

## Japan Rates Watch

**BoJ to continue QT into FY27: Another interim assessment in June 2026**

Select Subject

**Key takeaways**

- BoJ reductions in JGB purchases through March 2027 in line with market consensus; unsurprising
- However, another interim assessment will be conducted in June 2026, suggesting that QT may continue into FY27
- BoJ will also modify SLF amid deteriorating market functionality

**BoJ to reduce purchases by ¥200bn per quarter from FY26**

At its 16-17 June policy meeting, the BoJ decided to keep its policy rate at 0.5%, as widely expected, and released an interim review of JGB purchase reductions. The BoJ announced it plans to reduce JGB purchases by ¥400bn per quarter until March 2026 and then by ¥200bn per quarter starting April 2026 and extend the reductions for one year, as the Nikkei mentioned in an article on 14 June (17:00 JST).

The decision was not a surprise, given that a Bloomberg survey of 53 economists conducted 3-10 June showed 40% expected a pullback in the reduction to ¥200bn (25% expected reductions of ¥300bn and 21% expected the reductions to remain at ¥400bn).

However, the interim assessment of JGB purchase reductions was not necessarily dovish. First, Policy Board Member Tamura stated that long-term interest rates should be determined by the market and market participants, and proposed continuing quarterly reductions of ¥400bn in FY26. Second, the BoJ also announced there will be another interim assessment at the June 2026 MPM, signaling that QT is likely to continue beyond April 2027 (i.e. 100% reinvestment of redemptions is unlikely for the time being). In fact, after the BoJ released its statement, JGB futures declined and yields rose, especially in the 7-10 years.

17 June 2025

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## Other decisions related to BoJ's market operations

In addition, the following changes were announced at the today's MPM. (1) A reduction in the number of offers for JGBs with maturities of 10 years or less in the Quarterly schedule of Rinban operation for Jul-Sep, and (2) change in the Treatment of the Reduction in the BoJ's Repurchase Amount under the securities lending facility (SLF). We believe these changes were aimed at restoring bond market functions and made in reflection of a significant deterioration in market functioning evident in the May Bond Market Survey.

### Reduction in number of offers for JGBs with maturities of 10 years or less in Rinban operations

Along with a statement, the BoJ released a quarterly schedule for JGB purchases in Jul-Sep. The amount and frequency of offers for superlong bonds is unchanged from Apr-Jun, and the BoJ did not merge the superlong category into a single "10yr+" bracket. Meanwhile, the number of monthly offers for JGBs in the 1-3, 3-5 and 5-10 year zones was reduced from four to three in Rinban operations, while the offer amount per auction was increased (Exhibit 7).

### Modification of reduction measures in SLF

Along with releasing its statement, the BoJ also announced changes to reduction measures in the SLF. Specifically, (1) the scope of SLF reduction measures, previously limited to the cheapest-to-deliver (CTD) issues, will be expanded to include 10-year JGBs maturing in 2031 or later where the BoJ's holdings in the market exceed 80%, and (2) the upper limit for reduction measures "until the amount outstanding in the market recovers" will be raised from around ¥1.2tn to ¥1.5tn. We believe these changes are intended to alleviate concerns around JGB futures settlement and facilitate a recovery in bond market functions. The changes to the reduction measures will be applied to offers made on 1 July 2025, with a monthly cap of around ¥200bn, meaning the amount outstanding of CTD issues in the market will not increase soon.

## Implications for rates market

If the BoJ proceeds with the JGB purchase reductions it decided at the June MPM, its monthly JGB purchases will fall to around ¥2.9tn by March 2026 and ¥2.1tn by March 2027. Assuming JGB issuance continues at the current pace, we estimate that the BoJ's share of outstanding JGBs, now around 50.5%, will fall to 46.4% by March 2026 and 41.7% by March 2027.

