity planning.

#### The Bank's operations and others

- Under the impact of COVID-19, it was essential for the yield curve to be stabilized at a low level. On the other hand, as market functioning had been declining again since the middle of April, there could be risks of a large shock when interest rates would be normalized in the future. We would like the Bank to continue consider the reduction of the purchase size, from the perspective of improving market functioning.
- The introduction of the "fixed-rate purchase operations for consecutive days" had a considerable effect on stabilizing the yield curve at a low level. Thus, the yield curve would likely be maintained stable at a low level, even if the size of the Bank's scheduled outright purchases was reduced further.
- The reduction in the size and the frequency of outright purchases of JGBs in April was appropriate in terms of maintaining market functioning. However, frequent changes in the purchase size would rather draw attention to the Bank's market operations. Hence, we believed it might be better to make changes to the purchase size about once every three months.
- We would like to ask the Bank to consider measures on top of the current Securities Lending Facility, including outright sales of JGBs held by the Bank, with a view to increasing liquidity of the off-the-run JGBs.
- Given the reduction in the size of corporate bond purchases by the Bank, investments in the corporate bond market had been increasing, which subsequently contributed to the improvement in market liquidity. We expected the Bank to continue such adjustments in the purchase size.

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

- The Japanese bond market was expected to remain firm for the time being, as the spread of COVID-19 continued in Japan and it was viewed that inflation was unlikely to take place.

- The loan-deposit gap of commercial banks had been following an expanding trend and demand for JGBs with yields in positive territory was likely to continue to remain at a high level. In addition, the JGB market was expected to continue to remain firm going forward, as there continued to be strong demand from investors to recover their securities positions.
- There were possibilities of upward pressure on interest rates in Japan and of a heightening of volatility in the somewhat long-term outlook depending on the progress of vaccination, discussions surrounding additional supplementary budgets, as well as developments in overseas economic activity, prices, and interest rates.