

## 【Fixed Income Commentary - Japan Economic & Financial Weekly】 Overseas speculators vs. BoJ: Round 2

(original Japanese report issued on September 16, 2022)

### JGB yield and yield curve scenario for September 20-22

The 10-year JGB yield remains pegged at the 0.25% ceiling of the BoJ's target range this week. The Fed decides to raise rates by another 75bp on September 21, and at his press conference Chair Jerome Powell indicates the possibility of a prolonged period of aggressive monetary tightening. The BoJ decides on September 22 to leave its large-scale easing policies in place, and Governor Haruhiko Kuroda makes a case for that decision at his post-meeting news conference. The yen comes under further pressure in the forex market as participants anticipate a sustained widening of the yield spread between Japan and the US. In the JGB market, expectations the BoJ will ultimately be forced to revise its easing policies gain momentum among foreign speculators and lead to more targeted selling. Upward pressure on the 10-year JGB yield increases as a result, but the 10-year yield continues to be capped at 0.25% by the BoJ's fixed-rate purchase operations and dip-buying by domestic investors, with upward pressure on JGB yields tending to manifest itself in off-the-run issues of the 10-year JGB and super-long JGBs. That said, unscheduled buying operations by the central bank and dip-buyers who anticipate a correction help curb the upside for yields.

**Forecast range:** 10-year JGB yield: 0.240%–0.250%

20-year JGB yield: 0.915%–0.950%

### Key events

#### Key events

The Ministry of Finance will hold a JPY500 billion liquidity enhancement auction targeting JGBs maturing in 1-5 years on September 21. In the US, the Treasury Department will offer 20-year bonds on September 20 and 10-year TIPS on the 22nd. Apart from its daily fixed-rate purchase operations, the Bank of Japan has no JGB buying operations scheduled this week.

In Japan, the Nikkei QUICK-compiled consensus as of 7:30am JST on September 16 is that the August nationwide CPI print (Sep 20) will show the headline index rising 2.9% YoY (forecast range: +2.8% to +3.0%) and the core index gaining 2.7% YoY (+2.6% to +2.7%).

September 20 is a big redemption day for coupon-bearing JGBs other than the 2-year bond, with net market redemptions (ex BoJ holdings) estimated at JPY8.2 trillion. Ten-year bonds with an average coupon of 0.80% will total slightly less than JPY6 trillion, or just over 70% of the maturing debt. We will be watching to see how investors deal with the redemption of these "high-coupon" 10-year bonds.

In upcoming US data, the Bloomberg-compiled consensus as of 7:30am JST on September 16 was that August new housing starts (Sep 20) rose 1.0% MoM to an annualized rate of 1,460,000 units (1,400,000 to 1,515,000) and that existing home sales (Sep 21) dropped 1.8% MoM to an annualized rate of 4.73 million units (4.62 million to 4.81 million).

The FOMC will meet on September 20-21. We anticipate a third straight 75bp rate hike (and not the 100bp increase that some expect). This would take the target range for the federal funds rate to 3.00% - 3.25%, an outcome the market has

already priced in. The market is more interested in the latest update to the Fed's growth and inflation forecasts and the "dot plot" showing Committee members' projections of the policy rate, which will extend out to 2025 for the first time. Chair Powell's press conference will also be closely watched.

The BoJ Policy Board will meet on September 21-22, with the release of the official statement and Governor Kuroda's scheduled press conference coming on the second day. We expect the Board will decide unanimously to leave the current policy framework and guidelines for market operations -- including the daily fixed-rate purchase operations -- in place. Some minor changes may be made to the Bank's forward guidance, but we expect the easing bias for the policy rate will remain.<sup>1</sup> We also expect the Bank to discontinue the Special Program to Support Financing in Response to the Novel Coronavirus (non-government-supported loans) as scheduled at the end of September. We project Governor Kuroda will emphasize the need to continue the current easing policies, reiterating what he said at the Jackson Hole symposium -- that the Bank "has no choice but to continue easing until wages and prices rise in a stable and sustainable way." This meeting will be the first for Hajime Takata and Naoki Tamura, who joined the Board on July 24.

The BoE's Monetary Policy Committee will meet on September 22. The meeting was delayed for one week by the death of Queen Elizabeth II. We expect the MPC will decide to hike rates again and to begin selling off the gilts it has acquired. Views on whether the BoE will raise rates by 50bp or 75bp appear to be split. The policy-setting committee of the Swiss National Bank will also meet this week and is expected to end its policy of negative interest rates. Opinion is said to be divided on whether the SNB will raise rates by 75bp or 100bp.