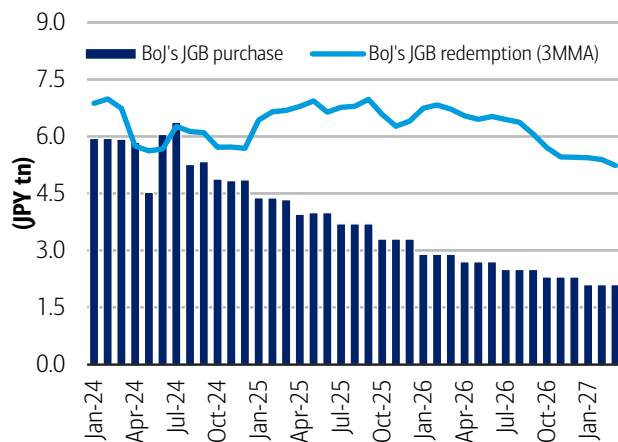
If the BoJ continues reducing JGB purchases beyond April 2026, it will likely exert upward pressure on JGB yields over the long term. The BoJ currently purchases about 34% of monthly issuance, but this ratio would fall to around 24% by end-FY25 and 18% by end-FY26 if JGB issuance amounts remain constant. As we noted above, the BoJ's holdings will probably decline only gradually, but JGB yields could rise with large tails at each JGB auction.

That said, we anticipate near-term investment appeal in JGBs, especially in the medium-term zone. Bond market participants apparently believe the BoJ's next rate hike might come in October 2025 at the earliest. Governor Ueda has continued to stress the high levels of uncertainty around the Trump administration's tariff policy, and no agreement was reached at the Japan-US summit held on the 17 June (JST), but talks will continue. In other words, it may be a while before the market begins to price in the next rate hike. Moreover, carry & rolldown has been relatively attractive for JGBs with maturities around 2yrs. Risks to our view is the possibility that the MoF will increase issuance, mainly 2y JGBs, while reducing issuance of 20y, 30y, 40y and superlong liquidity enhancement auctions.



**Exhibit 1: BoJ's JGB purchases and JGB redemption held by BoJ**

Quarterly pace of JGB purchase reductions to be ¥200bn from April 2026



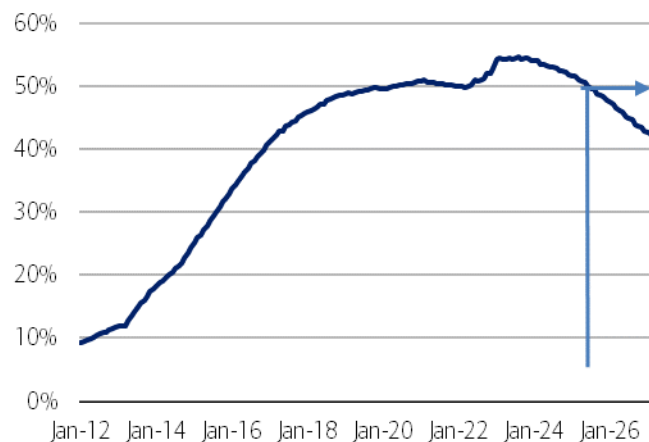
Source: BofA Global Research, Bloomberg, BoJ

Note: The estimated redemption amount is the 3-month moving average

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**Exhibit 2: BoJ's JGB holdings vs outstanding JGBs**

We expect BoJ's JGB holdings to decrease to around 41.7% in March 2027



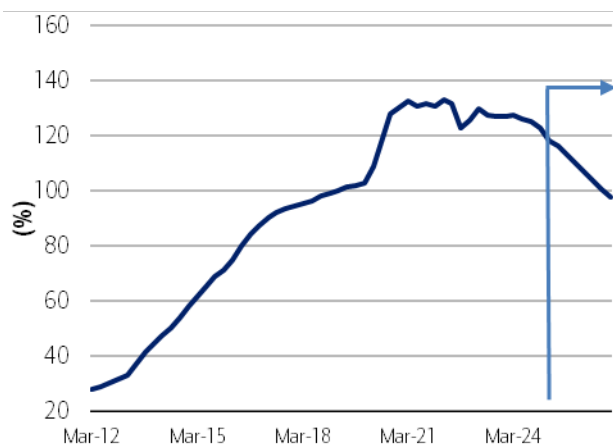
Source: BofA Global Research, Bloomberg, BoJ, MoF

Note: It is assumed that the issuance will continue at the same level. BofA's estimates from June 2025

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**Exhibit 3: BoJ's balance sheet as percentage of nominal GDP**

