Pioneering new opportunities

Following significant demand for cash repos, collateral swaps, and TRS, Reona Sasaki, director of repo and securities lending (fixed income) at Japan Securities Finance Co., analyses the JGB repo market

The Japanese government bond (JGB) repo market has shown steady growth in both General Collateral (GC) and Specific Collateral (SC) transactions. The outstanding value of JGB repo market transactions reached around 250 trillion yen (US$1.7 trillion) with the continuous rise in JGB issuance.

In Japan, the term 'repo' often encompasses both repurchase agreement and securities lending agreement, as they achieve nearly identical economic effects as results.

Transactions between Japanese domestic financial institutions typically use contracts published by the Japan Securities Dealers Association (JSDA). However, because there has been a notable rise in transactions with non-residents, it is not rare to utilise the Global Master Repurchase Agreement (GMRA) established by the International Capital Market Association (ICMA).

The repo rates in the JGB repo market are determined based on the central bank's policy rates, similar to other European and US countries, and therefore influenced by the Bank of Japan's (BOJ) policy changes.

The BOJ terminated its negative interest rate policy in

March 2024, and implemented additional rate hikes in July and January 2025.

As of April 2025, the policy interest rate stands at +0.50 per cent, affecting both GC and SC repo rates. The detailed movements are as follows.

Changes in the GC market

The GC repo rate has been close to the Tokyo overnight average rate (TONA) which is an uncollateralised overnight call rate and BOJ's policy rate. No significant change has been seen between GC repo rates and TONA before and after the winding down of the negative interest rate policy (see Figure 1 and Figure 2).

Repo market participants under negative interest rate policy

- Cash borrowers: banks arbitraging against the BOJ's interest rate (0 per cent, +0.1 per cent).
- Cash lenders: securities companies in need of general collaterals or special collaterals, and banks with policy interest rate balances (-0.1 per cent) which have an incentive to lend out cash at more than -0.1 per cent.
- Repo rate: converging at -0.1 per cent to 0.0 per cent (occasionally shows big drops due to supply-demand pressure).
- Uncollateralised Overnight call rate: -0.1 per cent to 0.0 per cent.

Repo market participants after revising the negative interest rate policy

- Cash borrowers: securities companies holding JGB, and banks arbitraging against the interest on excess reserves (currently +0.50 per cent).
- Cash lenders: securities companies in need of GC or SC, and mutual funds with temporary cash surpluses.
- Repo rate: converging at the interest rate on excess reserves.
- Uncollateralised overnight call rate: around the interest rate on excess reserve.

Under the BOJ's yield curve control (YCC) policy, the repo rate frequently showed significant declines due to tight demand for JGBs.

Figure 1

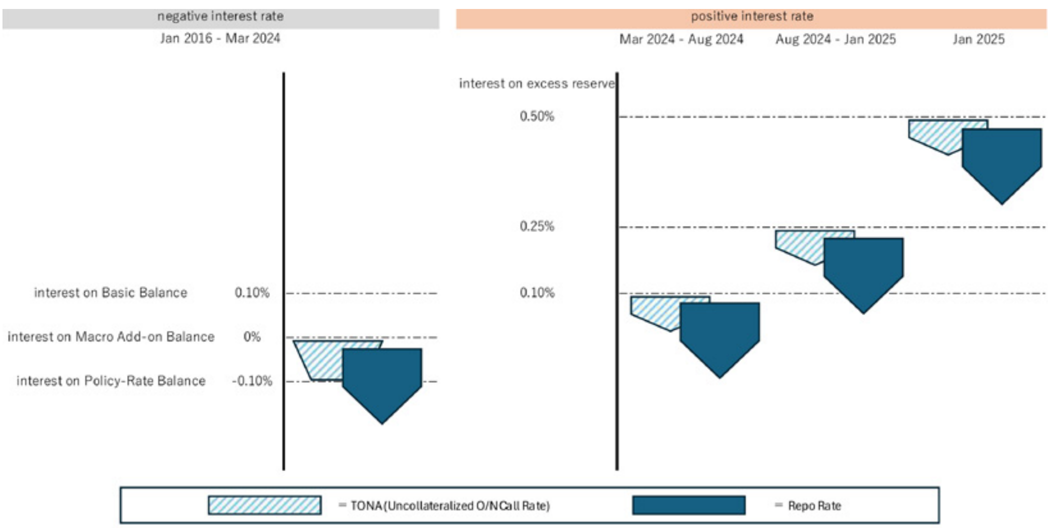
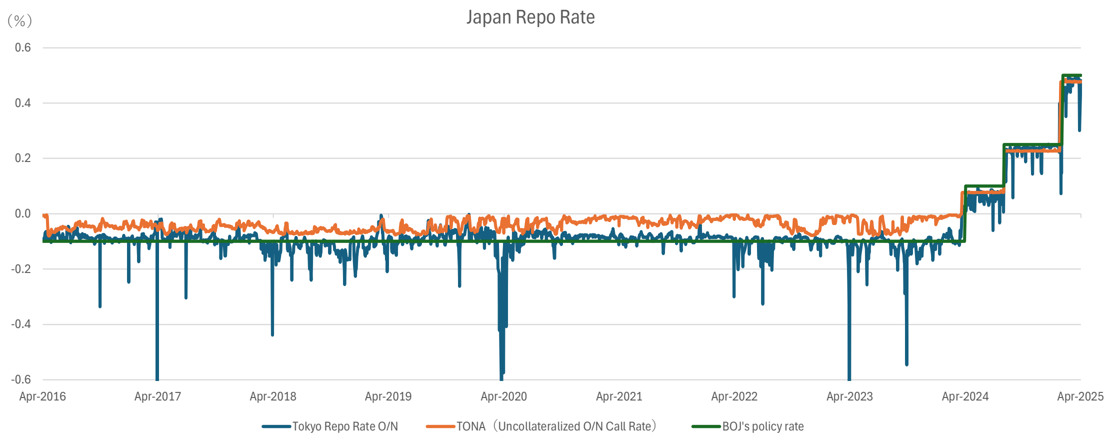


