

Liquid Insight

BoJ to tolerate superlong surplus, continue cutting purchases

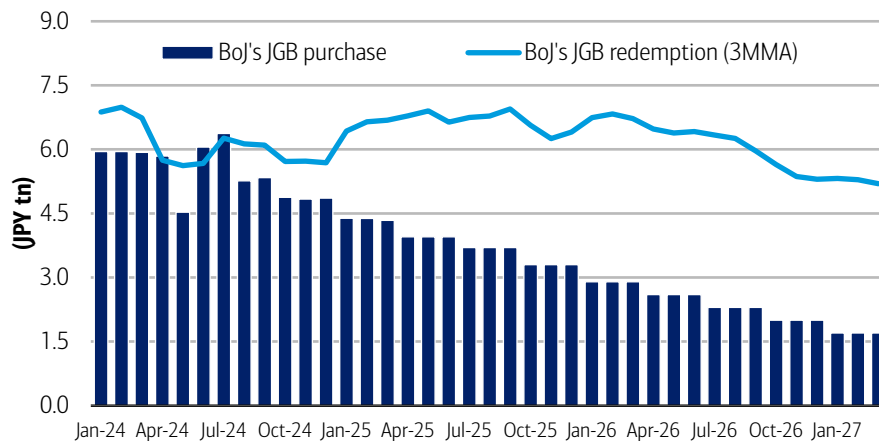
Key takeaways

- We expect BoJ to take no action on supply/demand imbalances in the long-end of the JGB curve at June MPM
- BoJ would stick with ¥400bn per quarter cut to purchases through March 2026 and slow to ¥300bn per quarter from FY2026
- BoJ's superlong "intervention" unlikely; curve to steepen in near-term in our baseline scenario

By Tomonobu Yamashita and Shusuke Yamada

Chart of the day: BoJ monthly JGB purchases and redemptions (BofA forecast from May 2025)

We think BoJ will continue reducing JGB purchases after April 2026



Source: BofA Global Research, Bloomberg, BoJ, MoF

Note: Actual values through April 2025, BofA forecasts from May. Redemptions of BoJ JGB holdings are 3-Month Moving Average

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BoJ to continue reducing JGB purchases from April 2026

The BoJ will release an interim assessment of its plans to reduce JGB purchases at its 16-17 June monetary policy meeting (MPM). In this report, we discuss our views on the interim assessment in a Q&A format.

We conclude that the BoJ does not plan to address the surplus of superlong JGBs, and we expect it to continue reducing purchases by ¥400bn per quarter through March 2026. We think it will scale this back to ¥300bn per quarter from April 2026 while extending the cuts for another year. We estimate the BoJ's monthly purchases will fall to around ¥1.7tn by March 2027.

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Overview of current reductions in JGB purchases

At its July 2024 MPM, the BoJ announced that it would reduce its monthly JGB purchases by ¥400bn per quarter between Aug-Sep 2024 and Jan-Mar 2026, bringing its March 2026 purchases to around ¥2.9tn. It also announced that it would conduct an interim assessment of its cuts to JGB purchases at the June 2025 MPM, rethink the ¥400bn per quarter cut if necessary, and outline its policy on JGB purchases from April 2026 (see [Japan Watch: BoJ Review: Hawkish shift 31 July 2024](#)).

(1) Q. How much will BoJ cut JGB purchases after interim assessment through March 2026?

A. We expect ¥400bn per quarter cuts to remain in place

The BoJ's July 2024 MPM statement explicitly stated that "In principle, the Bank intends to maintain the plan for the reduction after the assessment,"¹ and Governor Kazuo Ueda reiterated this view at his press conference after the March 2025 MPM². The BoJ lowered its economic and inflation forecasts in response to President Trump's announcement of reciprocal tariffs in early April, but Governor Ueda stated that the BoJ will address any economic downside mainly by controlling short-term interest rates³, and the dovish Outlook Report does not signal that it intends to halt or slow the reductions in its JGB purchases (for details, see [Japan Macro Watch: BoJ review: Cautious pause amid uncertainty 01 May 2025](#)). Policy board member Asahi Noguchi also stated on 22 May that he feels no need to materially change the BoJ's existing plans⁴. We therefore expect the BoJ to continue with the cuts it announced in 2024 through March 2026 after the interim assessment (meaning that it buys around ¥2.9tn in March 2026).

