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Trends in the Money Market in Japan

— Results of the Tokyo Money Market Survey (August 2014) —

Financial Markets Department
Bank of Japan

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Trends in the Money Market in Japan

Results of the Tokyo Money Market Survey (August 2014)

■ Introduction ■

The Financial Markets Department of the Bank of Japan (the Bank) has conducted the Tokyo Money Market Survey since 2008 to recognize developments in the Japanese money market. Initially, this series of surveys was conducted every other year. However, to observe market trends more precisely, the Bank decided to conduct the survey annually beginning with the 2013 survey. In August 2014, the fifth survey in the series was carried out.

As with the previous surveys, this survey covers all eligible counterparties in the Bank's money market operations, as well as other major participants in the money market. The number of respondents in the survey was 296 (a response rate of 100 percent), up from 284 in the 2013 survey.

Prior to the present survey, there was a considerable time lag between the execution of the survey in August and the release of its results sometime between December of the same year and the following February. From this year, therefore, the Bank released the results to the earliest extent possible, mainly paying due attention to the requests of market participants. Specifically, while keeping the data date to end-July as in the past surveys to maintain time-series consistency, the Bank released its results in October, bringing forward the release date by more than two to four months. To enable a proper understanding of market developments and smooth execution of necessary measures to improve the market infrastructure, the Bank believes it is desirable to share the survey results with market participants as quickly as possible and continue dialogue with the relevant parties by making effective

use of the results.

The Bank intends to actively support the relevant parties in their efforts to enhance the Japanese financial markets, including the money market, by utilizing the results of the present survey, and will contribute significantly to such endeavors in its capacity as Japan's central bank.

Number of Respondents in the Tokyo Money Market Survey (August 2014)

	2013 survey	2014 survey
Total respondents	284	296
Eligible counterparties in the Bank's money market operations	261	264

Note: In addition to the eligible counterparties in the Bank's money market operations, several major life insurance companies, general insurance companies and major asset management companies participated in the survey.

■ Overview ■

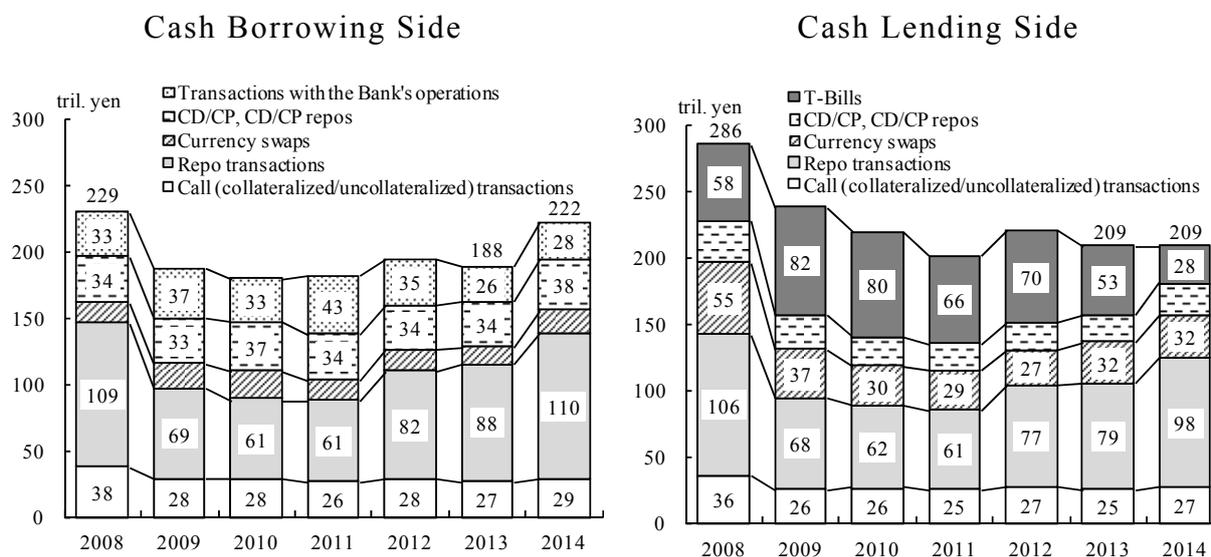
The amount outstanding in the money market on the cash borrowing side increased and recovered to a level close to that in the summer of 2008, prior to the Lehman shock.

It appears that the transactions in the money market were underpinned by factors such as the following: (1) the spread of arbitrage transactions across the money market against the benchmark of the 0.1 percent interest rate paid by the Bank on excess reserves under the complementary deposit facility; and (2) a continuation of uncollateralized call transactions among some market participants to maintain relationships with counterparties or their own internal administrative structures and expertise, or strengthening their business continuity programs. Factors such as the following seemed to also contribute to increasing the transactions: (3) lending of surplus funds by investment trusts, mainly reflecting the rise in stock prices; and (4) an increase in repo transactions reflecting larger demand for specific issues of government bonds as the Bank carried out massive purchases of government bonds.

Meanwhile, reflecting steps by some market participants to curb collateralized call transactions due to the fall in yields on treasury discount bills (T-Bills) and a poor prospect for profitability of these transactions, about 30 percent of all respondents replied that the profitability and functioning of the money market had decreased from the levels of the previous year (2013). However, roughly 60 percent of all respondents replied that the money market's profitability and functioning did not change as compared with the previous year.

These results suggest that the functions of the Japanese money market have been maintained on the whole. However, the Bank intends to continue to observe closely the developments in the money market through day-to-day monitoring activities and implementation of the Tokyo Money Market Survey, and dialogue with market participants.

Amount Outstanding in the Money Market



1. The Spread of Arbitrage Transactions

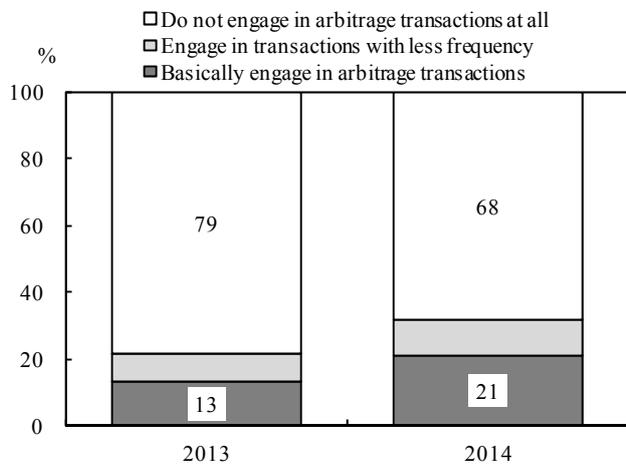
A broader range of market participants than a year before engaged in arbitrage transactions across the money market under the complementary deposit facility.

Among the financial institutions eligible for the complementary deposit facility (institutions eligible for remuneration, those to which the Bank pays interest on excess reserve), the proportion of counterparties responding "basically engage in arbitrage transactions" increased. It appears that these institutions engaged in transactions in which they deposited in their accounts with the Bank the funds they had raised at an interest rate below the Bank's rate on excess reserves (0.1 percent).

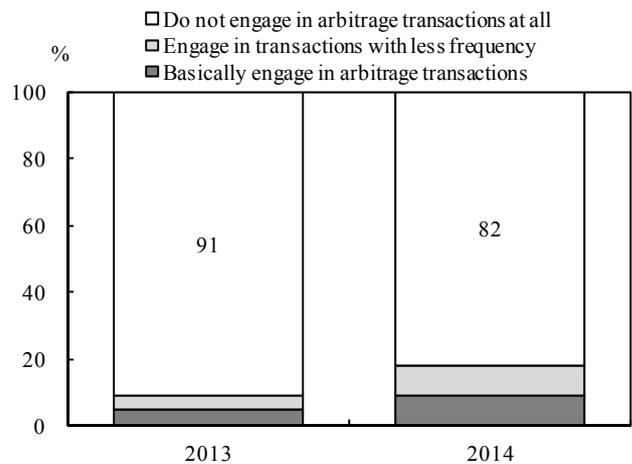
While the proportion of counterparties stating "basically do not hold excess reserves" declined, that of institutions responding "do not set a standard" increased. It suggests that financial institutions reviewed their stance on holding excess reserves.

Stance on Arbitrage Transactions

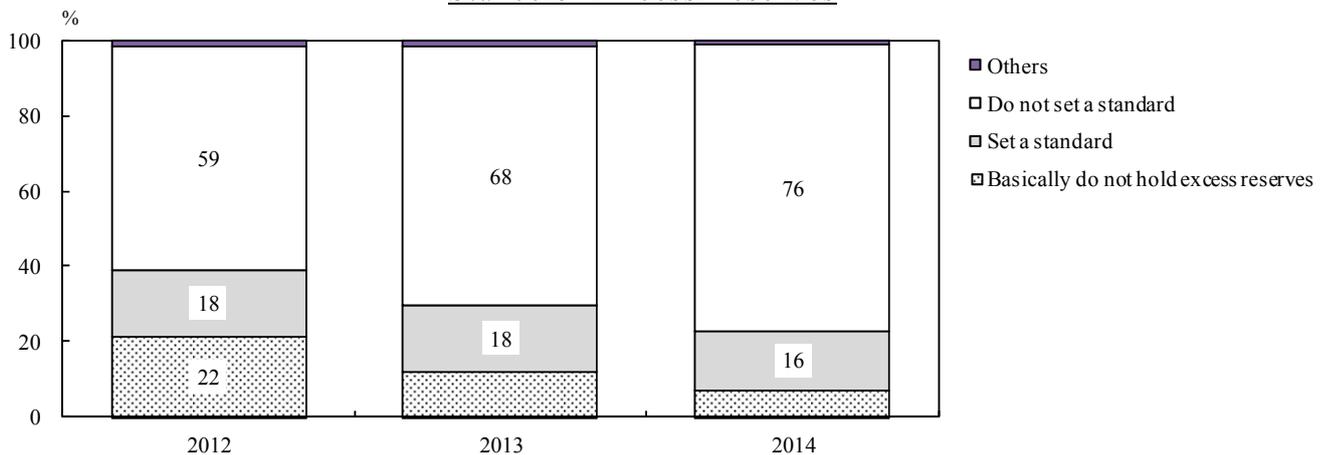
Institutions Eligible for Remuneration



Institutions Not Eligible for Remuneration



Stance on Excess Reserves



2. Greater Presence of Counterparties Not Eligible for the Complementary Deposit Facility on the Cash Lending Side

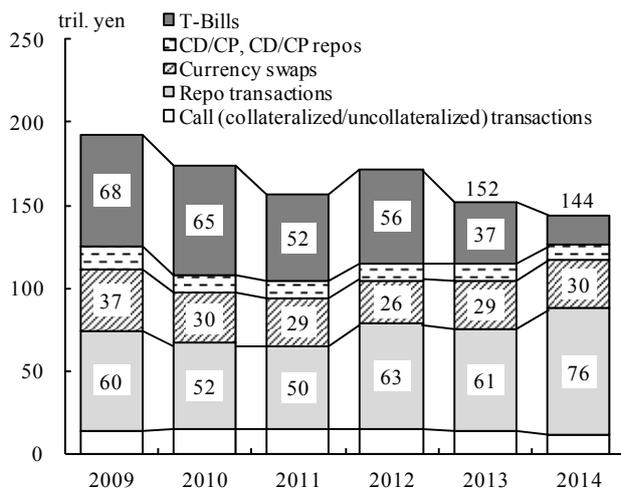
On the cash lending side in the money market, financial institutions not eligible for the complementary deposit facility such as investment trusts further increased their presence.

In terms of the amount outstanding of funds lending in the money market, while the amount held by counterparties eligible for the complementary deposit facility declined somewhat from a year earlier, that of the financial institutions not eligible for the complementary deposit facility expanded due to a rise in surplus funds mainly at investment trusts, and an increase in funding needs from counterparties planning to engage in arbitrage transactions.

