June 27, 2024
Financial Markets Department
Bank of Japan

Minutes of the 19th Round of the "Bond Market Group" Meetings

1. Outline

(1) Date	Commercial banks group	June 4 at 3:45 pm
	Securities firms group	June 4 at 5:30 pm
	Buy-side group	June 5 at 4:00 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 bond market</u>

- ➢ Since the beginning of this year, interest rates in Japan have risen, in response to the uptrend in overseas interest rates, the results of the annual spring labor-management wage negotiations, and the termination of the negative interest rate policy. Interest rates in Japan are continuing on an uptrend, reflecting market participants' expectations of a future rate hike by the Bank.

- The transition concerning the changes in the monetary policy framework by the Bank in March was successful; a smooth transition was achieved with the Bank continuing its JGB purchases at broadly the same amount as before to contain an excessive rise in interest rates.
- Interest rates in Japan have become more likely to rise compared to overseas interest rates since the reduction in the Bank's purchase amount of JGBs in a regular operation in May. With the Bank's stance on the future conduct of its JGB purchases not being clear enough, the lowered predictability of the Bank's market operations, which has resulted in the increased term premium, could have caused the rise in interest rates.
- Due to the deterioration in the balance of supply and demand of super-long-term JGBs, the yield curve is steepening.

Functioning and liquidity of the Japanese bond market

- Through the increase in the flexibility in the conduct of yield curve control (YCC) and the termination of YCC, the functioning of the JGB market has been improving, specifically in terms of relative prices and the functioning of hedging tools.
- Although the liquidity in the JGB market has been gradually recovering with the Bank purchasing less JGBs than before, the level of liquidity remains low due to continued large-scale JGB purchases and the stock effects of the previous purchases by the Bank.
- The market depth is insufficient, since investors are reluctant to invest in JGBs, taking into account the current level of interest rates that is being suppressed by the stock effects of the Bank's JGB purchases, as well as due to expectations for further interest rate increases.
- Since hedging tools for super-long-term JGBs are limited, we are concerned about the declining correlation between the JGB cash market and the interest rate swap market.
- Certain JGB issues are extremely scarce in the market. We are paying attention to whether any measures will be implemented when these issues become the cheapest to deliver (CTD) in the futures market.

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

- The reduction in the Bank's purchase amount of JGBs in a regular operation in May was a surprise, and the predictability of its JGB purchases has declined. We would like to ask the Bank to enhance dialogue with the market and send messages in a way that will increase the predictability of the Bank's market operations.
- Although the reduction in the Bank's purchase amount of JGBs in a regular operation in May was not surprising taking account of, for example, the recent supply and demand conditions, it is natural that there are various opinions among market participants regarding the timing of the reduction.
- The Bank's unclear stance on the scale and the pace of the reduction in its JGB purchases has led to lower predictability. We expect the Bank's stance to become clearer in the future.
- In order to improve the liquidity in the JGB market, we would like to ask the Bank to proceed with the reduction in its purchase amount of JGBs in a stepwise manner.
- Although the rise in interest rates associated with the normalization of monetary policy is desirable, we would like to ask the Bank to conduct market operations attempting a gradual rise in interest rates, since a rapid one entails risks.
- The Bank's purchase amount of super-long-term JGBs in its regular operations seems to be small, given the significant imbalances in the supply and demand of these bonds. We would like to suggest that the Bank determine the amount of JGBs in each segment classified by residual maturity it offers to purchase in its regular operations so that its purchase amount would be closer to the portfolio of the entire JGB market.
- The imbalances of supply and demand of certain JGB issues might partly be attributed to the fragmented segments of residual maturity from which the Bank purchases JGBs. We suppose that the Bank should consider measures to let the shape of the yield curve be determined by market mechanism such as by simplifying the segments.
- We are interested in whether the current framework of the Bank's Securities Lending Facility (SLF) will be maintained in the future.