We expect BoJ's BS as percentage of GDP to fall to about 97% by end-2026



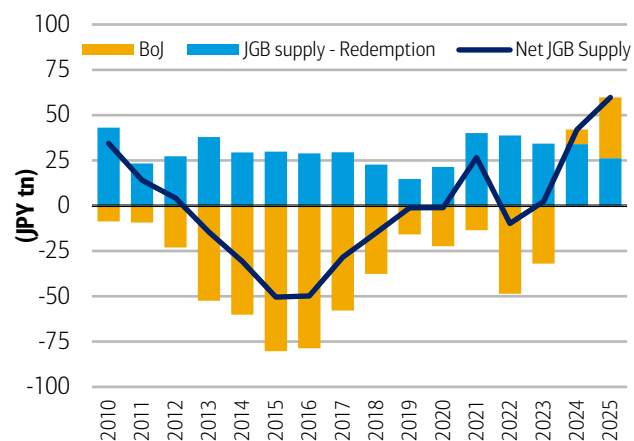
Source: BofA Global Research, Bloomberg, BoJ, MoF

Note: BofA's estimates for the April-June 2025 and beyond.

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**Exhibit 4: BoJ's JGB purchases and net supply of JGBs**

Net JGB supply would increase to around ¥59.8tn in 2025



Source: BofA Global Research, Bloomberg, BoJ, MoF

Note: Actual figures are up to 2024

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**Exhibit 5: BoJ's ownership by issue (as of 10 June 2025)**

BoJ will expand the JGB issues that are applicable to the reduction in the repurchase amount under the SLF

2Y	Current Ratio	5Y	Current Ratio	10Y	Current Ratio	20Y	Current Ratio	30Y	Current Ratio	40Y	Current Ratio
JN473	4.0%	JS178	12.0%	JB378	11.0%	JL192	1.7%	JX86	0.0%	JU18	0.0%
JN472	1.4%	JS177	9.4%	JB377	18.1%	JL191	5.8%	JX85	0.2%	JU17	5.7%
JN471	2.9%	JS176	16.9%	JB376	21.4%	JL190	2.8%	JX84	1.3%	JU16	13.7%
JN470	1.8%	JS175	13.7%	JB375	31.3%	JL189	3.8%	JX83	4.2%	JU15	18.8%
JN469	19.2%	JS174	29.9%	JB374	40.1%	JL188	8.6%	JX82	1.2%	JU14	3.7%
JN468	8.9%	JS173	38.6%	JB373	45.5%	JL187	7.1%	JX81	9.5%	JU13	2.0%
JN467	18.5%	JS172	60.3%	JB372	64.2%	JL186	16.3%	JX80	11.1%	JU12	10.9%
JN466	19.9%	JS171	70.1%	JB371	69.0%	JL185	13.8%	JX79	4.8%	JU11	18.8%
JN465	34.5%	JS170	39.4%	JB370	80.4%	JL184	24.7%	JX78	8.5%	JU10	33.7%
JN464	35.4%	JS169	58.0%	JB369	86.0%	JL183	23.7%	JX77	19.8%	JU9	37.3%
JN463	52.4%	JS168	43.3%	JB368	86.9%	JL182	14.9%	JX76	10.0%	JU8	53.0%
JN462	41.7%	JS167	30.7%	JB367	85.9%	JL181	8.7%	JX75	9.7%	JU7	48.8%
JN461	42.9%	JS166	34.4%	JB366	86.4%	JL180	3.1%	JX74	7.4%	JU6	42.4%
JN460	45.1%	JS165	50.2%	JB365	81.7%	JL179	5.9%	JX73	1.1%	JU5	9.4%
JN459	54.0%	JS164	60.7%	JB364	82.7%	JL178	4.6%	JX72	5.4%	JU4	15.8%
JN458	35.2%	JS163	82.9%	JB363	80.9%	JL177	11.4%	JX71	16.8%	JU3	18.6%
JN457	50.1%	JS162	65.2%	JB362	84.5%	JL176	19.5%	JX70	5.5%	JU2	10.1%
JN456	41.0%	JS161	62.3%	JB361	86.8%	JL175	9.4%	JX69	2.9%	JU1	35.0%
JN455	37.6%	JS160	72.8%	JB360	87.9%	JL174	9.2%	JX68	14.2%		
JN454	40.4%	JS159	63.4%	JB359	84.6%	JL173	13.8%	JX67	15.3%		

Source: BofA Global Research, Bloomberg, BoJ, MoF

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**Exhibit 6: The amount outstanding in the market by issue (JPY bn, as of 10 June 2025)**

#362, #364, #366, #367, #368, and #369 are less than 1.5tn in the market.