(2) Q. How much will BoJ buy after April 2026?

A. We expect BoJ to scale back cuts to ¥300bn per quarter while extending them by one year

Materials released by the BoJ ahead of its 20-21 May Bond Market Group meeting show that participants were split on whether to accelerate, maintain, or slow the pace of cuts to JGB purchases from April 2026. However, with the JGB market (mainly superlongs) becoming more volatile since March, the BoJ's Bond Market Survey conducted on 1-9 May showed that all the survey responses (including order volume and trading frequency) were down versus the previous survey, indicating a drastic decline in market functioning (from -13 in the previous survey to -44 in the May survey; Exhibit 1).

We therefore think it would be difficult for the BoJ to justify accelerating or maintaining the current pace of cuts to JGB purchases. We look below at the level of JGB purchases implied by a somewhat smaller reduction.

Our baseline scenario is for the BoJ to scale back the pace of cuts to around ¥300bn per quarter after April 2026 and maintain this pace through March 2027 (we estimate monthly purchases of around ¥1.7tn in Jan-Mar 2027). We base this on (1) the BoJ's purchases of around ¥2tn in JGBs per month prior to Haruhiko Kuroda's appointment as

¹ https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2024/k240731a.pdf

² "We plan to conduct an interim assessment in June, and will review past experience, including the extent to which market functions are recovering, in order to make an appropriate assessment. Our baseline scenario is that we will continue to follow the plan we implemented in 2024, but if necessary we intend to proceed after making adjustments." (https://www.boj.or.jp/about/press/kaiken_2025/k250321a.pdf [Japanese only, our translation])

³ "As we have stated previously, we think our policy response will mainly involve controlling short-term interest rates. Our interim assessment is essentially aimed at closely examining bond and JGB market trends and functioning, while also presenting our plans for April 2026 and beyond." (https://www.boj.or.jp/about/press/kaiken_2025/kk250502a.pdf [Japanese only, our translation]) https://www.boj.or.jp/about/press/kaiken_2025/kk250502a.pdf

⁴ "At the June 2025 MPM, the Bank will conduct an interim assessment of the plan for the reduction of its purchase amount of JGBs decided in July 2024, and announce a new guideline for its purchases from April 2026. In my view, it is unnecessary at this point to make any major changes to the current plan; that said, the Bank will need to examine the reduction plan for April 2026 onward from a longer-term perspective." (https://www.boj.or.jp/en/about/press/koen_2025/data/ko250522a1.pdf)

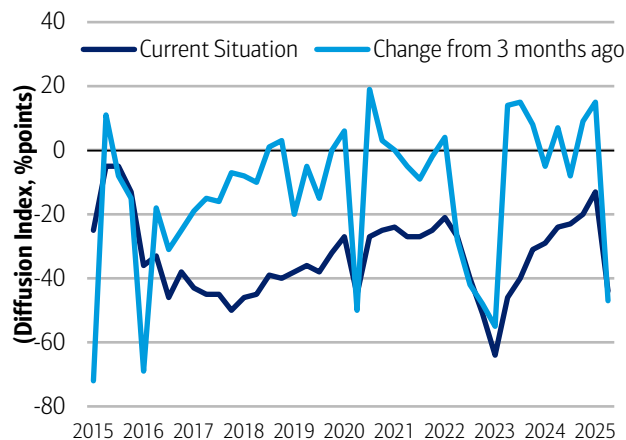


BoJ governor in April 2013, at which point it began buying JGBs in much larger quantities; and (2) the view at the recent Bond Market Group meeting that there is a need for opportunities to sell low-liquidity issues rather than the BoJ cutting purchases to zero.

