

NRI

Perspectives of “Unconventional Monetary Policy” Message from Financial Markets Panel

(Charts and Tables)

(Overview of Financial Markets panel)



いまを超える、自らを超える。

Any content included in this Message is prohibited to quote or reproduce without written permission.
All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

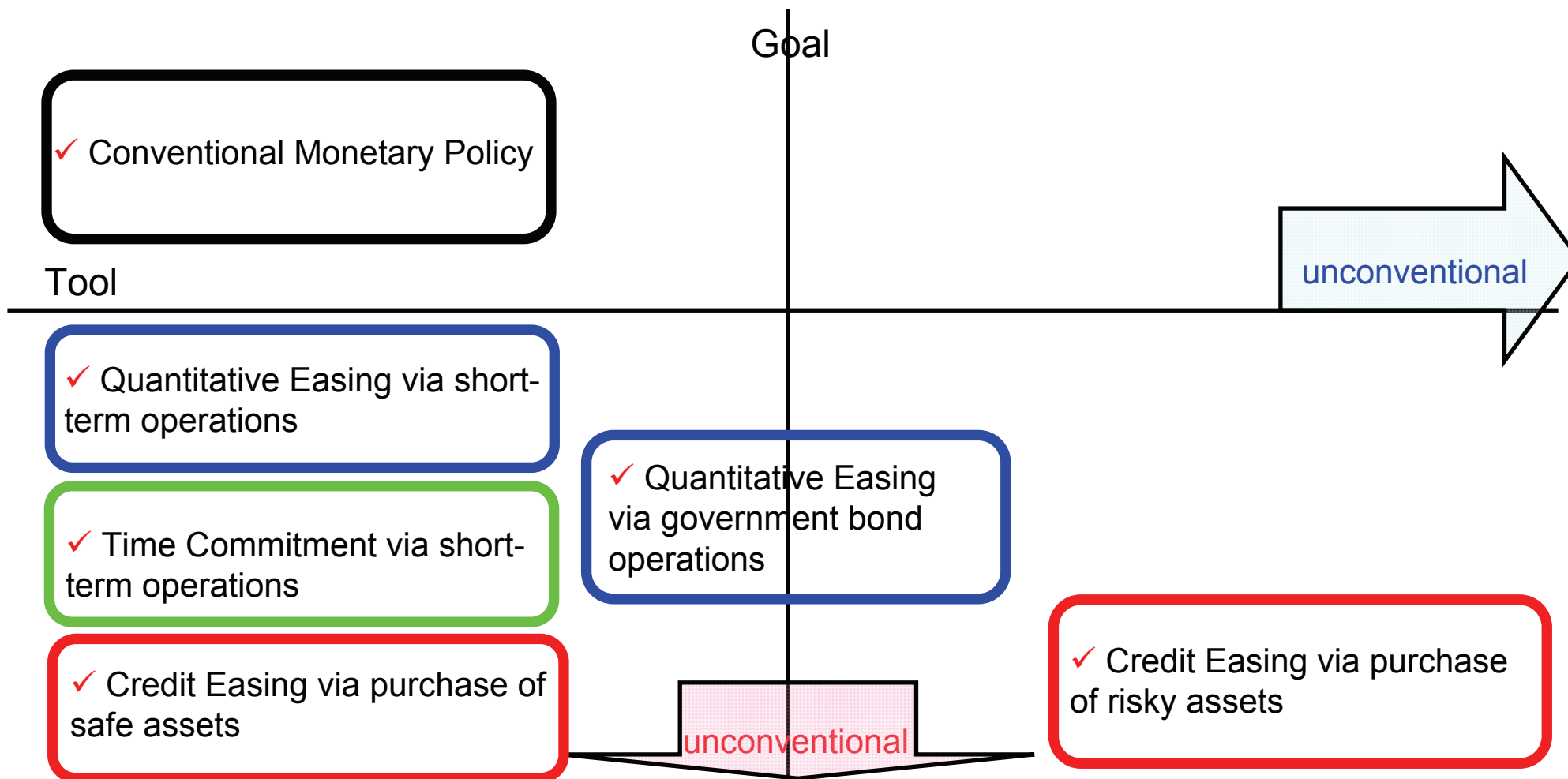
(Table1) Classification and examples of unconventional policy