**Fed's Powell seen indicating extended period of aggressive tightening**

The Fed is likely to decide on a third consecutive 75bp rate hike at the September 20-21 FOMC meeting. Beyond that, we project it will raise rates by a half point at the November FOMC meeting and by a quarter point at the December meeting. At his press conference on September 21, Chair Powell is expected to indicate his intention to continue hiking as long as necessary, underscoring the Fed's commitment to an extended period of aggressive monetary tightening with the goal of taming inflation.

**Kuroda expected to make case for sustained large-scale easing**

At the Policy Board meeting on September 21-22, the BoJ is expected to leave its current policy framework and guidelines for market operations -- including the daily fixed-rate purchase operations -- in place. We project Governor Kuroda will emphasize the need to continue the current easing policies at his press conference on the 22nd, reiterating that the Bank "has no choice but to continue easing."

**USD/JPY could break above 145**

Next week, we think forex market participants will re-focus on the possibility of a sustained widening of the yield spread between Japan and the US, and we see increased possibility of USD/JPY breaking above 145 as the yen falls further against the greenback. Japan's currency authorities (the MoF and the BoJ) are already preparing for this scenario, with the BoJ reported to have carried out a "rate check"<sup>2</sup> of forex market participants on September 14.

**Concerns that market may resume attempts to force BoJ's hand on policy revisions**

JGB market participants are worried about a resumption of foreign speculators' June attempts to force the BoJ's hand on policy revisions. Expectations that the Bank would be forced to revise its policies and scale back easing to defend the yen led overseas speculators to engage in heavy targeted selling of long-term JGBs (and long-term JGB futures), which sent the yield on the on-the-run 10-year JGB

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<sup>1</sup> For details, see our September 14 *Monetary Policy Navigator* ("BoJ seen leaving policy on hold; focus on forward guidance").

<sup>2</sup> In a rate check, the BoJ asks banks at what rates they would be willing to sell dollars and buy yen or vice versa. It is thought to be the final stage of preparation for an actual intervention in the forex market by the government and the central bank.

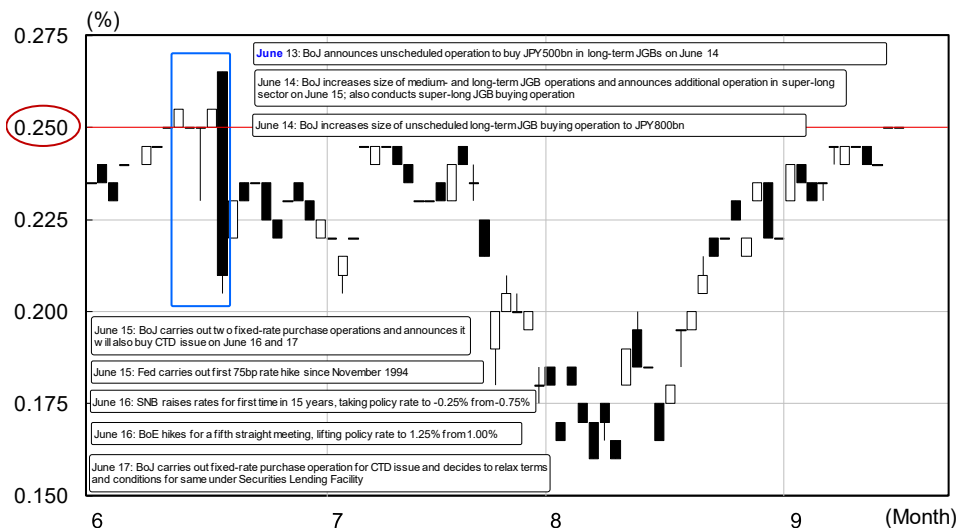
**Overseas  
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briefly above the BoJ’s ceiling of 0.25%.<sup>3</sup> The 10-year JGB yield closed at 0.255% on both June 13 and June 16 in anticipation of policy revisions at the June 16-17 Policy Board meeting and then opened at 0.265% on the 17th (Graph 1). The cause, needless to say, was heavy selling by foreign speculators. During the week of June 12-18, non-resident investors were net sellers of long-term Japanese debt securities to the tune of JPY4,811.2 billion, the largest figure since statistics began in January 2005 (Graph 2).