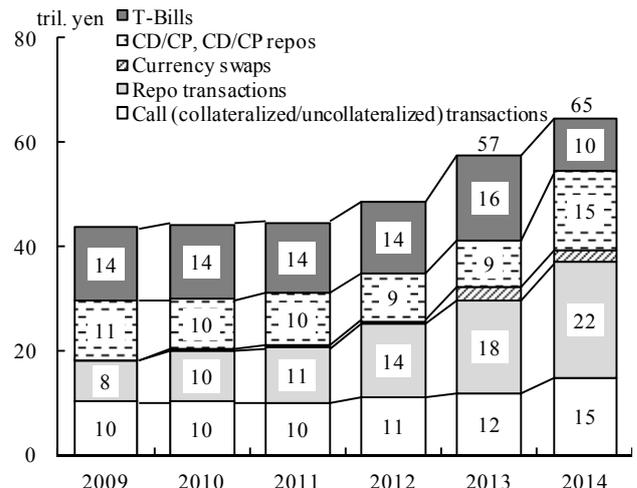
Concurrently, as the transaction rates in the money market declined, some counterparties not eligible for the complementary deposit facility stepped up investment in instruments such as commercial papers (CP) generating a higher investment yield than that for T-Bills and others.

Amount Outstanding of Funds Lending by Institutions Eligible for Remuneration and Those Not Eligible

Institutions Eligible for Remuneration



Institutions Not Eligible for Remuneration

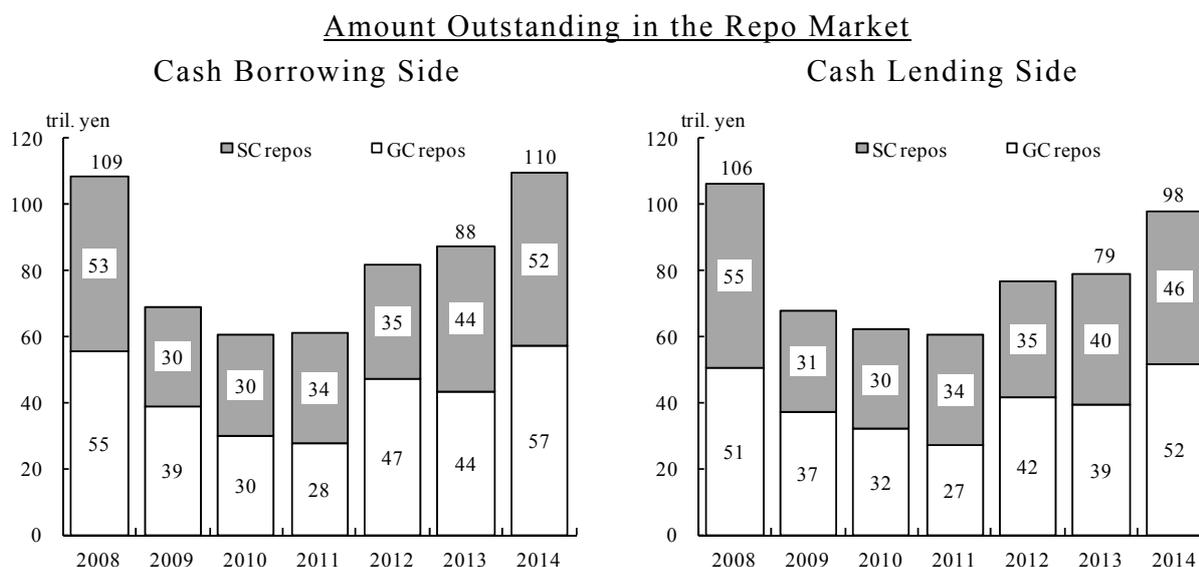


3. Significant Increase in Repo Transactions

The amount outstanding in the repo market¹ increased significantly from the previous year both for the general collateral (GC) repo² and the special collateral (SC) repo.³

The increase in SC repo reflected the fact that the need to borrow specific issues of bonds tended to increase as the Bank continued to make its massive purchases of government bonds under quantitative and qualitative monetary easing, as well as an increase in counterparties that engaged in bond lending with a greater frequency to maximize profit opportunities.

Some attributed the increase in the amount outstanding of GC repo transactions to a pick-up in transactions aimed at profiting from the spread in the matching of bond lending in the SC repo and cash lending in the GC repo, and the selection of GC repo as a preferred means of borrowing cash as a result of the fall in its rates.



¹ In this paper, the market for cash-collateralized securities lending transactions (the so-called *gentan* repo) and securities repurchase transactions (the so-called *gensaki* repo) is called the "repo market."

² These are repo transactions in which the securities to be used as collateral are not specified.

³ These are repo transactions in which the securities to be used as collateral are specified.

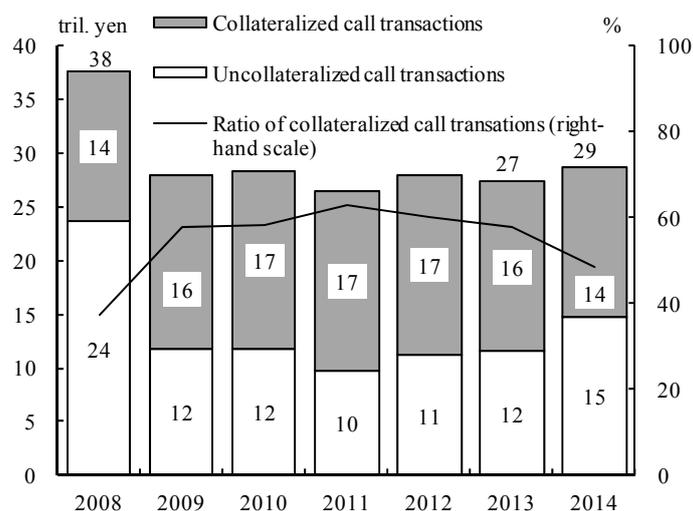
4. An Increase in Uncollateralized Call Transactions and a Decline in Collateralized Call Transactions

As the increase in uncollateralized call transactions from the previous year offset the decline in collateralized call transactions in the same period, the total amount outstanding in the call market remained more or less unchanged.

The increase in uncollateralized call transactions reflected to the shift from collateralized call transactions as well as the presence of some counterparties that continued to undertake uncollateralized call borrowing aimed at maintaining business relationships or their own internal administrative structure and expertise, or those who were intentionally increasing transactions in the Osaka money market to enhance their business continuity programs.

Also cited as a factor in the decline in collateralized call transactions were the steps to curb transactions with a prospect for poor profitability against the backdrop of a fall in yields on the T-Bills.

Amount Outstanding in the Call Market
and the Ratio of Collateralized Transactions



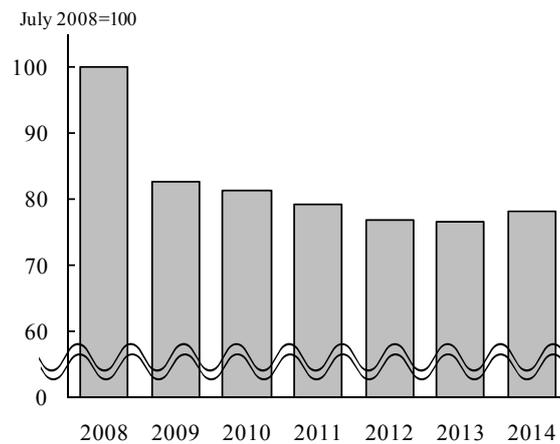
Note: Cash borrowing side.

5. Development of Transaction Infrastructure

Because uncollateralized call and repo transactions increased as mentioned earlier, some financial institutions took steps to enhance their transaction infrastructure such as credit lines and administrative structures.

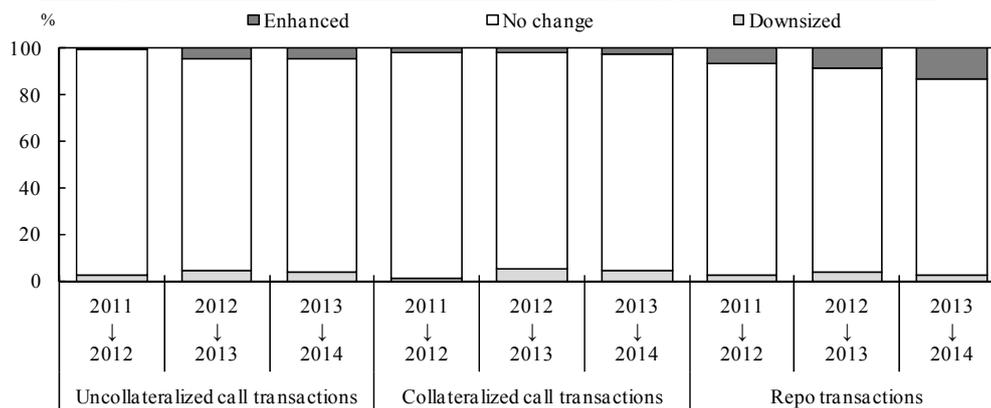
The number of credit lines established for uncollateralized transactions (uncollateralized call transactions, etc.) had been decreasing since the Lehman shock, but it increased in 2014. This reflected the resumption of transactions by some counterparties seeking to expand their investment in the money market. With respect to the administrative structure for repo transactions, the proportion of respondents who enhanced administrative structure increased, mainly reflecting the fact that some regional financial institutions began to engage in repo transactions for the first time to secure profit opportunities.

Number of Credit Lines Established



Note: Number of respondents whose total number of credit lines established could be confirmed for all years from 2008 to 2014. Adjusted for the effects of mergers and other factors.

Changes in Administrative Structures by Type of Transactions



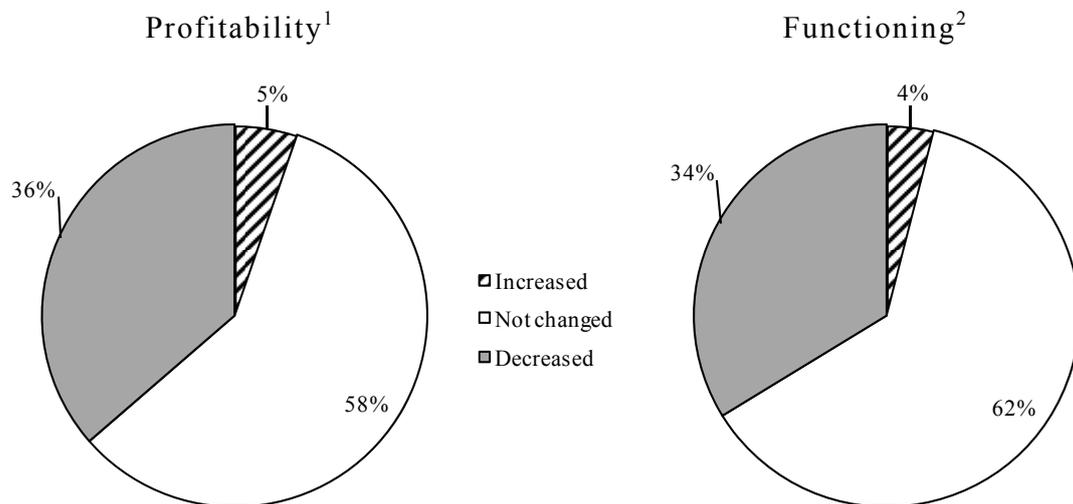
6. Perceptions of Market Participants on the Profitability and Functioning of the Money Market

To observe developments in money market transactions from a range of perspectives, this survey looked at changes in market participants' perceptions of the profitability and functioning of the money market.

Roughly 60 percent of the respondents answered that the profitability in the money market did not change from the previous year. The same response was made by also approximately 60 percent of the respondents on the functioning of the market.

However, about 30 percent of the respondents answered that the profitability and the functioning decreased from the previous year, mainly citing the fall in the yields on T-Bills, and a decline in collateralized call transactions. Nevertheless, they also said that due to the complementary deposit facility, the profitability and functioning of the money market were maintained fairly well this time in comparison with the period of quantitative monetary easing from 2001 to 2006.