(source): NRI

Category	Objective	Examples
Quantitative Easing	<ul style="list-style-type: none"> •Restore market functions by supplying large amounts of liquidity to financial institutions and markets through asset purchases - Ordinarily implemented jointly with ZIRP 	<ul style="list-style-type: none"> •Japan (Mar 01 – Mar 06) •UK (Feb 09 –)
Time Commitment	<ul style="list-style-type: none"> •Stabilize medium-term interest rates by committing to maintain current monetary policy stance until certain conditions are met - Policy rate fixed at given level for duration of policy 	<ul style="list-style-type: none"> •Japan (Mar 01 – Mar 06) •US (May 04 – Jan 06) <US (Dec 08 -) as a “weak form”>
Credit Easing	<ul style="list-style-type: none"> •Restore or replace market functions through asset purchases - May include purchase of risk assets, depending on markets being targeted 	<ul style="list-style-type: none"> •US (Jan 09 –) •Japan (Jan 09 –) •Eurozone (Jul 09 –)

(Chart1) Tools and goals of unconventional monetary policy

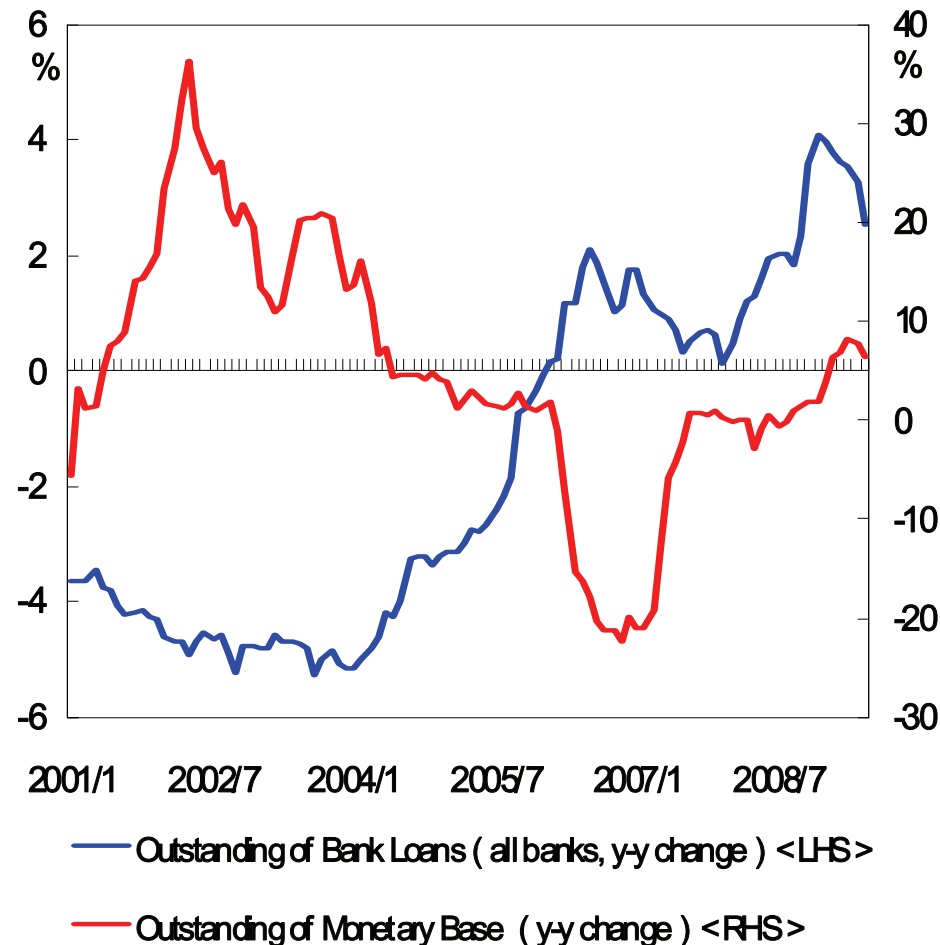
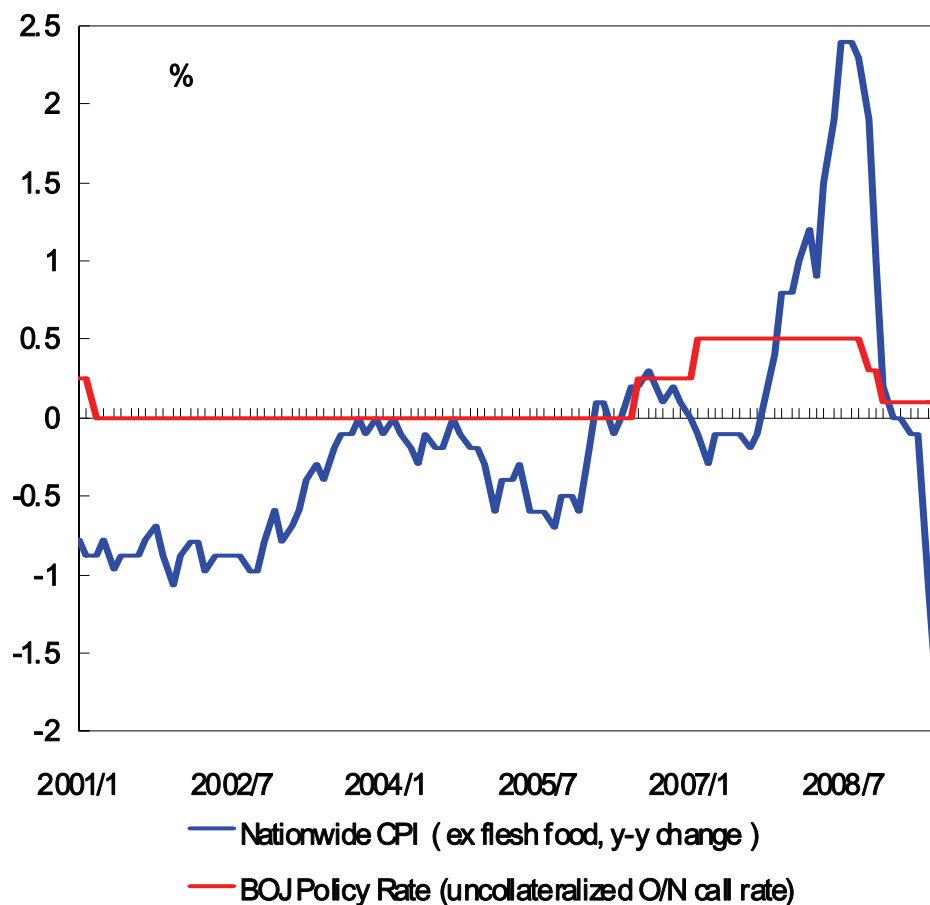
(source): NRI



