June 29, 2020
Financial Markets Department
Bank of Japan

Minutes of the 11th Round of the "Bond Market Group" Meetings

1. Outline

(1) Date June 5 at 4:45 p.m. (via conference call)

(2) 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 (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

- Prior to the meeting, the Bank received participants' views on the above topics. Views provided by participants are as follows.

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

- Global financial markets became unstable rapidly due to the growing uncertainties over the global economy resulting from the spread of the novel coronavirus (COVID-19). Thereafter, financial markets have started to regain stability given the additional monetary easing measures and the provision of liquidity by the central bank of each country and region.
- In the JGB market, up through February 2020, interest rates declined due to the spread of COVID-19, and fluctuated significantly in March. However, volatility decreased due to active purchases of JGBs by the Bank. As the Bank started to purchase JGBs more actively in April, long-term interest rates have

remained stable within a narrow range. Reflecting the expectations of an increase in the amount of issuance of JGBs in accordance with the government's additional economic measures, the yields on super-long-term JGBs temporarily rose somewhat. However, the degree of the rise has been relatively small mainly on the back of stable demand from investors.

<u>Functioning and liquidity of the Japanese bond market</u>

- In response to the government's declaration of a state of emergency, changes in the business operations by market participants were observed, such as by enabling employees to work from home. Mainly reflecting these changes, market participants have focused on transactions through JGB auctions by the Ministry of Finance and the Bank's outright purchases, while significantly decreasing the order quantity and dealing frequency of over-the-counter transactions and inter-dealer transactions. Overall, the functioning and liquidity of the bond market have declined.
- Due to a decline in market participants' risk tolerance, the bid-ask spreads have widened in a broad range of maturities.
- We are concerned that the current situation surrounding the spread of COVID-19 may persist, leading to a deterioration in market depth. Many market participants are expected to continue working from home for the time being, and we are paying attention to whether structural changes will occur.

<u>The Bank's operations and others</u>

- As the amount of issuance of JGBs is scheduled to increase, we would like to ask the Bank to expand the outright purchases in terms of volume and frequency with a view to complementing the declined functioning of the bond market, and continue to thoroughly communicate with market participants.
- We would like to ask the Bank to let the market determine the prices of super-long-term JGBs, given the stable demand from investors.
- We would like to ask the Bank to continue to implement the measures to maintain stability of the repo market introduced in March (increase in the number of JGS issues offered in the Securities Lending Facility [SLF] and relaxation of the upper limit on the number of JGS issues allowed for the submission of bids for the SLF).

- The funding conditions of firms have been improving, as seen by, for example, in an overall decline in the CP issuance rates and yields on corporate bonds mainly reflecting the increase in the Bank's purchases of CP and corporate bonds. However, we would like to ask the Bank to note a risk that the large amount of the purchases might cause the credit spread to narrow excessively.

Views and risks on the outlook for the Japanese bond market

- Developments regarding COVID-19 and their impact on the real economy continue to warrant the most attention. In addition, we consider that it is worth paying attention to the U.S. presidential election, U.S.-China relations and monetary policies of foreign central banks.

- If the impact of COVID-19 becomes prolonged, it might take time for market participants' risk tolerance and bond market liquidity to improve.

- Global bond markets are caught in a "tug of war" between downward pressure on interest rates reflecting depression and upward pressure reflecting the expansionary fiscal policy of each country and region. Although the JGB market is expected to remain stable under the Bank's yield curve control, it should be noted that if concerns over sovereign debt in some countries are intensified, there is a possibility that their effects would spread to the JGB market.