Perceptions of Market Participants on the Money Market

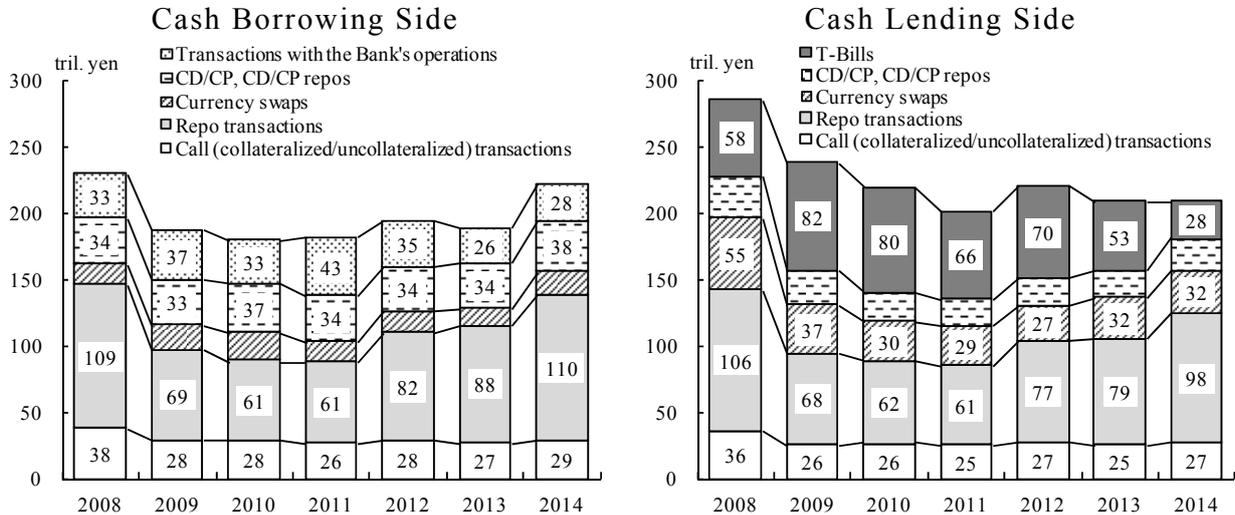


- Note: 1. Change of profitability in the money market since the previous year, mainly taking into account investment yield, funding cost, transaction amounts, and fixed cost.
2. Change of functioning of the money market since the previous year, mainly taking into account intended rates, prices, terms, and counterparties.

Charts

Chart 1	Amount Outstanding in the Money Market	11
Chart 2	Amount Outstanding in the Money Market by Category	11
Chart 3	Amount Outstanding of Funds Lending by Institutions Eligible for Remuneration and Those Not Eligible	12
Chart 4	Amount Outstanding in the Call Market and the Ratio of Collateralized Transactions	12
Chart 5	Amount Outstanding in the Uncollateralized Call Market by Category	13
Chart 6	Amount Outstanding in the Uncollateralized Call Market and the Ratio of Direct Dealing (DD) Transactions	13
Chart 7	Share of Amount Outstanding in the Uncollateralized Call Market by Term	14
Chart 8	Number of Credit Lines Established	14
Chart 9	Amount Outstanding in the Collateralized Call Market by Category	15
Chart 10	Share of Amount Outstanding in the Collateralized Call Market by Term	15
Chart 11	Frequency of Call Transactions	16
Chart 12	Share of Call Transactions Turnover	16
Chart 13	Amount Outstanding in the Repo Market	17
Chart 14	Amount Outstanding in the GC Repo Market by Category	17
Chart 15	Amount Outstanding in the GC Repo Market by Starting Date	18
Chart 16	Amount Outstanding of GC Repo Transactions by Term	19
Chart 17	Amount Outstanding in the SC Repo Market by Category	19
Chart 18	Amount Outstanding of SC Repo Transactions by Term	20
Chart 19	Frequency of Repo Transactions	20
Chart 20	Share of Repo Transactions Turnover	21
Chart 21	Share of Amount Outstanding in the Repo Market by Type of Collateral Bond	21
Chart 22	Amount Outstanding of Repo Transactions in Managed Securities Trusts by Term	22
Chart 23	Amount Outstanding of Repo Transactions by Collateral Maturity	22
Chart 24	Share of the Amount Outstanding of Repo Transactions by Form of Contract	23
Chart 25	Implementation of Haircuts	23
Chart 26	Amount Outstanding of Financial Institutions' CP Holdings by Category	24
Chart 27	Amount Outstanding of Yen Funds Transactions with Overseas Counterparties by Category	24
Chart 28	Yen Overnight Index Swap Market	25
Chart 29	Breakdown of T-Bills and Fixed-Rate Coupon-Bearing Bonds as Collateral	25
Chart 30	Stance on Arbitrage Transactions	26
Chart 31	Stance on Excess Reserves	26
Chart 32	Changes in Administrative Structures	27
Chart 33	Stance on JSCC Participation in Over-the-Counter Transactions of Japanese Government Bonds	27
Chart 34	Other Topics	28
Chart 35	Perceptions of Market Participants on the Money Market	28
Chart 36	Degree of Concentration in Each Market	29

Chart 1: Amount Outstanding in the Money Market



Note: Among call transactions, the figures for uncollateralized call transactions are calculated as total transactions through *tanshi* companies (money market broker) and direct dealing (DD) transactions. The source of data on transactions through *tanshi* companies is "Amount Outstanding in the Call Money Market" by the Bank (the same applies hereafter).

Transactions with the Bank's operations denote Funds-Supplying Operations against Pooled Collateral, Purchase/Sale of Japanese Government Securities with Repurchase Agreements, Purchases of CP with Repurchase Agreements, Funds-Supplying Operations to Support Financial Institutions in Disaster Areas, Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth, Fund-Provisioning Measure to Stimulate Bank Lending.

Chart 2: Amount Outstanding in the Money Market by Category

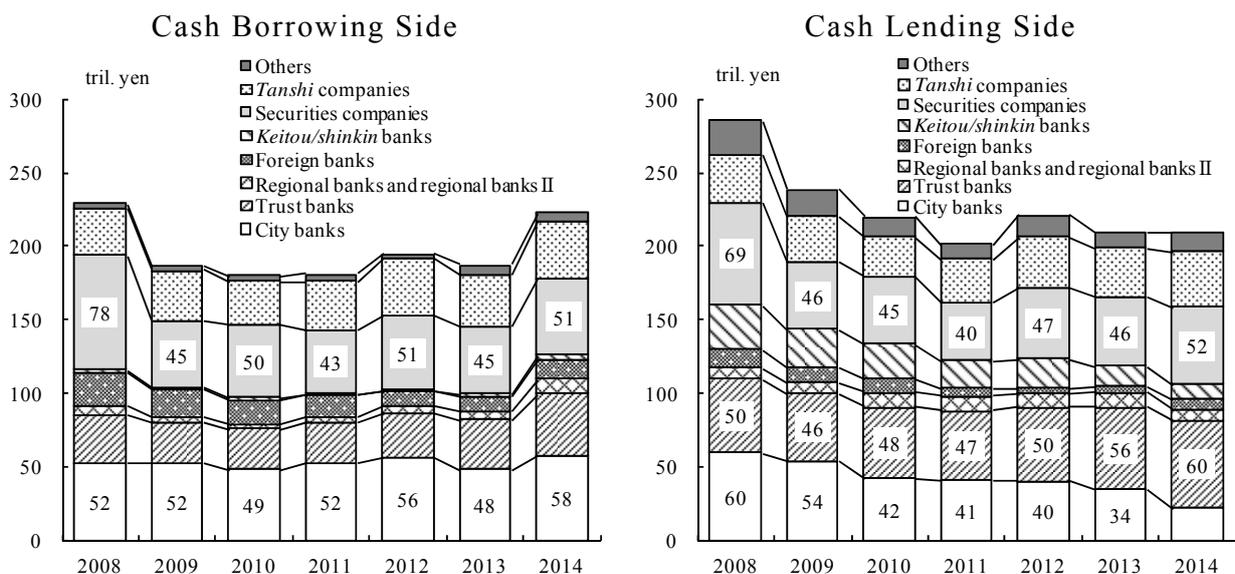
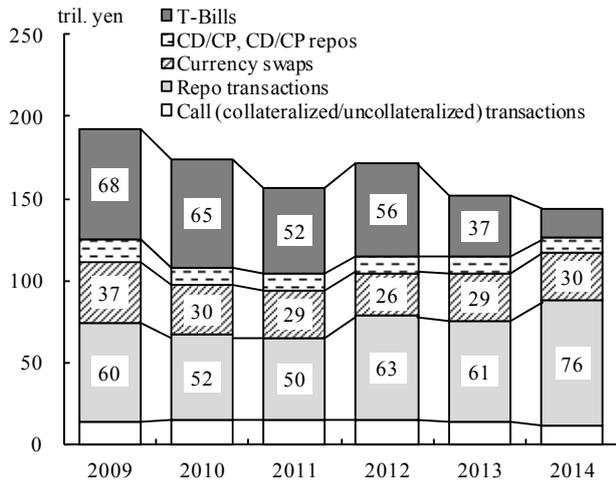


Chart 3: Amount Outstanding of Funds Lending by Institutions Eligible for Remuneration and Those Not Eligible

Institutions Eligible for Remuneration



Institutions Not Eligible for Remuneration

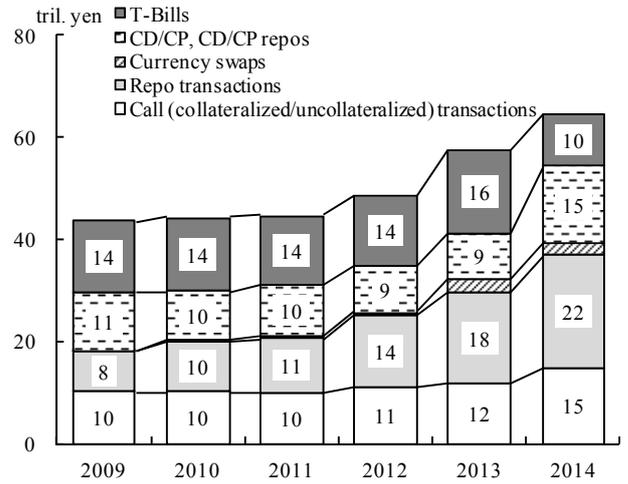
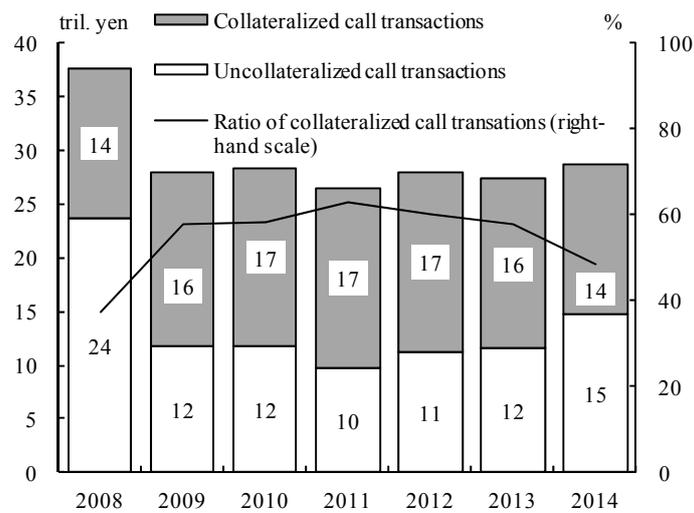


Chart 4: Amount Outstanding in the Call Market and the Ratio of Collateralized Transactions



Note: Cash borrowing side.