Overseas speculators already appear to be trying to force the BoJ’s hand. According to data released on Thursday, September 15, inward net sales of long-term debt securities during the week of September 4-10 amounted to JPY2,570.5 billion, the highest figure recorded since the JPY2,863.3 billion of December 20-26, 2020 (with the exception of June 12-18) (Graph 2). Targeted selling by overseas speculators most likely continued last week as the yield on the 10-year JB367 was pegged at 0.250% (Graph 1). Yields on the off-the-run JB361-JB363 issues, with a remaining maturity of 8.3-8.8 years, are now trading between 0.255% and 0.265%, which is above the Bank’s permissible trading range. As long as the BoJ continues to conduct consecutive fixed-rate operations at a yield of 0.25% for the CTD and on-the-run issues of the 10-year JGB, we do not expect a repeat of the situation in June (i.e., we do not see the yield on the on-the-run 10-year bond climbing above 0.25%), but nothing should be assumed. If this scenario were to materialize, the BoJ would probably respond the same way it did in June, by carrying out buying operations to combat the speculators (Graph 2).

Incidentally, the Bank has no buying operations scheduled this week other than the daily fixed-rate purchase operations.

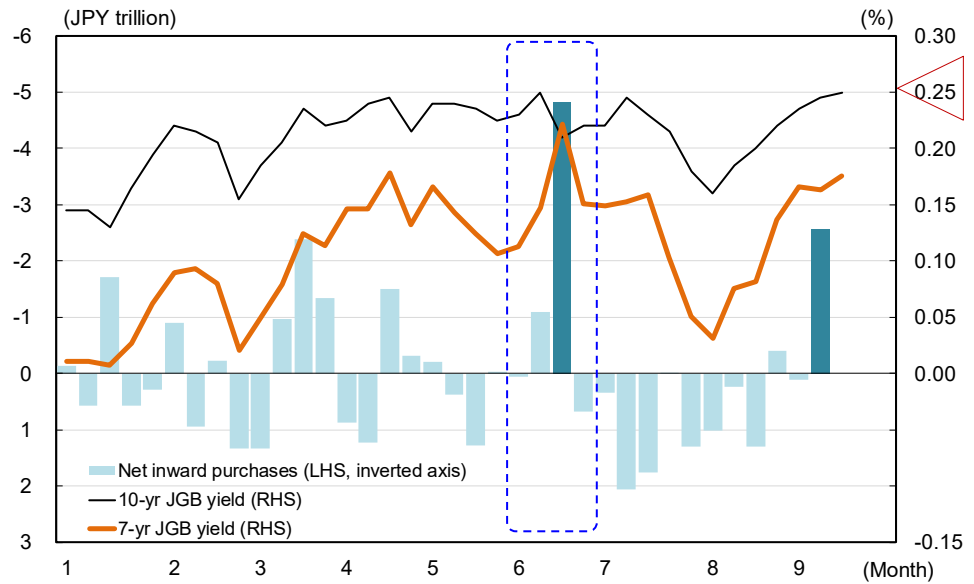
Graph 1: 10-year JGB yield chart illustrates market’s efforts to force BoJ’s hand in June



Note: Blue rectangle indicates week of June 13-17.  
Source: MUMSS, from Bloomberg

<sup>3</sup> We have discussed these events repeatedly since June, most recently in the September 2 *JGB Market Compass* (“Signs of JGB market driven by selling to prompt BoJ policy change, but manifestation unlikely”).

Graph 2: Long-term JGB yields vs. foreigners' purchases of longer-term Japanese debt securities



Note: Week-end basis for 7-year, 10-year JGB yields. Net inward purchases of longer-term debt securities = purchases - sales.

Source: MUMSS, from Ministry of Finance and Bloomberg data

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10:00 JST, September 16, 2022