Any content included in this Message is prohibited to quote or reproduce without written permission. All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

(Chart 2) Economic backdrop for quantitative easing in Japan

(source): MIAC, BOJ



Any content included in this Message is prohibited to quote or reproduce without written permission.
All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

(Chart 3) Yield curve and BOJ’s statements on time commitments

(source): BOJ

New Procedures for Money Market Operations and Monetary Easing (19 March 2001) <excerpts>

b) CPI guideline for the duration of the new procedures

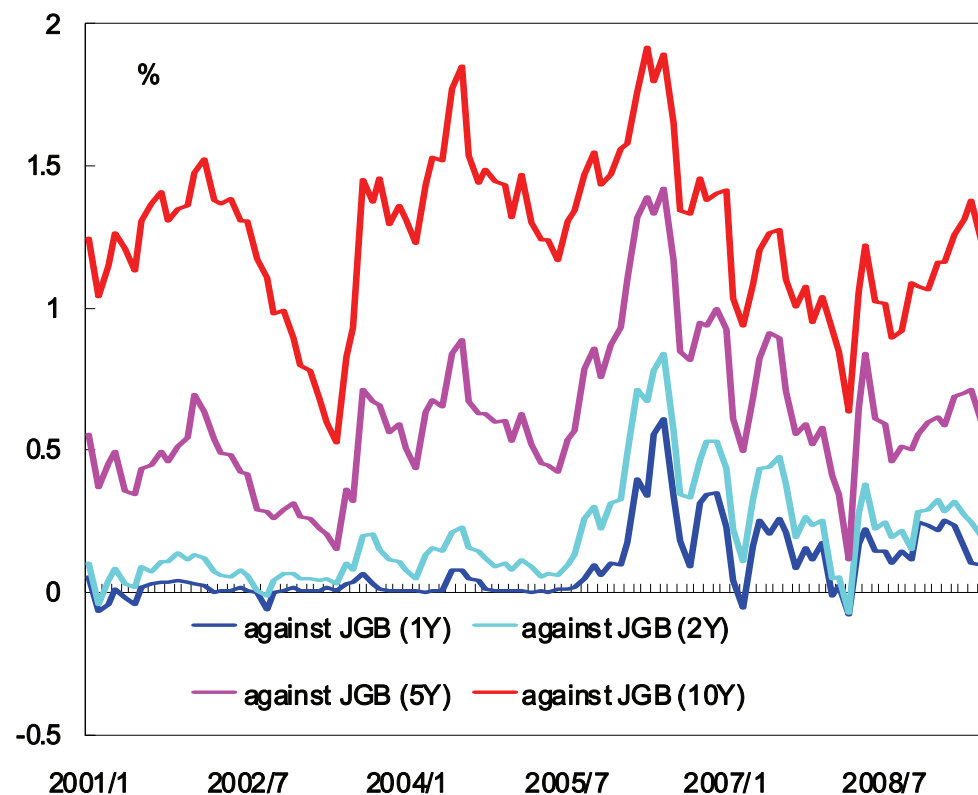
The new procedures for money market operations continue to be in place until the consumer price index (excluding perishables, on a nationwide statistics) registers stably a zero percent or an increase year on year.