Chart 5: Amount Outstanding in the Uncollateralized Call Market by Category

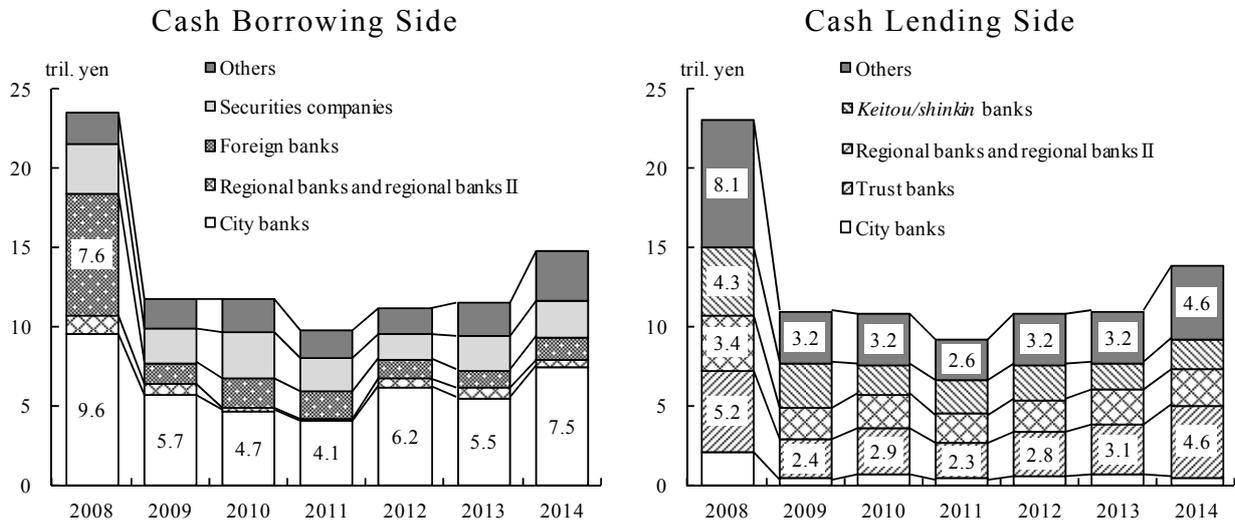
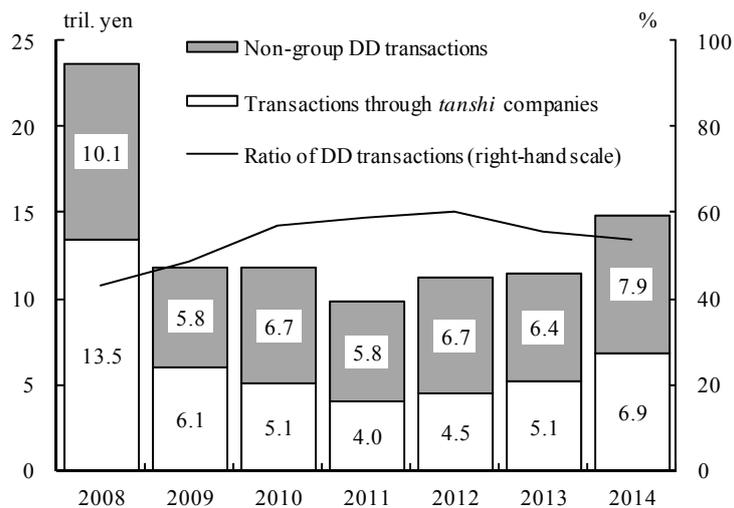


Chart 6: Amount Outstanding in the Uncollateralized Call Market and the Ratio of Direct Dealing (DD) Transactions



Note: Cash borrowing side.

Chart 7: Share of Amount Outstanding in the Uncollateralized Call Market by Term

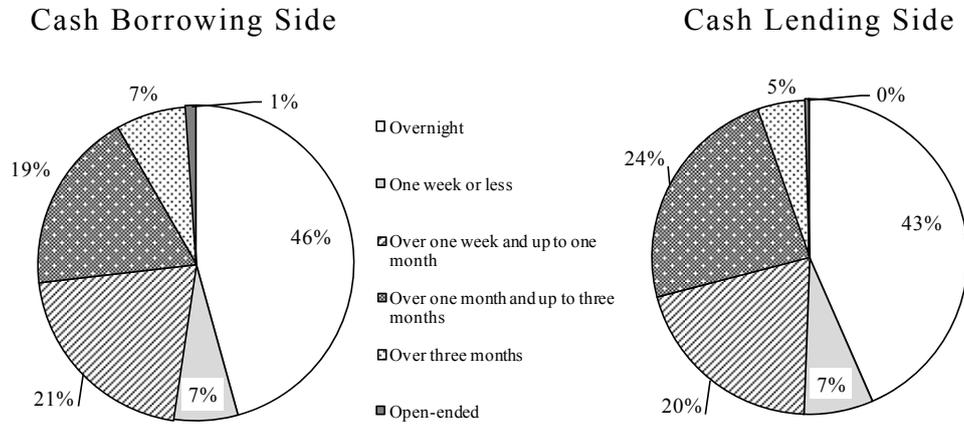
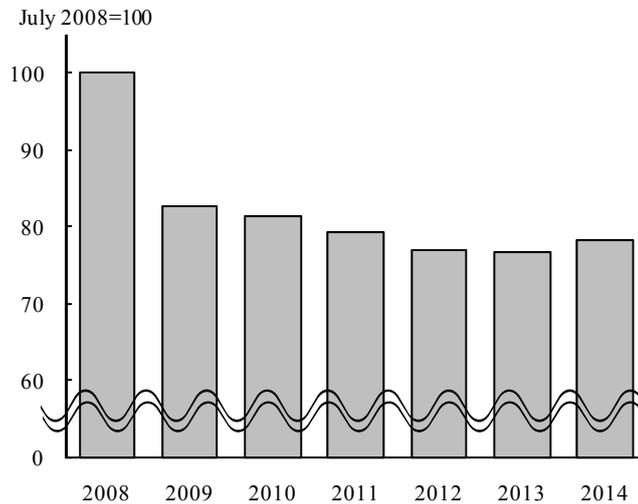


Chart 8: Number of Credit Lines Established



Note: Number of respondents whose total number of credit lines established could be confirmed for all years from 2008 to 2014. Adjusted for the effects of mergers and other factors.

Chart 9: Amount Outstanding in the Collateralized Call Market by Category

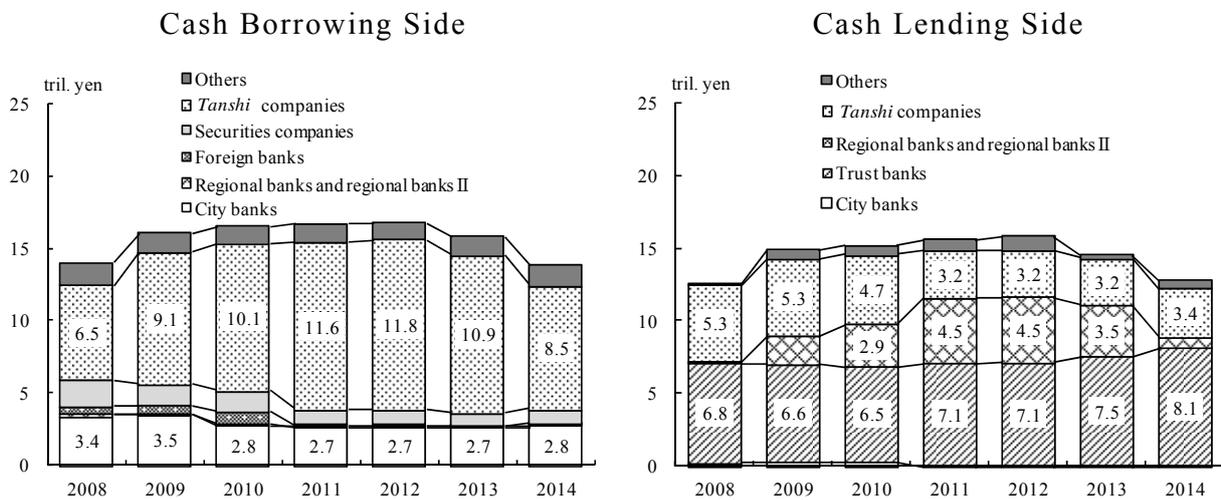


Chart 10: Share of Amount Outstanding in the Collateralized Call Market by Term

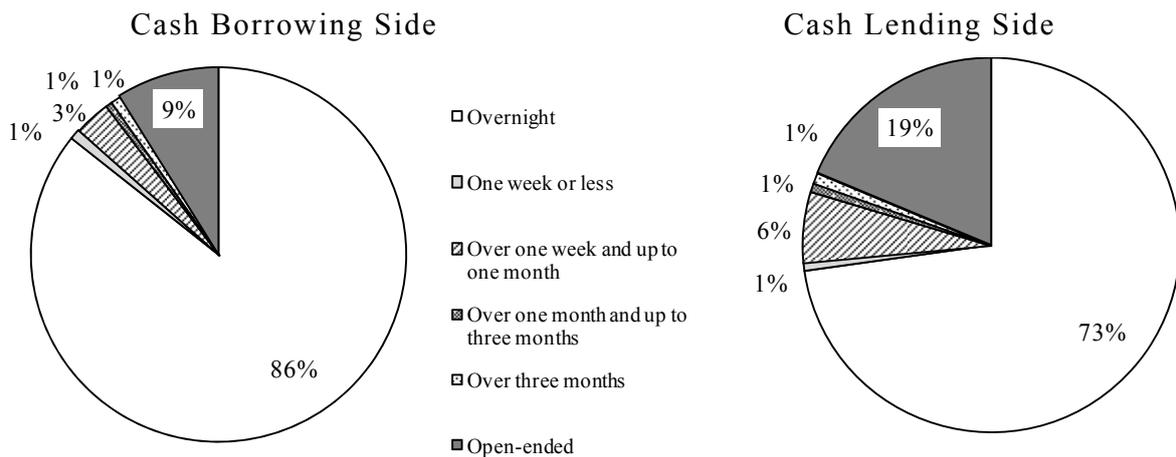
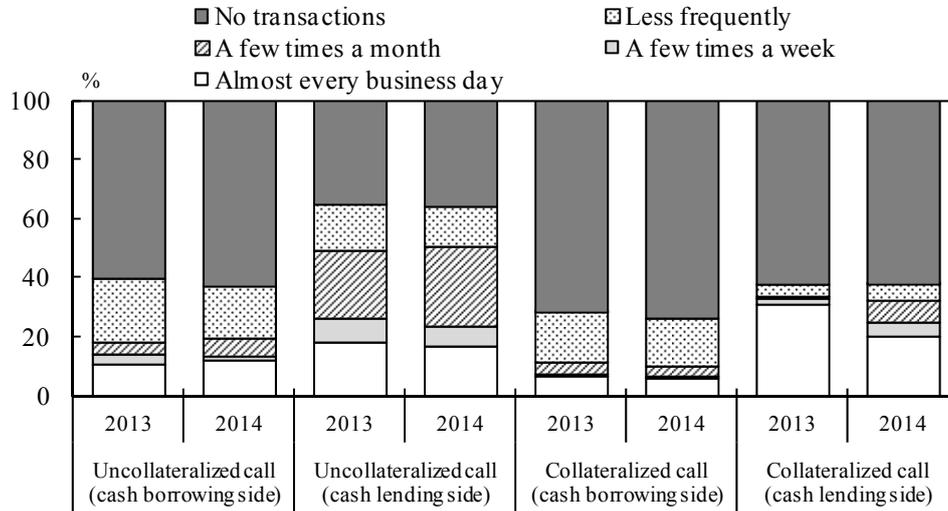
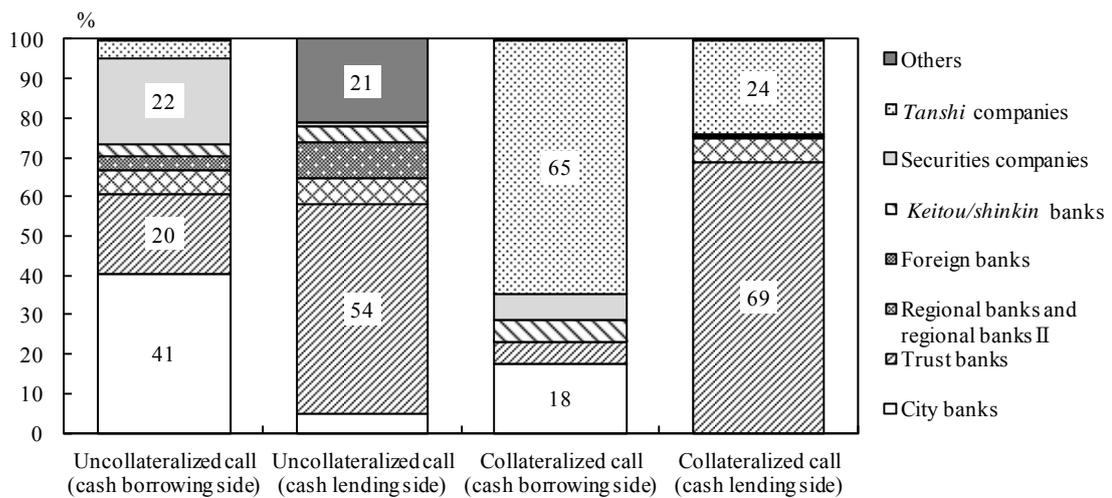


Chart 11: Frequency of Call Transactions



Note: Respondents whose call transactions were confirmed in both the 2013 and 2014 surveys. Adjusted for the effects of mergers and other factors.

