BN 03/28 04:06 BOJ Intervenes to Cap Japanese Yields Amid Global Bond Selloff

BOJ Steps Into Market to Cap Yields Amid Global Bond Selloff

2022-03-28 07:44:03.667 GMT

By Chikako Mogi and Toru Fujioka

(Bloomberg) -- The Bank of Japan underscored its strong commitment to ultra loose monetary policy by offering for the first time to buy an unlimited amount of bonds for three straight days amid a global debt selloff.

Monday's announcement that it would buy 10-year notes on March 29, 30 and 31 came after two offers earlier in the day that failed to lower yields. They touched the defending line of 0.25% for the first time since the bank made the level of its ceiling clear in March last year. The yen, already at its weakest since December 2015, extended losses.

The move suggests a long struggle ahead between the central bank and traders following BOJ Governor Haruhiko Kuroda's remarks that policy will remain unchanged even if inflation jumps. Japan's bond yields had trended back up after the BOJ's fixed-rate buying offer on Feb. 14 -- the first such operation since 2018 -- helped push them lower.

The BOJ said Monday the bond buying over three consecutive days was designed to implement its 0% yield policy and that it could change the schedule as well as the amounts depending on how markets responded to the move.

Valentin Marinov, head of G-10 strategy at Credit Agricole CIB in London, said markets are taking the latest announcement as confirmation of the BOJ's commitment to its yield curve control policy and ultra dovish monetary policy stance.

"In turn, this magnifies the relative rate disadvantage of the beleaguered yen especially vs the dollar -- the high-yielding, safe haven King of G10 FX," he said.

Policy Pressure

The growing policy divergence between the BOJ and the Fed has heaped pressure on the yen, with the currency slipping to a six-year low against the dollar in March.

"There's the question of how much the BOJ will be able to keep defending this line," said Harumi Taguchi, an economist at

S&P Global Market Intelligence.“I believe they’ll try to maintain this level through their operations, but it’s unclear whether they’ll truly manage it.”

The BOJ had announced a second fixed-rate bond buying operation for Monday as yields extended their advance amid a global bond sell-off. That had a takeup of 64.5 billion yen ($524 million), while the first offer in the morning didn’t draw any interest.

Investors have been speculating whether the BOJ will have to start normalizing policy at some point as the Fed embarks on a series of rate hikes to tackle inflation. Still, Kuroda has repeatedly ruled out the possibility of near-term policy adjustments. Inflation in Japan is also far from a 2% target, unlike other countries where fast price gains have stoked concerns.

Super-long Yields

The BOJ’s yield curve control framework aims to cap the 10-year yield, while allowing more flexibility for longer-tenor yields. There’s also talk among traders over whether the BOJ will act to bring down yields for longer-tenor bonds.

“Focus turns to whether the BOJ will also try to control 20- or 30-year maturities, but it’s likely the bank will tolerate the rise in these super-long yields,” said Mari Iwashita, chief market economist at Daiwa Securities in Tokyo. “By firmly capping 10-year yields, the BOJ can send a signal that it’s keeping an eye on market developments.”

The 30-year yield matched a six-year high of 0.995% reached last month.

The central bank has kept planned purchase amounts for all maturities including super-long bonds steady since July after tweaking operation schedule to quarterly from monthly. It will announce the April-June plan on Thursday.

The BOJ is expected to continue conducting unlimited fixed-rate bond buying particularly when there is risk of scheduled events of data driving U.S. yields higher after Tokyo session ends, such as U.S. jobs data due on April 1, minutes of FOMC’s March meeting and U.S. CPI.

“How high Japanese yields will rise depends on U.S. yields and the BOJ will likely automatically seek to cap yields if there are anticipated risks of overseas yields climbing,” Daiwa’s Iwashita said.

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