However, there is considerable uncertainty about the pace of future cuts given the lack of specific messaging from the BoJ at this point. We therefore see the risk that the BoJ could halt its reductions to JGB purchases in March 2026, rather than extending them, to respond to rising JGB market volatility (see [Japan Viewpoint: Waiting for the storm to pass 21 April 2025](#)).

Exhibit 1: Bond market function DI

Record drop in function DI in Feb-May 2025



Source: BofA Global Research, BoJ

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(3) Q. How do BoJ JGB purchases break down by maturity?

A. We expect BoJ to continue prioritizing cuts to purchases of maturities where it buys highest percentage of issuance

The BoJ's current outright purchase (rinban) operations are split between 10-25yr and 25yr+ maturities, but some participants in its recent Bond Market Group meeting argued that it should merge the superlong category into a single "10yr+" bracket. However, we do not expect the BoJ to do this at its June MPM, for two reasons.

Firstly, one policy board member argued in the Summary of Opinions for the last MPM that the BoJ should not overreact to expectations for superlong yields to rise⁵. On 22 May, policy board member Asahi Noguchi also noted that superlong JGB yields have not risen to the point where the BoJ needs to act, and that it ought not to jump to the conclusion that the rise in superlong yields is an outlier. The BoJ has stated that its main policy tool is control of short-term interest rates and that it intends to intervene as little as possible in the JGB market.

The BoJ's current monthly purchase sizes per auction are ¥405bn for 10-25yr and ¥150bn for 25yr+ issues. Given current concerns about the JGB curve steepening, this suggests that merging the current superlong category would effectively lengthen the maturities the BoJ buys. However, doing this in rinban operations could rapidly reduce

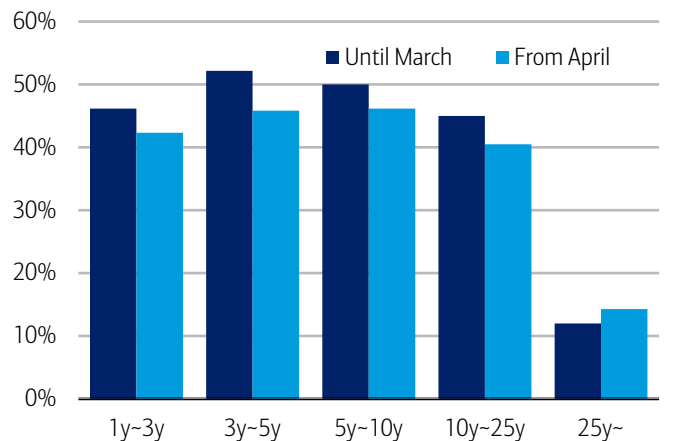
⁵ "Investors need to be cautious about investing in super-long-term JGBs when market expectations regarding the interest rates on these bonds are particularly high and the markets are nervous. While it is natural for central banks to take appropriate account of market views, if a central bank is continually over-flexible in response to these views, this flexibility itself could make the bank's responses less predictable, thereby increasing uncertainties in the markets. The Bank should avoid, as much as possible, actions that lead to such uncertainties."

(https://www.boj.or.jp/en/mopo/mpmsche_minu/opinion_2025/opi250501.pdf)

the liquidity of specific issues. For instance, the Ministry of Finance (MOF) only issues ¥250bn in 40yr JGBs per month, and combining them with other superlong maturities in rinban operations could rapidly increase the percentage of some 40yr issues that are owned by the BoJ. We therefore think the BoJ will continue to prioritize reducing purchases of maturities where it buys a high percentage of issuance even after the June MPM. We would not expect the BoJ to take any action that effectively increases its purchases of 25yr+ maturities.