Chart 12: Share of Call Transactions Turnover



Note: For transactions that occurred in July 2014.

Chart 13: Amount Outstanding in the Repo Market

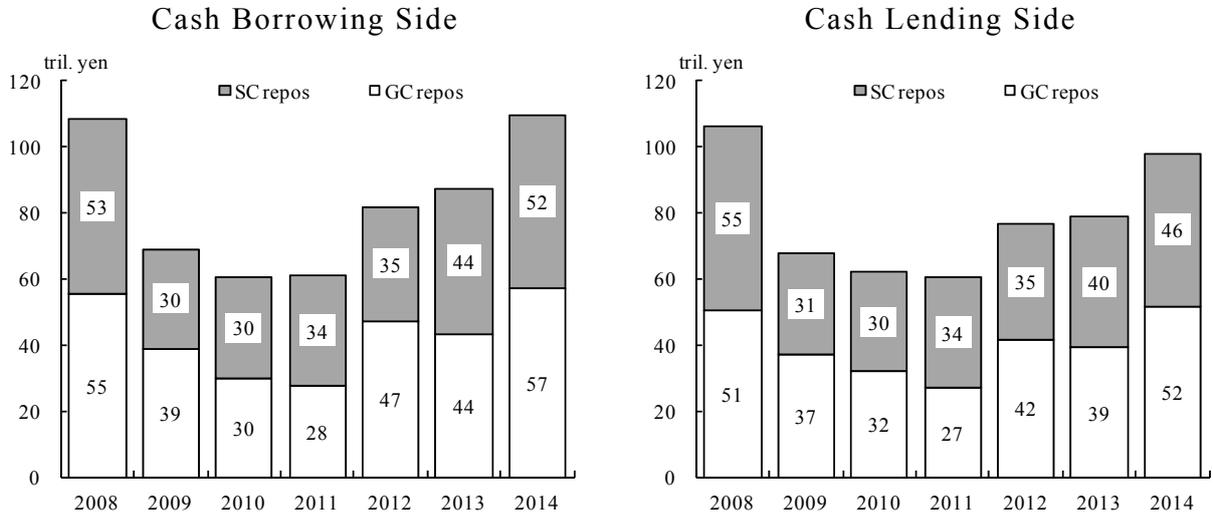


Chart 14: Amount Outstanding in the GC Repo Market by Category

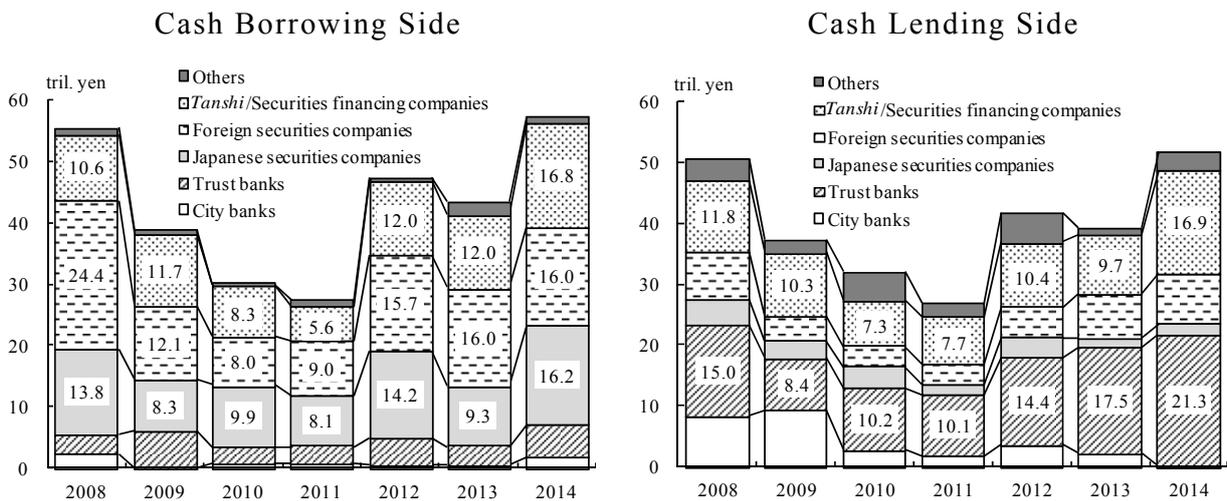
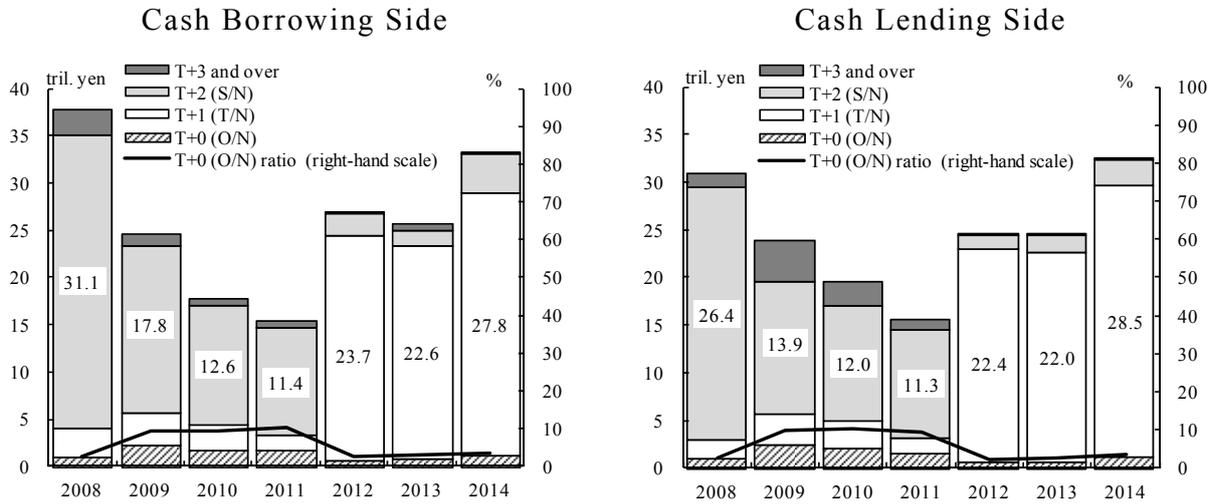


Chart 15: Amount Outstanding in the GC Repo Market by Starting Date
Overnight Transactions