**This Week's Economic Indicators**

Date/Time	Indicator/Event	Our Forecasts / Past Results			Market Consensus	Comments
9/19 (Mon)	National holiday					
9/20 (Tue)	8:30 Consumer price index <nationwide; excl. fresh foods Official core CPI>	Aug est.	YoY	+2.6%	+2.7%	Growth accelerating, led by food and durable goods. However, we expect core CPI growth to be smaller than already announced data for Tokyo (+0.3pt) due to differences in energy price trends.
		Jul	"	+2.4%		
		Jun	"	+2.2%		
	8:50 Flow of Funds Accounts (Apr-Jun 2022 preliminary data, Jan-Mar 2022 revised data)	Aug est.	YoY	+1.4%	+1.5%	
Jul		"	+1.2%			
Jun		"	+1.0%			
n.a	Benchmark land price					
9/21 (Wed)	10:20	3mo T-Bill auction (planned issuance: 5.6 trillion yen); announcement of results: 12:30				
	10:30	Liquidity supply auction (1-5yr) (planned issuance: 500 billion yen); announcement of results: 12:35				
	14:00	BoJ Monetary Policy Board meeting				
	16:15	Visitor arrivals (Aug)				
9/22 (Thu)	9:00	BoJ Monetary Policy Board meeting				
	15:30	BoJ Governor Kuroda press conference				
9/23 (Fri)	National holiday					
9/25 (Sun)	n.a	Komei Party holds annual convention				

Source: Compiled by MUMSS from various sources.

Japan Economic Outlook

(%)

	forecast																
	FY21 (forecast)				FY22 (forecast)				FY23 (forecast)				FY20	FY21	FY22 (est)	FY23 (est)	FY24 (est)
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3					
<b>Real GDP</b>	0.4	-0.4	1.0	0.1	0.9	0.6	0.7	0.4	0.2	0.1	0.2	0.2	-4.6	2.3	2.2	1.3	0.8
(QoQ annualized rate)	1.5	-1.8	3.9	0.2	3.5	2.3	2.9	1.6	0.9	0.6	0.8	0.7					
(YoY)	7.3	1.2	0.5	0.6	1.6	2.5	2.1	2.6	2.0	1.5	1.0	0.8					
*Domestic demand	0.6	-0.6	0.9	0.6	0.8	0.4	0.7	0.4	0.3	0.1	0.2	0.2	-3.9	1.6	2.4	1.3	0.7
*Private demand	0.5	-0.7	1.2	0.6	0.6	0.3	0.7	0.4	0.2	0.1	0.1	0.1	-4.7	1.6	2.3	1.1	0.6
Private consumption	0.4	-0.9	2.4	0.3	1.2	0.6	0.8	0.4	0.2	0.1	0.1	0.1	-5.4	2.6	3.4	1.2	0.4
Capital investment	1.6	-1.8	-1.3	-1.4	-1.9	-0.2	0.5	0.1	0.3	0.4	0.3	0.2	-7.8	-1.6	-3.8	1.1	0.7
Private inventories	1.0	-2.0	0.2	-0.1	2.0	1.0	1.3	1.0	0.8	0.7	0.7	0.6	-7.7	0.6	3.4	3.5	2.7
*Public demand	0.1	0.2	-0.1	0.6	-0.3	-0.2	0.0	0.0	0.0	-0.1	0.0	0.0	0.8	0.0	0.1	0.0	0.1
Government consumption	0.1	0.0	-0.3	-0.1	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.8	0.0	0.1	0.1	0.1
Public investment	0.9	1.1	-0.3	0.4	0.7	0.2	0.1	0.0	0.1	0.1	0.1	0.1	2.5	2.0	1.3	0.3	0.2
*Net exports	-2.5	-3.3	-3.7	-3.2	1.0	0.3	0.1	0.0	1.0	-0.2	0.0	-0.2	5.1	-7.5	-3.5	0.9	0.3
Exports	-0.2	0.2	0.0	-0.5	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	0.8	-0.1	0.1	0.2
Imports	3.0	0.0	0.6	0.9	0.9	0.8	0.5	0.1	0.3	0.6	0.8	0.5	-10.0	12.5	3.0	1.8	2.2
Industrial production (QoQ)	4.4	-1.1	0.4	3.5	0.6	-0.1	0.5	0.2	0.5	0.6	0.6	0.4	-6.3	7.2	3.6	1.5	1.4
(YoY)	-0.3	-0.4	0.4	0.4	0.6	1.2	1.3	0.8	0.6	0.4	0.5	0.4	-3.9	1.3	2.7	3.1	1.6
Nominal GDP	6.1	0.1	-0.7	0.2	1.2	2.4	3.0	4.0	4.2	3.5	2.6	2.1					
(YoY)	-1.1	-1.1	-1.3	-0.5	-0.3	-0.1	0.9	1.4	2.1	2.0	1.6	1.2	0.7	-1.0	0.4	1.8	0.8
GDP deflator (YoY)	0.3	0.6	1.1	1.8	2.6	2.7	2.6	1.9	1.3	0.8	0.5	0.5	-0.3	0.9	2.6	1.1	0.3
Domestic demand deflator (YoY)	-0.6	0.0	0.4	0.6	2.1	2.5	2.7	2.2	1.6	1.0	0.6	0.5	-0.4	0.1	2.4	0.9	0.5
CPI core (excluding perishables, YoY)	[Excl. tax hike/tuition waivers]												-0.5				
BoJ core CPI (excluding perishables and energy, YoY)	[Excl. tax hike/tuition waivers]												0.1	-0.8	1.5	0.8	0.7
Industrial production (QoQ)	0.2	-1.9	0.2	0.8	-2.7	3.5	1.4	0.8	0.5	0.3	0.2	0.1	-9.6	5.8	0.9	3.0	0.9
(YoY)	19.8	5.4	0.9	-0.6	-3.7	1.6	2.8	2.8	6.3	3.0	1.8	1.1					

