

## Minutes of the 16th Round of the "Bond Market Group" Meetings

### 1. Outline

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

- Overseas interest rates have increased due to global inflationary pressure and subsequent policy rate hikes that overseas central banks have continued to implement. The increase in overseas interest rates has come to a pause recently, partly reflecting the view that the pace of policy rate hikes would slow down, but volatility has remained high.

- Japanese long-term interest rates have stayed close to 0.25 percent, the upper limit of the range of fluctuations set under the Bank's yield curve control (YCC), mainly due to the increase in overseas interest rates and speculation over a change in the Bank's policy. Meanwhile, the yield curve has steepened since yields on super-long-term JGBs have risen. In addition, yields on medium-term JGBs have been moving in a high range but lacked momentum recently.
- In the super-long-term zone, yields have exhibited volatile developments, mainly owing to the increase in overseas interest rates and a decline in market participants' risk tolerance brought about by a deterioration in hedging mechanisms of JGB futures following the Bank's introduction of fixed-rate purchase operations of the cheapest-to-deliver (CTD) issue for consecutive days. Recently, the super-long-term zone has begun to regain stability, partly due to an increase in the Bank's purchases of JGBs, but developments in yields continue to be volatile.
- In the long-term zone, yields on newly issued 10-year JGBs have been at 0.25 percent, while those on off-the-run JGBs with residual maturities of up to 10 years have temporarily surpassed 0.25 percent.

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

- The functioning and liquidity of the JGB market have been declining overall. In particular, in the super-long-term zone, there have been moves to hold back on investments, partly due to vigilance against yields rising amid increasing volatility.
- Market participants' risk tolerance has been declining since the correlation between the spot price of JGBs and the futures price of JGBs has been weak, making hedging against interest rate risks using JGB futures difficult.
- The price discovery function of the JGB market seems to be deteriorated given that bid-ask spreads have widened and there has been a decrease in market depth. We are facing difficulty in trading with an intended dealing price and trading size per transaction.

#### The Bank's operations and others

- Although the Bank's policy is to take the functioning of the JGB market into account, YCC is a policy which prioritizes controlling interest rates to stay within

a certain range. We recognize that declines in the functioning and liquidity of the JGB market are unavoidable to some extent in a situation where long-term interest rates approach close to the upper limit of the range of fluctuations set under YCC.

- We had no objection to the Bank introducing fixed-rate purchase operations of the CTD issue for consecutive days when there was strong selling pressure on JGB futures. However, the correlation between the spot price of JGBs and the futures price of JGBs has been weak as the operations have been continued, and hedging against interest rate risks using JGB futures has been made difficult. It might be better if the Bank could cease the fixed-rate purchase operations and increase the amounts of its outright purchases in the competitive auction method instead, in order to have JGB futures function better as hedging tools.
- With a view to maintaining the entire yield curve at a low level, we believe it might be better if the Bank could expand JGB issues eligible for purchase through fixed-rate purchase operations for consecutive days, in addition to 10-year on-the-run issues and the CTD issues.
- The yields on off-the-run issues of JGBs with residual maturities of up to 10 years have been above 0.25 percent, and we are interested in to what extent the Bank would allow the yields to increase and whether it would take any response measures.
- We would like to ask the Bank to carry out market operations in a flexible manner, such as when selecting bonds to be purchased and making announcement about the schedule of the Bank's outright purchases, considering that interest rates have fluctuated greatly at home and abroad and the difference in yields on issues eligible for purchase by the Bank and on other issues has increased.
- With regard to the Bank's decision to respond to the increase in yields on super-long-term JGBs, we are interested in the aim and effectiveness of the response in which the Bank increased the frequency of auctions per month in the quarterly schedule of outright purchases instead of conducting unscheduled purchases.
- With regard to the Bank's outright purchases of JGBs in the super-long-term zone, we would like to ask the Bank to reduce its involvement in the market by, for example, reducing its outright purchases, when market conditions have improved.

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

- We expect long-term interest rates to stay close to 0.25 percent, the upper limit of the range of fluctuations set under YCC.
- As for downside risks, we are paying attention to developments in overseas economic activity, prices, and monetary policies, especially in the United States and Europe, geopolitical risks such as the situation surrounding Ukraine, and developments in prices and wages in Japan.
- Going forward, bond prices could be more volatile if speculation over a change in the Bank's policy intensifies amid low liquidity.