Term Transactions

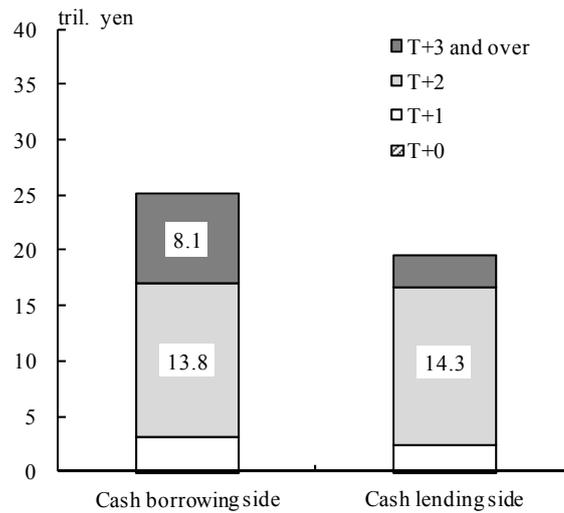


Chart 16: Amount Outstanding of GC Repo Transactions by Term

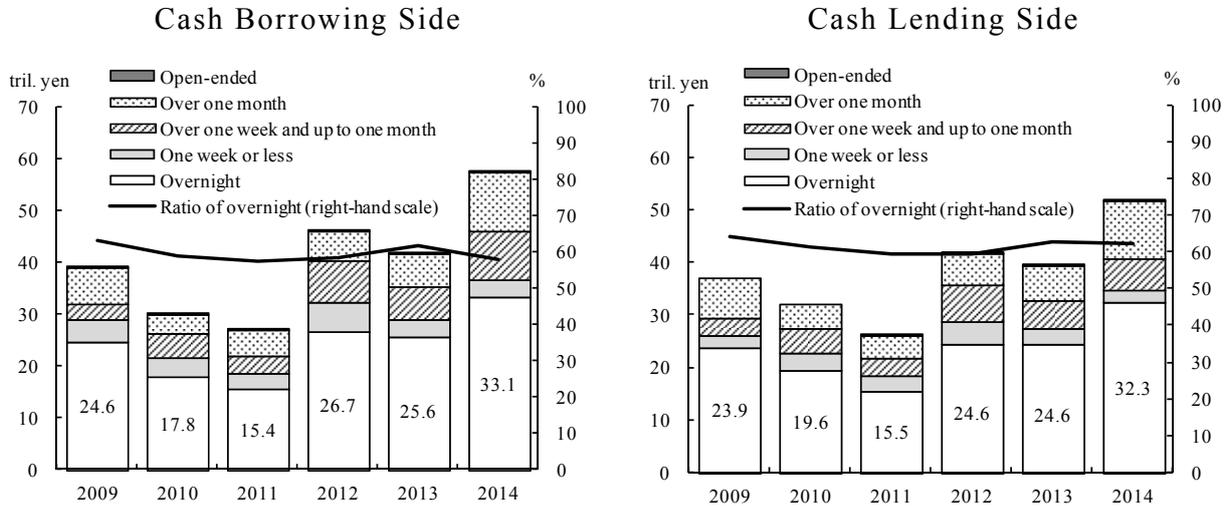


Chart 17: Amount Outstanding in the SC Repo Market by Category

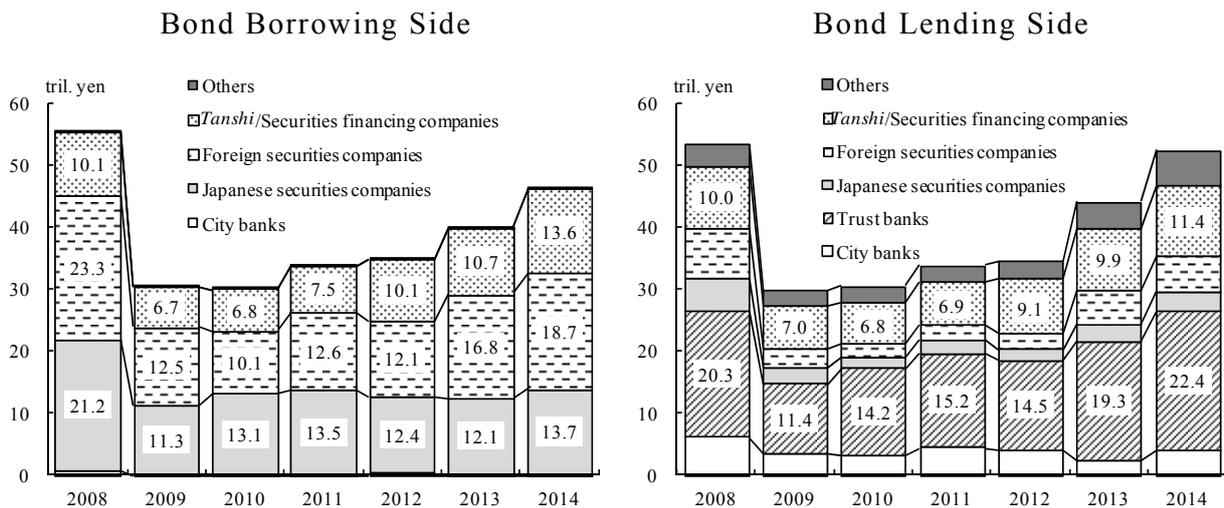
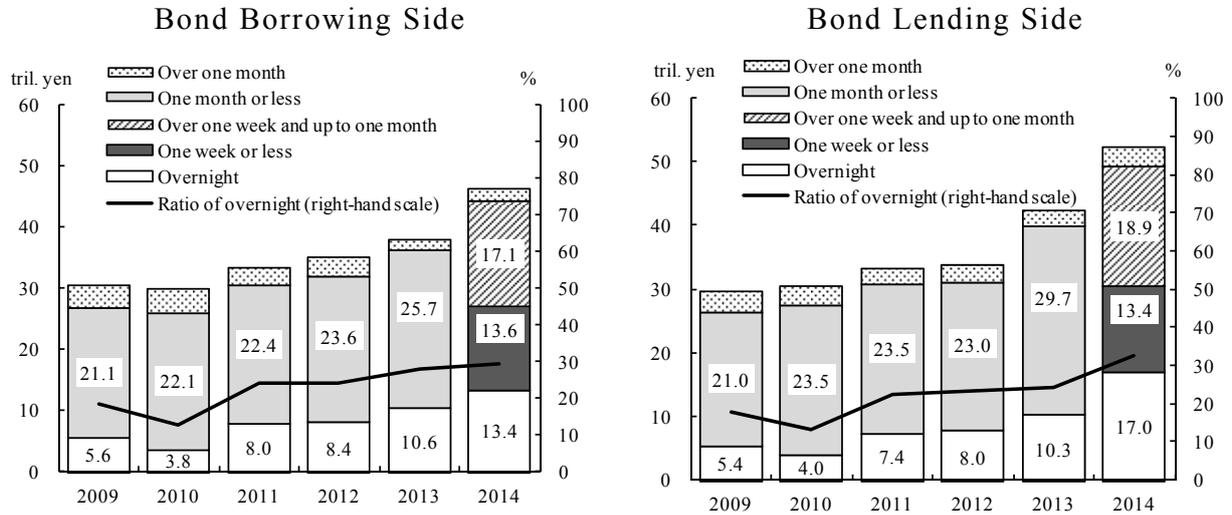
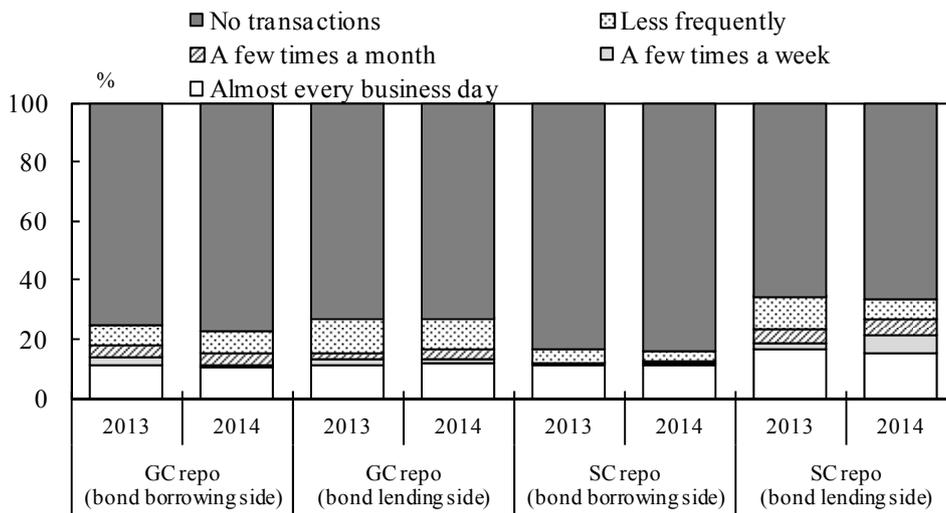


Chart 18: Amount Outstanding of SC Repo Transactions by Term



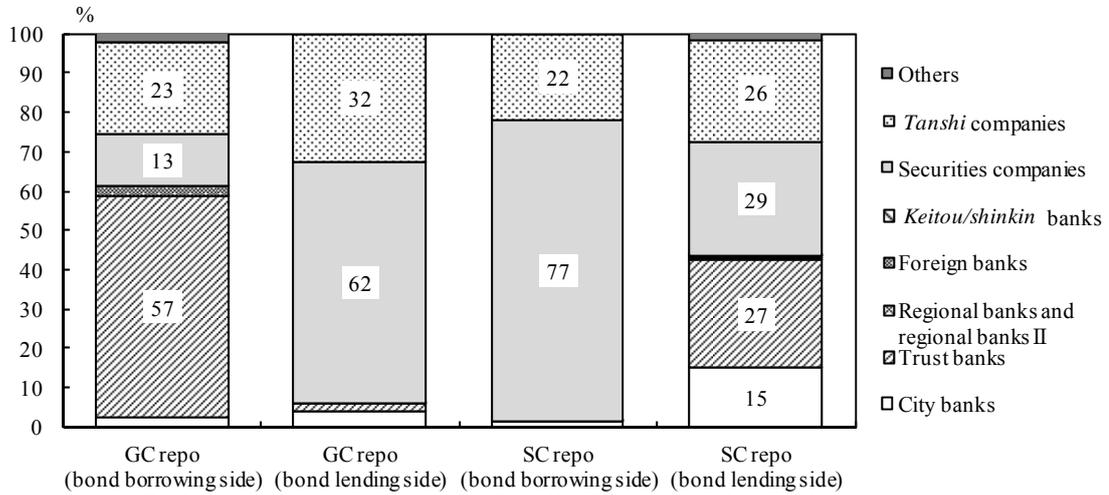
Note: From the 2014 survey, "one month or less" has been subdivided into "one week or less" and "over one week and up to one month."

Chart 19: Frequency of Repo Transactions



Note: Respondents whose repo transactions were confirmed in both the 2013 and 2014 surveys. Adjusted for the effects of mergers and other factors.

Chart 20: Share of Repo Transactions Turnover



Note: For transactions that occurred in July 2014.

Chart 21: Share of Amount Outstanding in the Repo Market by Type of Collateral Bond

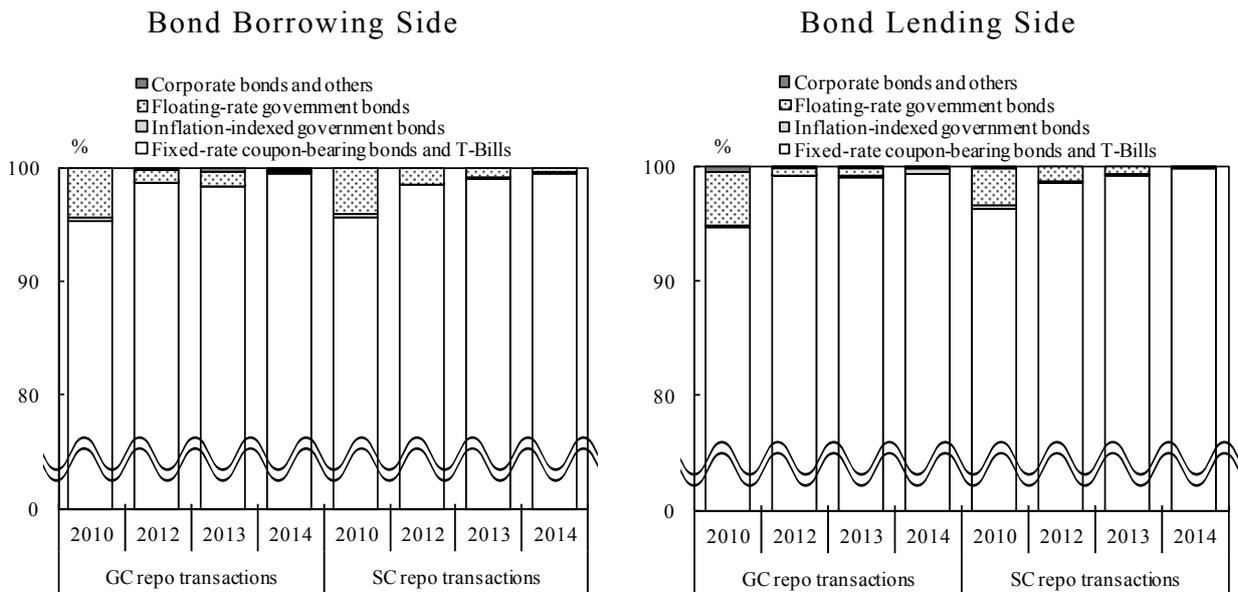
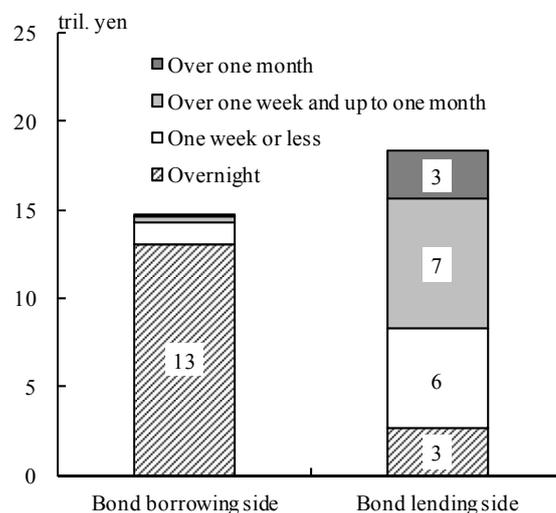
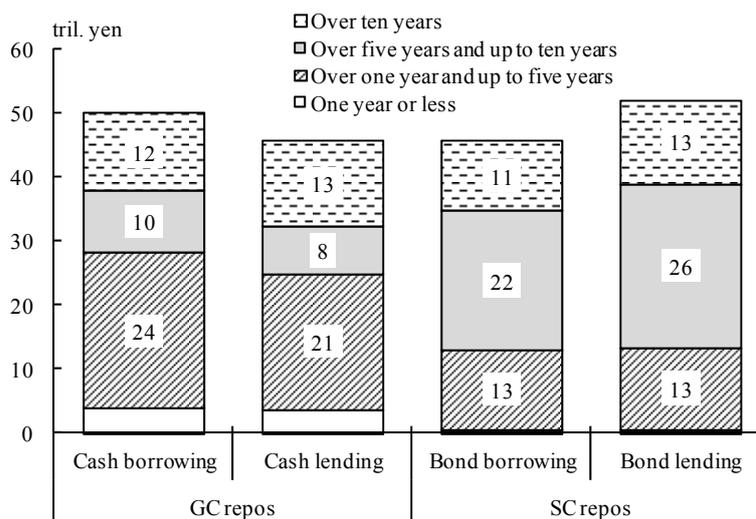


Chart 22: Amount Outstanding of Repo Transactions in Managed Securities Trusts by Term



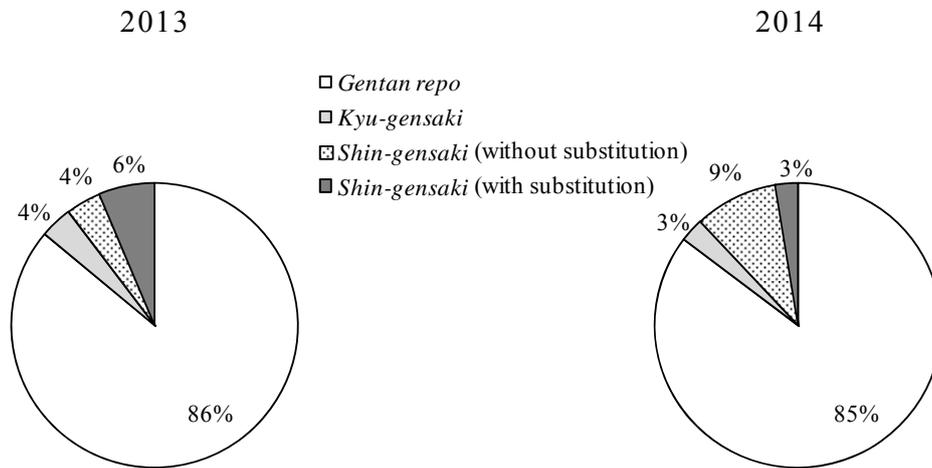
Note: Amount outstanding in managed securities trusts as of the end of July 2014.

