

Minutes of the 15th Round of the "Bond Market Group" Meetings

1. Outline

(1) Date	Commercial banks/Securities firms group	June 7 at 3:45 pm
	Buy-side group	June 7 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

- Global financial markets have been unstable since January 2022, mainly against the background of the changes in the monetary policy stance in the United States and Europe, confusion over the situation surrounding Ukraine, an increase in inflationary pressures due to rises in prices of crude oil and commodities, and a decline in market participants' risk tolerance.
- Long-term JGB yields have increased to 0.25 percent, the upper limit of the range

of fluctuations set under the Bank's yield curve control (YCC). The increase was due to factors such as rises in overseas interest rates and speculations over a change in the Bank's policy stance, mainly among foreign market participants. Thereafter, long-term JGB yields have been moving in a narrow range at around 0.25 percent, mainly due to the Bank's unscheduled purchases of JGBs and fixed-rate purchase operations for consecutive days, and the overall developments have been stable recently.

- Long-term JGB yields have continued to remain in a narrow range due to the Bank's purchases of JGBs including the fixed-rate purchase operations. In contrast, in the super-long-term zone, interest rates have risen significantly and the yield curve has steepened on the back of expectations for yields remaining elevated.

Functioning and liquidity of the Japanese bond market

- The functioning of the JGB market has been declining around the 10-year zone as long-term JGB yields have been moving around the upper limit of the range of fluctuations set under YCC. Such a decline is considered unavoidable to some extent because YCC is a policy that controls interest rates within a certain range.
- Liquidity of the Japanese bond market declined in late March 2022, mainly due to a decline in market participants' risk tolerance and investment in the market being held back. Consequently, the market was caught in a vicious cycle in which interest rates rose and it was easier for fluctuations in the prices of JGBs to be amplified. Thereafter, the situation was improved and liquidity has recovered to the level before late March.
- The functioning of the JGB market has not changed significantly since the last meeting in December 2021 and liquidity has been maintained more or less at the pre-pandemic level.
- The fact that interest rates in Japan rose in tandem with developments in overseas markets indicates the market functioning being maintained at a certain level. It should be noted, however, that there are occasionally situations in which, for example, the yield curve is distorted and supply and demand of some issues tighten excessively.
- Market participants are feeling the decline in the functioning and liquidity of the Japanese bond market. We take account of market depth when making

transactions, such as for substitution of issues in a considerable size.

- The investor base has been lacking diversity and the number of investors has been deteriorating in the super-long-term zone due to the range of fluctuations in the prices of bonds that has been restricted in the somewhat long run.

The Bank's operations and others

- Volatility was suppressed in the Japanese bond market from April 2022 compared to the markets in the United States and Europe as a result of a series of nimble operations by the Bank and a stable investment climate was therefore realized. We expect the Bank to continue conducting market operations in a flexible and timely manner.
- We would like to ask for the Bank's consideration even in the event of significant stress in the Japanese bond market in the future so that liquidity will be maintained and the market function will be fully enhanced.
- We would like to ask the Bank to carry out the Securities Lending Facility in a more flexible manner when supply and demand conditions tighten in the repo market, such as when prices of JGBs fluctuated sharply at the end of March 2022.
- The number of investors has been decreasing as a result of price fluctuations that continued to be suppressed and a subsequent decline in profit opportunities in the Japanese bond market. As we have asked before, we would like to ask the Bank to take measures in light of the situation for enhancement of liquidity in the JGB market by, for example, decreasing the amount of JGB purchases in the super-long-term zone.

Views and risks on the outlook for the Japanese bond market

- Long-term JGB yields are expected to be affected by overseas interest rates continuously and to move at around 0.25 percent, the upper limit of the range of fluctuations set under the Bank's YCC, for the time being.
- As for downside risks, we are paying attention to the impact of COVID-19, the situation surrounding Ukraine, developments in foreign exchange markets and the effects on economies and prices of goods at home and abroad, and developments in monetary policy in each economy.
- There are concerns over an imbalance of supply and demand among different

JGB issues becoming severer, and in extreme cases, amounts outstanding of issues eligible for the Bank's purchases of JGBs in the market may be exhausted.