Notes:

- 1) QoQ figures unless noted otherwise; rows beginning with asterisk (\*) show QoQ contribution to GDP in percentage points; CPI figures in lower row exclude impact from consumption tax hikes and tuition waivers.
- 2) Assuming supplementary budget is formed for FY22 onward.
- 3) Estimates as of September 16.

Source: MUMSS, from Cabinet Office, MIC, METI, and other data; MUMSS forecasts

	106.0	112.4	137.0	140.0	135.5
USD/JPY (FY avg)	106.0	112.4	137.0	140.0	135.5
Crude oil (import-basis, USD/bbl)	42.7	76.3	108.0	100.0	94.0
Current account (trillion yen)	16.3	12.7	2.5	5.1	7.9
as % of nominal GDP	3.0	2.3	0.4	0.9	1.4
Trade balance (customs-cleared, trillion yen)	1.0	-5.4	-14.6	-10.4	-5.9

Market Forecast

	FY20	FY21 (forecast)			FY22 (forecast)			FY23 (forecast)			FY24 (forecast)			
		Jul-Sep	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar			
<b>Japan</b>	Annualized QoQ	—	—	—	3.5	—	—	—	—	—	—			
Real GDP	YoY %	-4.6	2.3	—	—	2.2	—	—	1.3	—	0.8			
Core CPI	YoY %	-0.5	-0.3	0.6	2.1	2.5	2.7	2.2	1.6	1.0	0.6			
New policy interest rate	End of term (%)	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100	-0.100			
Uncolateralized O/N rate	End of term (%)	-0.044	-0.049	-0.020	-0.040	-0.030	-0.030	-0.030	-0.030	-0.030	-0.030			
3-month yen TBCR	End of term (%)	0.069	0.057	0.067	0.067	0.067	0.067	0.067	0.067	0.067	0.070			
Long-term interest rate / policy variable	End of term (%)	Around 0%	Around 0%	Around 0%	Around 0%	Around 0%	Around 0%	Around 0%	Around 0%	Around 0%	Around 0%			
<b>JGB yields</b>	2-year JGB yield	Range (%)	-0.185-0.105	-0.145-0.115	-0.095-0.015	-0.090-0.035	-0.110-0.030	-0.110-0.030	-0.110-0.030	-0.110-0.030	-0.110-0.030	-0.110-0.030		
	End of term (%)	-0.125	-0.125	-0.040	-0.085	-0.080	-0.080	-0.080	-0.100	-0.100	-0.100	-0.080		
5-year JGB yield	Range (%)	-0.170-0.055	-0.135-0.085	-0.110-0.065	-0.010-0.080	-0.075-0.075	-0.075-0.075	-0.075-0.075	-0.075-0.075	-0.075-0.075	-0.075-0.075	-0.075-0.075		
	End of term (%)	-0.095	-0.085	0.025	0.020	0.025	0.025	0.025	0.000	-0.025	-0.025	0.000		
10-year JGB yield	Range (%)	-0.050-0.150	0.000-0.120	0.035-0.250	0.205-0.255	0.100-0.250	0.100-0.250	0.100-0.250	0.100-0.250	0.100-0.250	0.100-0.250	0.100-0.250		
	End of term (%)	0.120	0.065	0.210	0.225	0.250	0.250	0.250	0.200	0.150	0.150	0.200		
20-year JGB yield	Range (%)	0.270-0.555	0.375-0.495	0.420-0.810	0.700-0.940	0.700-1.000	0.700-1.000	0.700-1.000	0.700-1.000	0.700-1.000	0.700-1.000	0.700-1.000		
	End of term (%)	0.495	0.445	0.670	0.890	0.900	0.900	0.800	0.800	0.800	0.800	0.850		
30-year JGB yield	Range (%)	0.390-0.750	0.625-0.695	0.650-1.070	0.930-1.300	1.000-1.350	1.000-1.350	1.000-1.350	1.000-1.350	1.000-1.350	1.000-1.350	1.000-1.350		