Chart 23: Amount Outstanding of Repo Transactions by Collateral Maturity



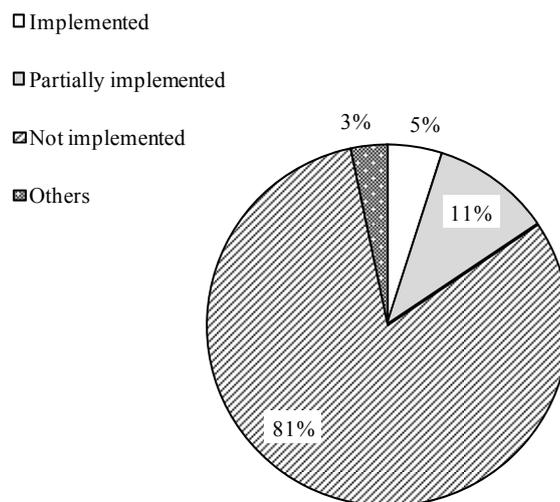
Note: Repo transactions with collateral of fixed-rate coupon-bearing bonds.

Chart 24: Share of the Amount Outstanding of Repo Transactions by Form of Contract



Note: Total of cash borrowing and lending.

Chart 25: Implementation of Haircuts



Note: Excludes respondents who do not engage in repo transactions.

Chart 26: Amount Outstanding of Financial Institutions' CP Holdings
by Category

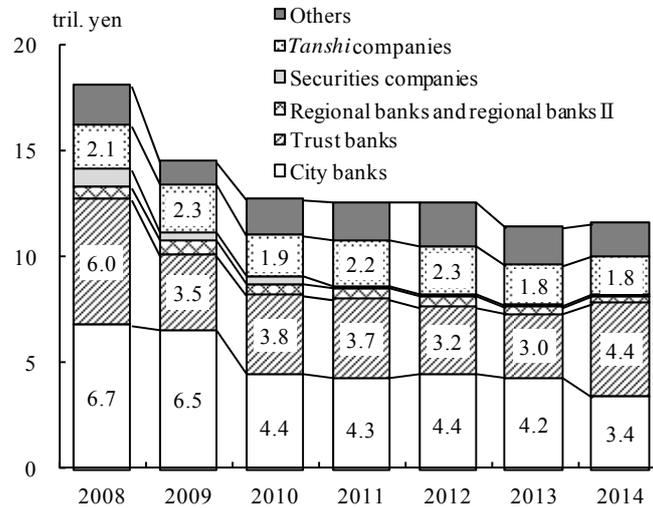
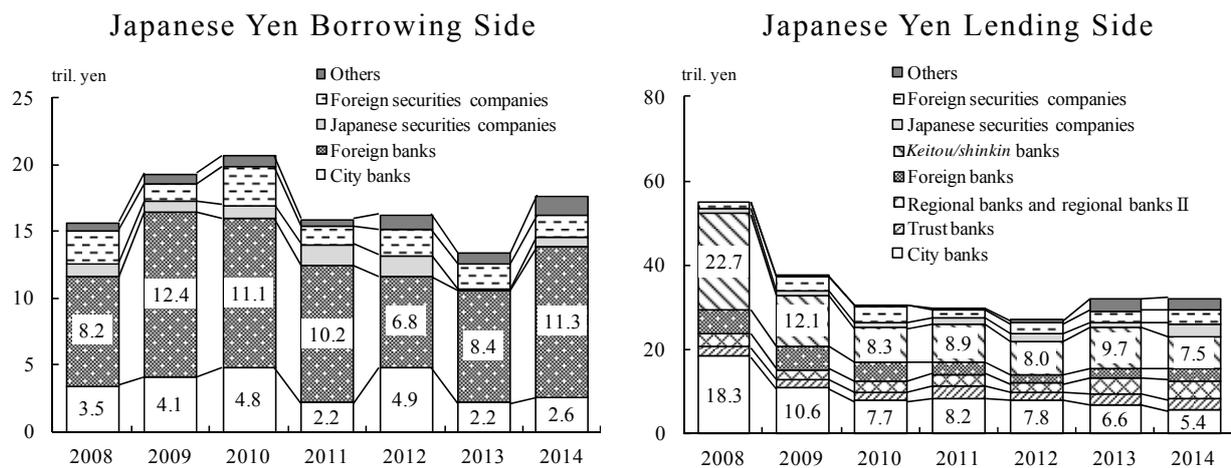


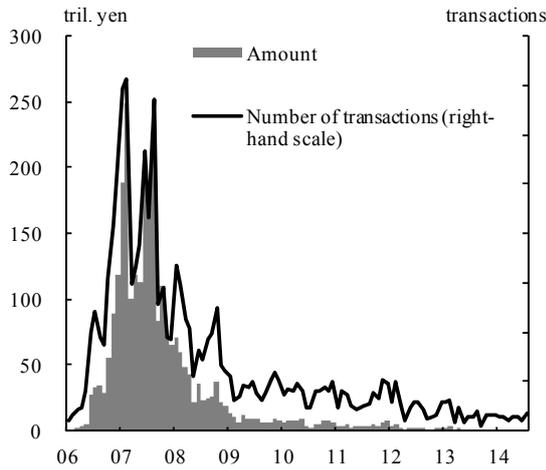
Chart 27: Amount Outstanding of Yen Funds Transactions with Overseas Counterparties by Category



Note: The total of conversion into yen/conversion into foreign currencies (those with a term of one year or less), Euroyen transactions, and yen lending/borrowing transactions with the overseas offices of financial institutions.

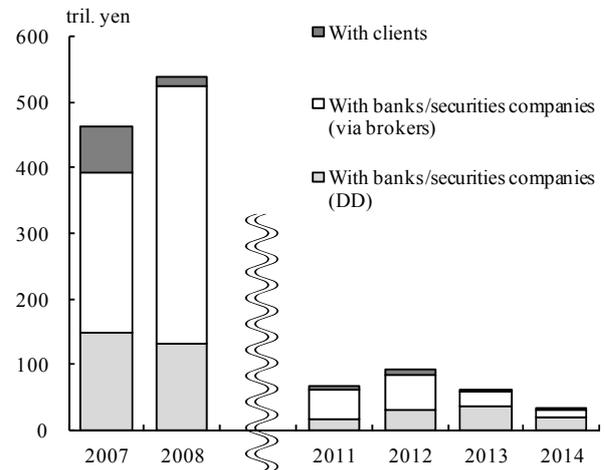
Chart 28: Yen Overnight Index Swap Market

Volume and Number of Yen OIS Transactions via Brokers



Source: Money Brokers Association.

Amount Outstanding in the Yen OIS Market



Note: Includes transactions by overseas offices of financial institutions. On the basis of notional amounts.

Chart 29: Breakdown of T-Bills and Fixed-Rate Coupon-Bearing Bonds as Collateral

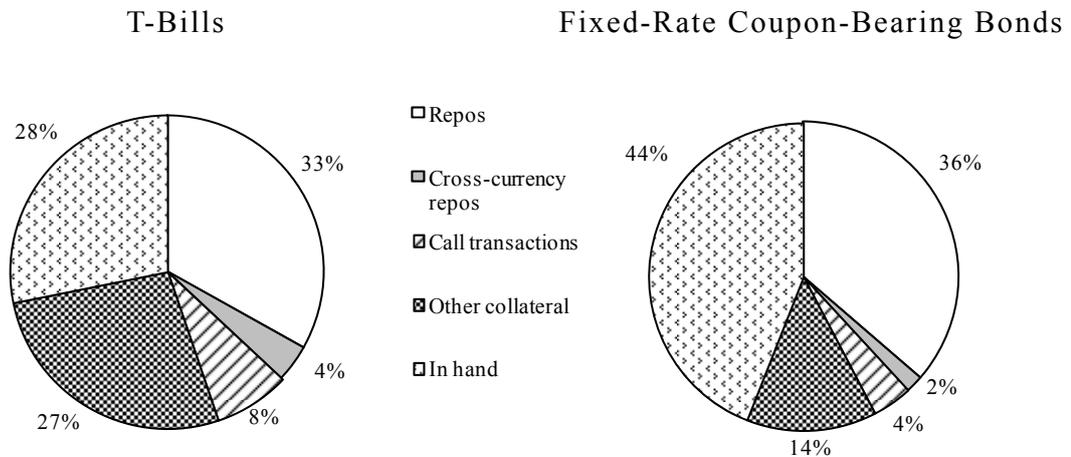
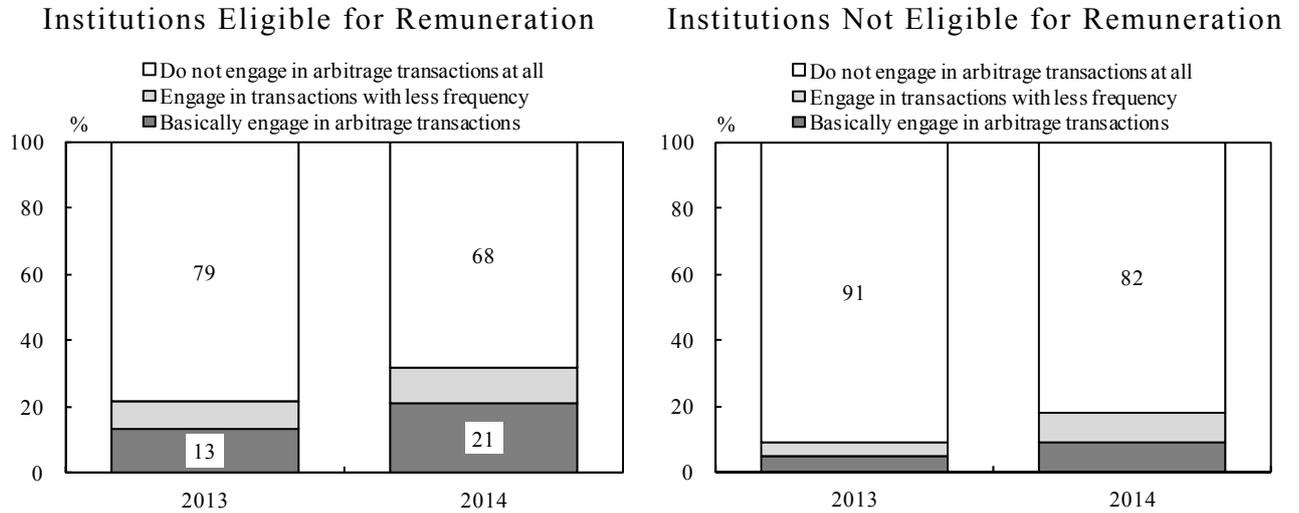
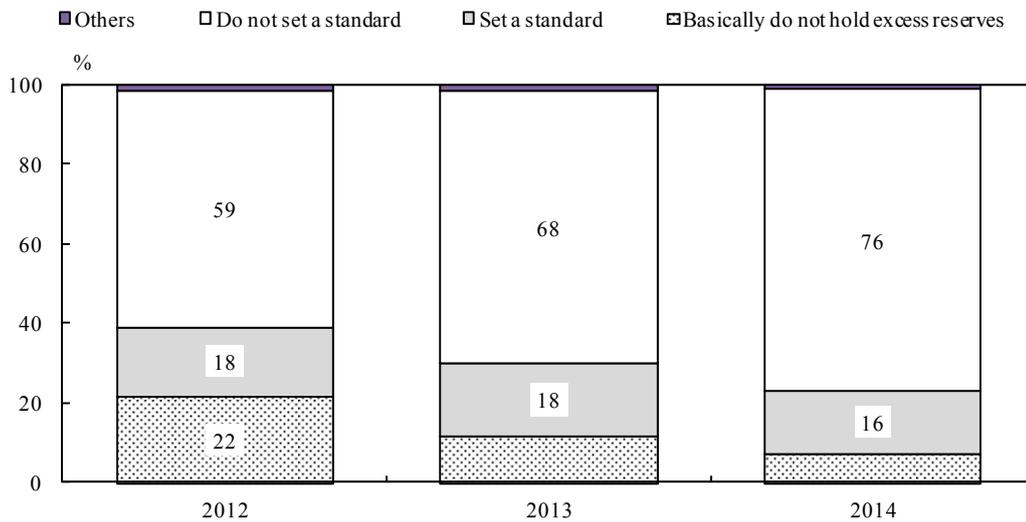