Exhibit 2: BoJ purchases as % of monthly issuance, by maturity

BoJ buys high % of 25yr and shorter maturities

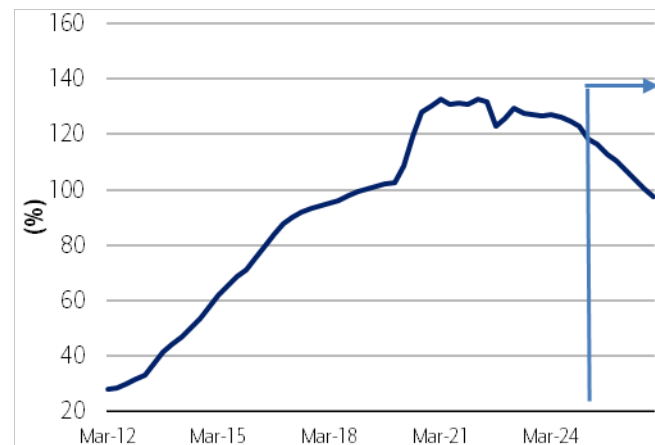


Source: BofA Global Research, Bloomberg, BoJ, MoF

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Exhibit 3: BoJ balance sheet as % of nominal GDP

We estimate BoJ balance sheet will shrink to around 97% of GDP at end-2026



Source: BofA Global Research, Bloomberg, BoJ, MoF, Cabinet Office

Note: Area marked by arrow indicates BofA forecasts (from Apr-Jun 2025); Japan nominal GDP figures are our economist's forecasts.

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(4) Q. How will BoJ's excess reserves and balance sheet evolve?

A. We expect both to decline, but think JPY liquidity will remain high

We estimate ¥6.7tn in average monthly redemptions of JGBs held by the BoJ in FY25 and ¥5.9tn in FY26. We would therefore expect excess reserves and the BoJ's balance sheet to shrink even if it does not reduce purchases beyond the recent monthly figure of around ¥4.1tn.

In the baseline scenario we discuss above, we estimate that excess reserves would fall from ¥474tn at present to around ¥399tn at end-2026, shrinking the BoJ's balance sheet from around 118% of nominal GDP now to around 97%. However, the Fed's current balance sheet is around 22% of nominal GDP and the ECB's around 41%, and we therefore expect JPY's liquidity to remain far higher than other currencies (for details, see [Global Rates Watch: Central bank balance sheet monitor update 2025-04-24](#)).

Market implications

Rates: Steeper now, flatter later

If our scenario proves accurate, the 10s30s curve should flatten over the longer term. However, given the expectations mainly among nonresident investors for the BoJ to take steps to improve superlong supply/demand, if the BoJ opts not to merge superlongs into a broader category in its rinban operations this could drive greater selling pressure on superlong JGBs⁶. The compound yield of 3% on JGB #86 would likely be a yardstick for investors looking to buy superlong JGBs on weakness.

We would note that the BoJ is not engaged in active quantitative tightening (QT), i.e. proactive sales of its JGB holdings, and we would therefore expect it to continue holding

⁶ There is a risk that the MoF could reduce its superlong JGB issuance from July 2025.



more than 80% of the cheapest-to-deliver (CTD) issues for now even if it scales back purchases of 10yr and shorter maturities as we expect. In short, we do not expect the risks to JGB futures deliveries to ease in the near term.

FX: Yield levels vs. fiscal risk

The impact on JPY will likely be determined by yield levels and fiscal risk. The recent rise in superlong JGB yields may be seen supportive for JPY from a purely yield perspective, but it also reflects fiscal risks that could weaken JPY. The initial focus for the BoJ's JGB purchase policy will be the scale of cuts and whether it changes the mix of maturities it buys. In short, if it reduces the amount of duration it buys, this would be positive for JPY. However, if fiscal risk rises as the BoJ's purchases decline this could cause investors to sell yen assets in general. We view the July Upper House elections and policy discussions in the runup to the polls as more important catalysts.