	End of term (%)	0.670	0.670	0.920	1.240	1.250	1.250	1.250	1.150	1.150	1.150	1.200		
40-year JGB yield	Range (%)	0.400-0.810	0.665-0.775	0.695-1.135	0.995-1.390	1.150-1.550	1.150-1.550	1.150-1.550	1.150-1.550	1.150-1.550	1.150-1.550	1.150-1.550		
	End of term (%)	0.710	0.750	0.970	1.335	1.400	1.400	1.350	1.300	1.300	1.300	1.350		
<b>FX</b>	Dollar/Yen	Range	102.59-110.97	107.48-112.08	110.82-125.09	121.67-137.00	130.41-146.0	134.5-146.5	135.0-147.0	135.0-147.0	135.0-147.0	134.0-146.0	132.5-145.5	129.5-144.5
	End of term	110.72	111.29	121.70	135.72	140.0	140.0	140.0	141.0	141.0	141.0	140.0	139.0	
Euro/Yen	Range	114.43-130.67	127.93-134.13	124.40-137.53	132.66-144.28	132.50-145.2	132.5-145.7	132.9-146.2	134.4-147.6	135.8-149.1	136.2-149.4	135.7-150.7	136.0-153.0	
	End of term	129.86	128.88	134.67	142.26	138.6	139.1	139.6	141.0	142.4	142.8	143.2	145.5	
<b>US</b>	Real GDP	Annualized QoQ (%)	—	—	—	-0.6	1.6	1.7	—	—	—	—	—	
	YoY %	-3.4	—	5.7	—	—	1.7	—	—	1.3	—	—	1.5	
FF rate (target)	End of term (%)	0.00-0.25	0.00-0.25	0.25-0.50	1.50-1.75	2.75-3.00	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.25-3.50	3.00-3.25	3.00-3.25	
10-yr Treasury yield	Range (%)	0.5069-1.7404	1.1722-1.7216	1.3430-2.4731	2.3822-3.4733	2.55-3.45	3.05-3.55	3.05-3.55	2.95-3.45	2.85-3.35	2.85-3.35	2.85-3.35	2.55-3.25	
	End of term (%)	1.7	1.5	2.3	3.0	3.2	3.3	3.3	3.2	3.1	3.1	3.1	3.0	
<b>Euro zone</b>	Real GDP	Annualized QoQ (%)	—	—	—	3.1	-0.3	0.0	1.1	1.7	1.6	1.5	1.6	—
	YoY %	-6.3	—	5.4	—	—	3.2	—	—	1.0	—	—	—	
Deposit facility rate	End of term (%)	-0.50	-0.50	-0.50	-0.50	0.75	1.75	2.00	2.00	2.00	2.00	1.75	1.50	
10-year German Bund yield	Range (%)	-0.64-0.23	-0.50-0.11	-0.39-0.65	0.51-1.77	1.40-2.00	1.60-2.20	1.65-2.15	1.55-2.05	1.45-1.95	1.35-1.85	1.25-1.75	1.15-1.65	
	End of term (%)	-0.29	-0.20	0.55	1.34	1.70	1.90	1.80	1.70	1.60	1.55	1.40		

Notes: 1) JGB, Treasury, and Eurozone bond yields are daily closing rates. Japanese 2yr-30yr JGBs are newly issued. Exchange rates (from Bloomberg), the Nikkei Average, and the DJ IA are intraday-based.

2) Forecast ranges and end-of-term figures revised September 16, 2022 (previous revision September 9, 2022).

3) BoJ's short-term policy interest rate is the rate of interest paid on "policy rate" balances; long-term interest rate target is 10-yr JGB yield. Core CPI excludes impact of consumption rate hike and tuition waivers.

4) US FF rate is FRB's target level. US and Eurozone real GDP growth rates (calendar year) are against previous year.

Source: MUMSS, from Quick and Bloomberg data; MUMSS estimates

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## Appendix A

### Analyst Certification

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