Chart 30: Stance on Arbitrage Transactions



Note: Respondents since 2013. Adjusted for the effects of mergers and other factors.

Chart 31: Stance on Excess Reserves



Note: Respondents since 2012, and those eligible for the reserve deposit requirement system.

Chart 32: Changes in Administrative Structures

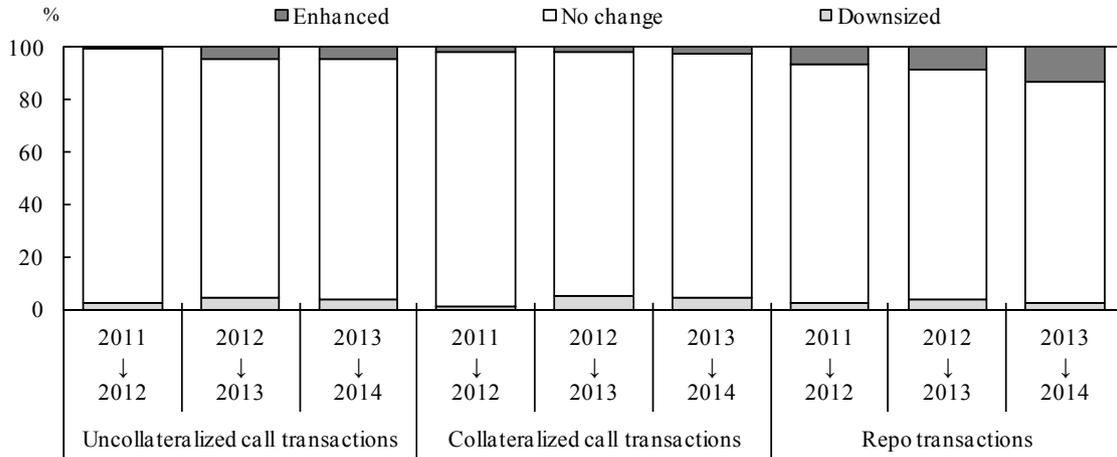
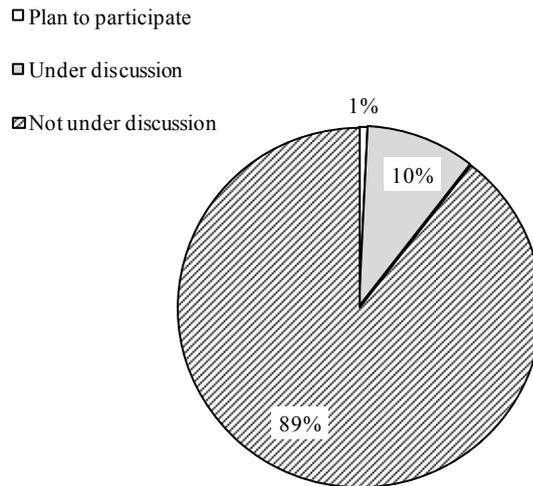


Chart 33: Stance on JSCC Participation in Over-the-Counter Transactions of Japanese Government Bonds

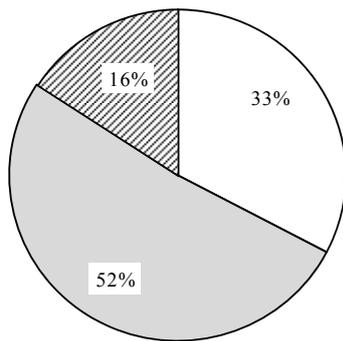


Note: Respondents who did not participate in the JSCC clearing network as of the end of July 2014.

Chart 34: Other Topics

Level of Recognition on Shortening the Settlement Cycle for Japanese Government Bonds

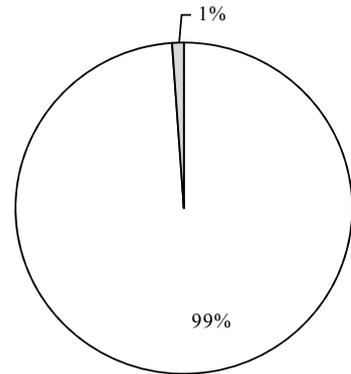
□ Executive level □ Lower level □ Hardly recognized



Note: The level at which participants recognized shortening the settlement cycle for Japanese government bonds.

Stance on Failed Transactions

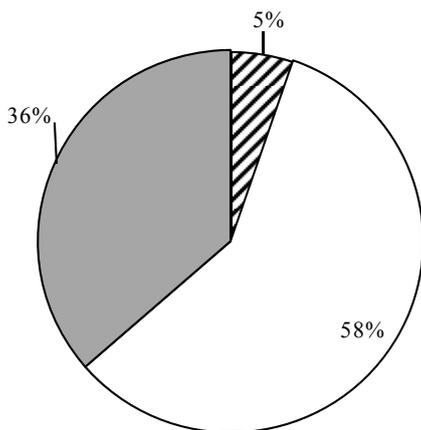
□ Accept fails □ Do not accept fails



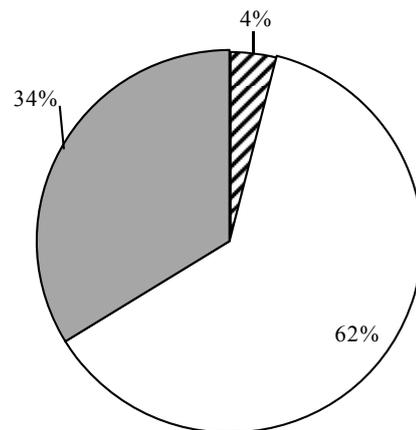
Note: Weighted average based on the delivery-versus-payment settlement amount of Japanese government bonds as of the end of July 2014.

Chart 35: Perceptions of Market Participants on the Money Market

Profitability¹



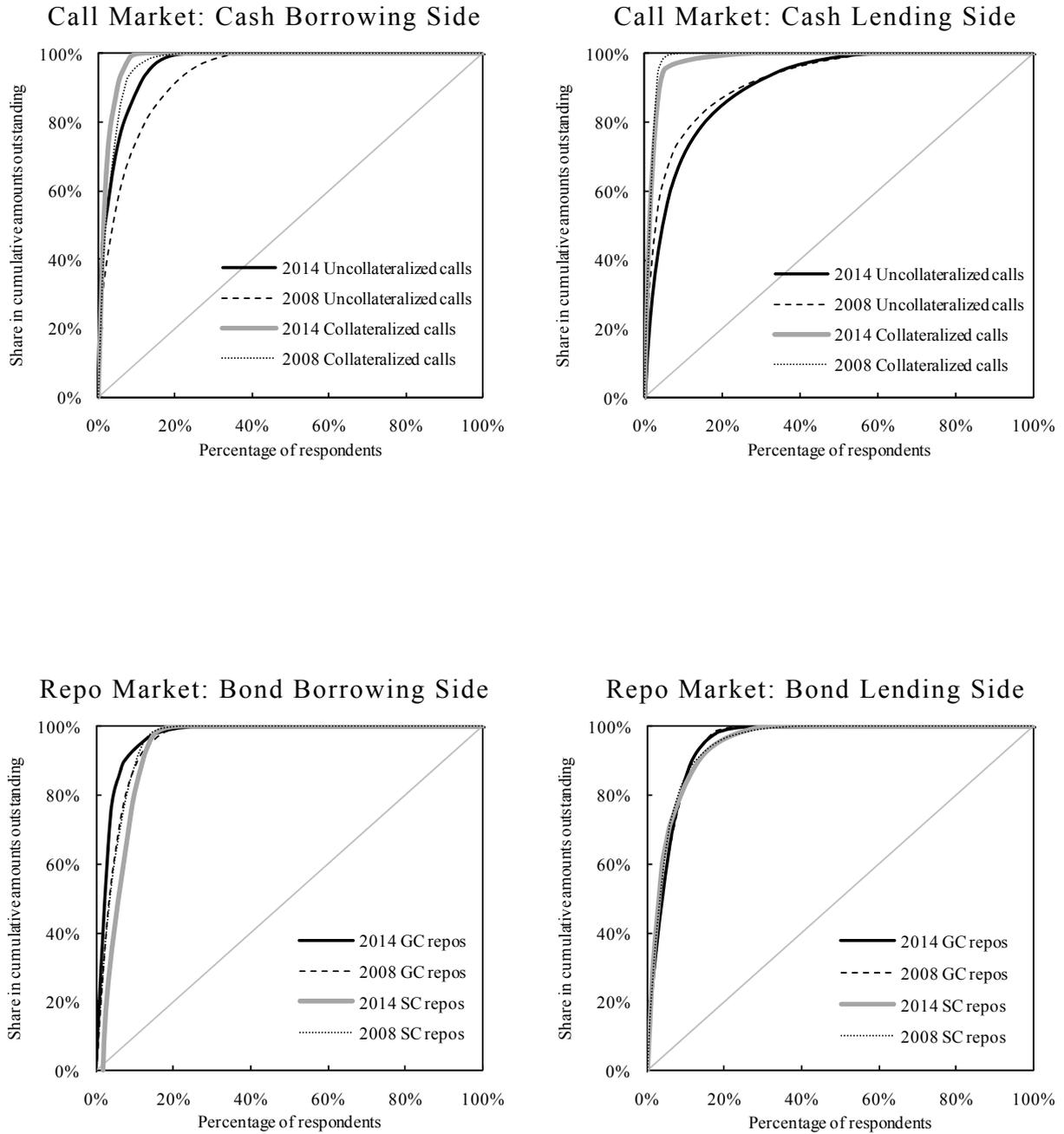
Functioning²



□ Increased
□ Not changed
□ Decreased

Note: 1. Change of profitability in the money market since the previous year, mainly taking into account investment yield, funding cost, transaction amounts, and fixed cost.
2. Change of functioning of the money market since the previous year, mainly taking into account intended rates, prices, terms, and counterparties.

Chart 36: Degree of Concentration in Each Market



Note: Respondents were those included in every survey in this series since 2008. Adjusted for the effects of mergers and other factors.