A reduced pace of reduction in the BoJ's monthly bond purchases from ¥400bn to ¥300bn per quarter as we expect would fall within market expectations and have little impact on JPY. If the BoJ stops reducing its purchases we would expect a dovish surprise that weakens JPY. Conversely, if the BoJ signals that it intends to maintain the current pace of cuts after March 2026, this would likely be a hawkish surprise that strengthens JPY, but it would also put fiscal risk in the spotlight and increase market volatility heading into the Upper House elections.

Exhibit 4: BoJ's % JGB holdings by issue (as of 20 May 2025)

BoJ's JGB holdings remain concentrated in sub-10yr maturities

2Y	Current Ratio	5Y	Current Ratio	10Y	Current Ratio	20Y	Current Ratio	30Y	Current Ratio	40Y	Current Ratio
JN472	0.5%	JS178	5.7%	JB378	13.4%	JL192	0.6%	JX86	0.0%	JU17	5.7%
JN471	0.1%	JS177	5.3%	JB377	15.4%	JL191	5.8%	JX85	0.2%	JU16	13.7%
JN470	1.7%	JS176	9.8%	JB376	19.5%	JL190	2.8%	JX84	1.3%	JU15	18.5%
JN469	12.8%	JS175	13.6%	JB375	31.3%	JL189	3.5%	JX83	4.3%	JU14	3.7%
JN468	4.4%	JS174	28.9%	JB374	39.8%	JL188	8.0%	JX82	1.2%	JU13	1.7%
JN467	18.5%	JS173	38.6%	JB373	45.5%	JL187	7.1%	JX81	9.5%	JU12	10.2%
JN466	19.9%	JS172	59.9%	JB372	64.2%	JL186	16.3%	JX80	11.2%	JU11	18.6%
JN465	34.5%	JS171	69.2%	JB371	69.0%	JL185	13.8%	JX79	4.8%	JU10	33.7%
JN464	35.4%	JS170	30.1%	JB370	80.4%	JL184	24.7%	JX78	8.5%	JU9	37.6%
JN463	49.9%	JS169	56.8%	JB369	86.0%	JL183	23.7%	JX77	19.8%	JU8	53.0%
JN462	41.3%	JS168	42.5%	JB368	86.9%	JL182	14.9%	JX76	10.0%	JU7	48.9%
JN461	42.7%	JS167	30.4%	JB367	85.9%	JL181	8.8%	JX75	9.7%	JU6	42.5%
JN460	45.1%	JS166	34.4%	JB366	86.4%	JL180	3.1%	JX74	7.4%	JU5	9.4%
JN459	54.0%	JS165	50.2%	JB365	81.7%	JL179	5.9%	JX73	1.1%	JU4	15.8%
JN458	35.2%	JS164	60.6%	JB364	82.7%	JL178	4.6%	JX72	5.4%	JU3	18.6%
JN457	50.1%	JS163	82.8%	JB363	80.9%	JL177	11.4%	JX71	16.8%	JU2	10.1%
JN456	41.0%	JS162	65.1%	JB362	84.5%	JL176	17.9%	JX70	5.5%	JU1	34.5%
JN455	37.6%	JS161	62.3%	JB361	86.8%	JL175	7.8%	JX69	2.2%		
JN454	38.7%	JS160	71.8%	JB360	87.9%	JL174	9.7%	JX68	14.2%		
JN453	68.4%	JS159	63.4%	JB359	84.6%	JL173	14.1%	JX67	15.3%		

Source: BofA Global Research, Bloomberg, BoJ, MoF

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- **Global Rates Year Ahead 2025** – [Continental Drift](#), 24 November 2024
- **G10 FX Year Ahead 2025** – [Policy Uncertainty](#), 26 November 2024
- [Gradualism](#), **Liquid Cross Border Flows**, 19 May 2025

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