Figure 2



Recently, however, with the winding down of the policy and the reduction in BOJ's bond purchases, the supply and demand for JGBs have improved, avoiding high volatility and divergence from policy interest rates.

Nevertheless, the GC repo rate at the end of the fiscal year (in March 2025) dropped significantly as borrowers refrained from supplying JGBs, due to considerations of financial statements and various risk indicators. Similar trends tend to be observed for transactions exceeding month-ends.

Changes in the SC market

The SC repo rate is determined based on the GC repo rate, reflecting the supply and demand conditions of specific issues, with a premium rate deducted.

Following the BOJ's policy changes, SC repo rates have risen accordingly with the increase in GC repo rates.

However, around the monetary policy meetings, there is a tendency to refrain from lending JGBs to hold JGB position and prepare for selling, leading to a temporary widening of the GC-SC spread.

After the meeting, cash borrowers gradually resume to offer JGBs, and the GC-SC spread converges back to pre-meeting levels.

Under the YCC policy, certain issues, especially those with high BOJ holding ratios, often had repo rates determined significantly below the rate on the securities lending facility operation by BOJ (GC repo rate (the T+1 overnight rate published by the JSDA) –0.25 per cent lending fee).

Because of the repeal of YCC policy, the supply and demand conditions for JGBs have been improving, and repo rates have been sitting at or above the rate on this securities lending facility level. However, for newly issued JGBs or tightly supplied JGBs, the rates can still fall below the rate on the securities lending facility.

Outside of Japan, there is strong speculation about further changes in the BOJ's monetary policy.

Consequently, the demand for borrowing JGB for short trades, particularly by hedge funds, remains high, resulting in a continuous shortage of JGBs.

Arbitrage transactions using JGBs

There are many arbitrage opportunities in the JGB market. For example, under the BOJ's YCC policy, there were trades targeting discrepancies among the JGB cash market, the interest rate swap market, and the JGB futures market caused by BOJ's large purchases of JGB with specific maturities.

Similarly, arbitrage opportunities arise from imbalances between supply and demand for specific issues. The seamless operation of borrowing and lending JGBs in the JGB repo market is crucial for the timely execution of these arbitrage trades.

The JGB repo market continues to be highly attractive for all market participants, both domestically and internationally.

In the recent JGB repo market, there has been a notable rise in spread trading that achieves a neutral cash position by combining SC transactions for borrowing specific JGB with cash and GC transactions for borrowing cash with JGB collateral.

This method has gained significant attention recently, as it enables market participants to effectively offset interest rate risk, credit risk, and other risks through reverse transactions.

The role of Japan Securities Finance

As a leading entity in the JGB repo market, we have covered nearly all financial institutions and institutional investors in Japan.

Within this framework, we have also come to play a pivotal role as a hub between the domestic and international repo markets, facilitating the flow of domestic liquidity to global markets.

In addition to regular SC and GC transactions, we are actively engaged in the aforementioned spread trading. Our network of overseas counterparties continues to expand, allowing us to accumulate a wealth of insights and solutions.

Our international partners often note that trading with us provides direct access to JGB domestic market liquidity. They also value the ability to obtain real-time pricing across various issues, significantly enhancing their JGB trading capabilities.

Furthermore, there is a growing trend of 'cross-currency repo', borrowing USD and other currencies with JGB in Japan.

The demand varies in scale depending on the financial institution; nonetheless, foreign asset managers outside of Japan can operate USD and other currencies at competitive levels while significantly reducing their administrative costs.

Transactions of bonds other than JGB, such as public bonds (government-guaranteed bonds and municipal bonds) and corporate bonds, remain limited.

However, there is a growing demand, particularly from overseas, for borrowing and lending cash with various bonds.

We are dedicated to pioneering these new transactions and expanding market opportunities.

We will further commit to aggregate comprehensive information on various bonds and propose diverse transaction solutions tailored to each need from our clients.

Be unique. Be a pioneer.

Japan Securities Finance Co (JSF) was founded in 1950 as a specialised financial institution working as the infrastructure for the margin loan business. JSF is the only securities finance company in Japan licensed under the Financial Instruments and Exchange Act.

In recent years, JSF has been actively engaging in cross-border transactions to bridge Japan and the global market, offering flexible repo transactions involving various assets and currencies.