New Steps for Monetary Easing: What is Significant? (19 March 2001) <excerpts>

■ Strong Commitment in terms of Policy Duration

- The new procedures continue until the CPI (excluding perishables) registers stably a zero percent or an increase year on year
- Affect people’s expectation to remove a deflationary bias
- Fall in interest rates across the yield curve

Spread between JGB yields and uncollateralized overnight call rate



(Table 2) Credit easing during current crisis in advanced economies

(source): BOJ, FRB, BOE, ECB

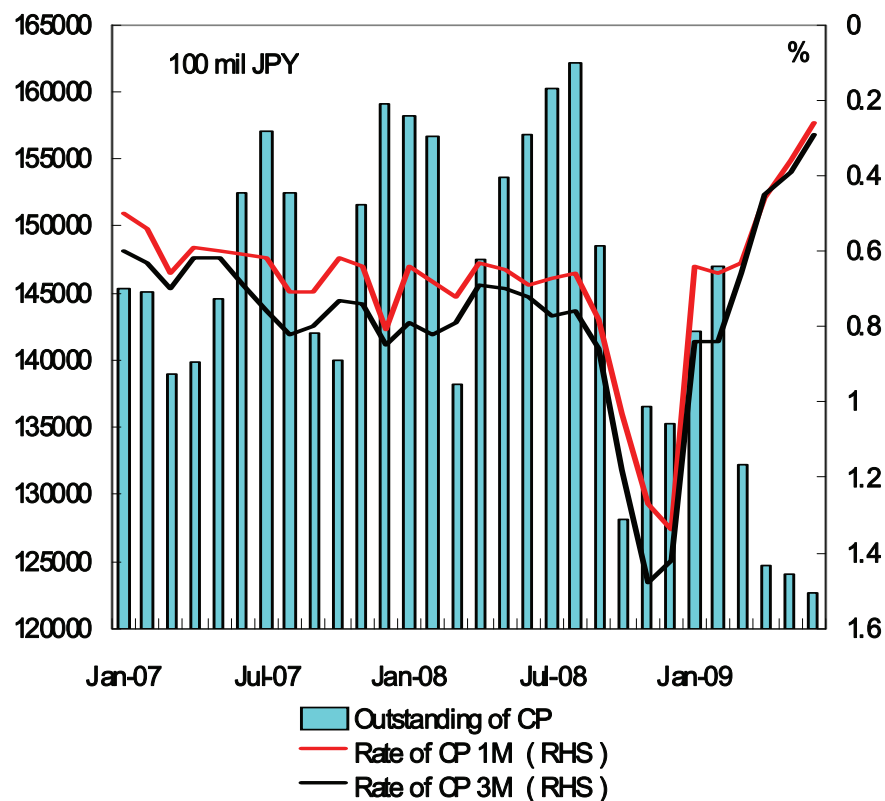
Central bank	Program	Duration	Description	Counterparties	Interest rates	Duration	Scale
BOJ	Purchase of CP and ABCP	Jan 09 - End-Dec 09	Purchase of CP and ABCP from operation participants	Participants of CP repo and lending against pooled collateral	Determined by auction (with floor: eg. policy target rate +20bp for CP matured in 3 months)	(matured in three months)	¥3trn (CP+ABCP)
	Purchase of Corporate Bonds	Mar 09 - End-Dec 09	Purchase of Corporate Bonds from operation participants	(selected from financial institutions, financial product brokers, etc)	Determined by auction (with floor: eg. policy target rate + 40bp for bonds matured in 6 months)	(matured in 1 year)	¥1trn
FRB	Term Asset-Backed Securities Loan Facility (TALF)	Mar 09 – End-Dec 09	Financing SPV purchase of ABS and CMBS from companies - ABS backed by auto loans, credit card loans, student loans, and SBA-guaranteed loans	All US corporations (with accounts at primary dealers)	Decided by the Fed for each underlying asset class (eg. 3Y Libor swap +100bp for auto and credit card loans <matured over 2 years>, and CMBS)	Up to 3 years (max 5-year average maturity for student loan and CMBS)	\$200bln
	Purchase of MBS	Jan 09 – End-Dec 09	Purchase of fixed-rate MBS from primary dealers	Primary dealers	(based on market rates)	(not announced)	\$1.25trn
BOE	Purchase of CP and Corporate Bonds	Feb 09 - Until financial markets stabilize	Financing of SPV purchases of CP and Corporate Bonds (new and existing issues, but only existing corporate bonds)	Operation participants	- For new issues set by the BOE (eg. OIS +75bp for A1 rated CP) - For existing issues, lower of the above and market rates	(not announced) (CP matured in 3 months)	Min £ 50bn out of £ 125bn
ECB	Purchase of Covered Bonds	Jul 09 - End-Jun 10	Purchase of covered bonds from operation participants (both new and existing issues) - Covered bonds backed by home loans and public sector lending	Operation participants (including eligible counterparties for ECB’s investment)	(not announced)	(not announced)	€60bn

