

“Yield Curve” of Japanese Government Bond (JGB)

“Yield Curve” is a graph that plots the yields against their maturities of JGBs with different maturity days. The graph has maturities on the horizontal axis and yields on the longitudinal axis. BOJ announced “Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control” as its new monetary policy framework on 21st September 2016 and revealed that the main tool of new framework is to control “Yield Curve”.

Point 1

“Yield Curve” control by BOJ

Specified operational policy of short and long term interest rates

- BOJ indicated its policy to (i) adopt negative interest rate of -0.1% to policy-rate balance of its current accounts for short-term bonds and (ii) purchase JGBs in order to keep 10-year JGB yields at around 0% for long-term bonds.
- This operational policy of short and long term interest rates will be reviewed at every Monetary Policy Meeting. BOJ is expected to influence overall “Yield Curve” by combining policies of both negative interest rate and long-term bond purchase.

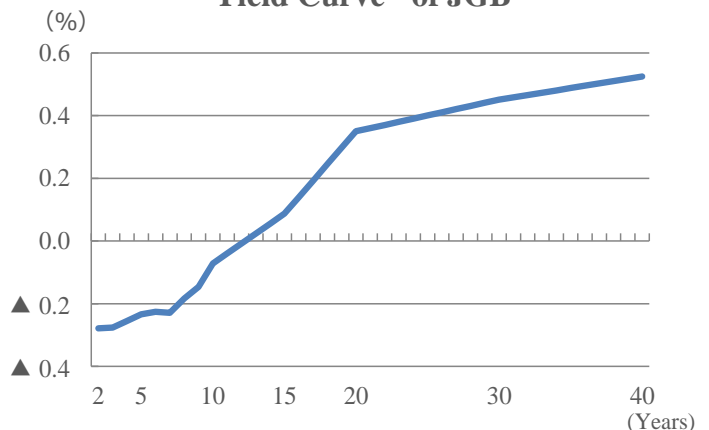
Point 2

Introduction of New Operation

Aiming at smoothly operating short and long term interest rates

- In general, it is deemed difficult for the central bank to control long-term interest rate or long-term JGB yields as they are influenced by forecasts of future inflation rate by market participants.
- Therefore, BOJ introduced fixed-rate purchase operation for the first time and decided to extend fixed-rate funds-supply operation period up to 10 years from current 1 year.
- These new operations aim at controlling “Yield Curve” smoothly. The effect, however, is yet to be tested.

“Yield Curve” of JGB



(Note) Data is as of 3rd October. Yield of i) 10 years to 15 years, ii) 15 years to 20 years and iii) 30 years to 40 years are based on time distribution.

(Source) SMAM, based on Bloomberg L. P. data.

BOJ is expected to operate “Yield Curve” cautiously by monitoring market reactions

- BOJ revealed its intension to purchase less JGB with over 5-year maturities than September in its plan for JGB purchase for October announced on 30th September. 10-year JGB’s yield to maturity reacted by rising closer to zero %.
- There is a growing interest of market in what extent BOJ be able to control “Yield Curve”. BOJ is expected to operate “Yield Curve” by cautiously purchasing JGB and closely looking at market reactions.

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