2Y	Current	5Y	Current	10Y	Current	20Y	Current	30Y	Current	40Y	Current
JN473	2,691.3	JS178	4,435.3	JB378	7,299.1	JL192	2,052.2	JX86	2,530.4	JU18	548.5
JN472	2,817.9	JS177	2,090.0	JB377	6,604.6	JL191	2,996.8	JX85	2,873.0	JU17	4,168.4
JN471	2,825.8	JS176	1,912.2	JB376	6,939.3	JL190	3,042.4	JX84	2,743.4	JU16	3,782.8
JN470	2,551.3	JS175	2,355.5	JB375	5,639.4	JL189	3,071.0	JX83	2,785.6	JU15	3,684.1
JN469	2,165.4	JS174	3,418.9	JB374	5,156.4	JL188	2,951.4	JX82	2,963.7	JU14	3,867.0
JN468	2,373.0	JS173	1,413.8	JB373	4,681.9	JL187	3,007.9	JX81	2,734.1	JU13	4,162.7
JN467	2,126.3	JS172	1,018.6	JB372	3,065.1	JL186	3,266.6	JX80	2,489.0	JU12	2,783.4
JN466	2,204.7	JS171	758.8	JB371	2,798.2	JL185	3,307.3	JX79	2,848.2	JU11	2,365.6
JN465	1,823.9	JS170	1,531.9	JB370	1,656.6	JL184	2,863.4	JX78	2,693.4	JU10	2,413.6
JN464	1,853.0	JS169	967.4	JB369	1,183.9	JL183	2,930.1	JX77	2,289.6	JU9	2,671.0
JN463	1,351.3	JS168	1,422.9	JB368	1,171.5	JL182	3,147.1	JX76	2,601.9	JU8	1,142.2
JN462	1,651.3	JS167	1,596.6	JB367	1,194.3	JL181	3,671.6	JX75	2,745.9	JU7	1,162.8
JN461	1,637.1	JS166	1,838.9	JB366	1,225.5	JL180	3,689.4	JX74	2,714.4	JU6	1,307.9
JN460	1,541.7	JS165	1,244.2	JB365	1,576.1	JL179	3,892.0	JX73	2,975.5	JU5	1,861.4
JN459	1,234.2	JS164	1,011.5	JB364	1,454.7	JL178	3,714.3	JX72	2,789.5	JU4	1,737.6
JN458	1,889.5	JS163	928.5	JB363	1,581.9	JL177	3,491.2	JX71	2,414.7	JU3	1,192.5
JN457	1,590.6	JS162	931.0	JB362	1,285.6	JL176	3,127.7	JX70	2,686.3	JU2	1,322.3
JN456	1,710.6	JS161	1,048.2	JB361	1,107.9	JL175	3,778.1	JX69	2,884.7	JU1	732.3
JN455	1,819.9	JS160	682.2	JB360	1,029.5	JL174	3,967.7	JX68	2,560.7		
JN454	1,754.3	JS159	1,008.5	JB359	1,349.1	JL173	3,700.8	JX67	2,501.3		

Source: BofA Global Research, Bloomberg, BoJ, MoF

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**Exhibit 7: Details about the BoJ's Rinban operations**

BoJ reduces the monthly offers for maturities up to 10yrs

**Jul-Sep 2025**

Residual maturity	Purchase size per Rinban (JPY bn)	Monthly purchase size (JPY bn)	Frequency of auction (per month)
Up to 1yr	100	100	1
More than 1yr and up to 3yr	325	975	3
More than 3yr and up to 5yr	325	975	3
More than 5yr and up to 10yr	350	1050	3
More than 10yr and up to 25yr	135	405	3
More than 25yr	75	150	2
JGBi	50	50	1
Total JGBs		3,705	

**Apr-Jun 2025**

Residual maturity	Purchase size per Rinban (JPY bn)	Monthly purchase size (JPY bn)	Frequency of auction (per month)
Up to 1yr	100	100	1
More than 1yr and up to 3yr	275	1100	4
More than 3yr and up to 5yr	275	1100	4
More than 5yr and up to 10yr	300	1200	4
More than 10yr and up to 25yr	135	405	3
More than 25yr	75	150	2
JGBi	50	50	1
Total JGBs		4,105	

Source: BofA Global Research, BoJ

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