Any content included in this Message is prohibited to quote or reproduce without written permission.
All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

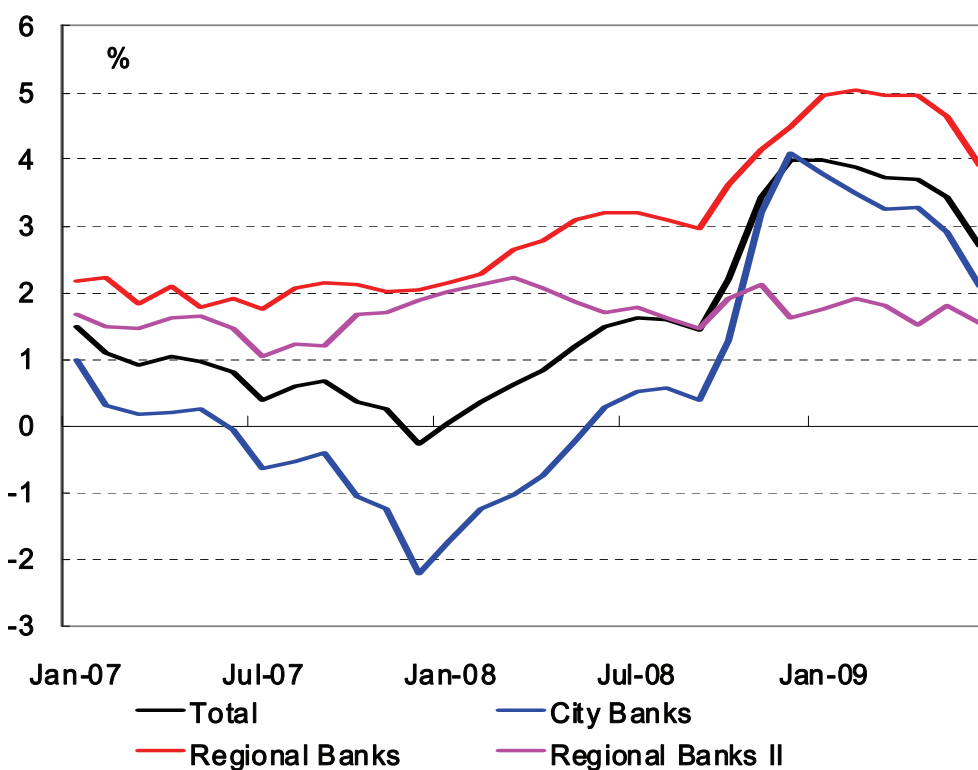
(Chart 4-1) Japanese credit market conditions

(source): BOJ

CP rates and outstanding



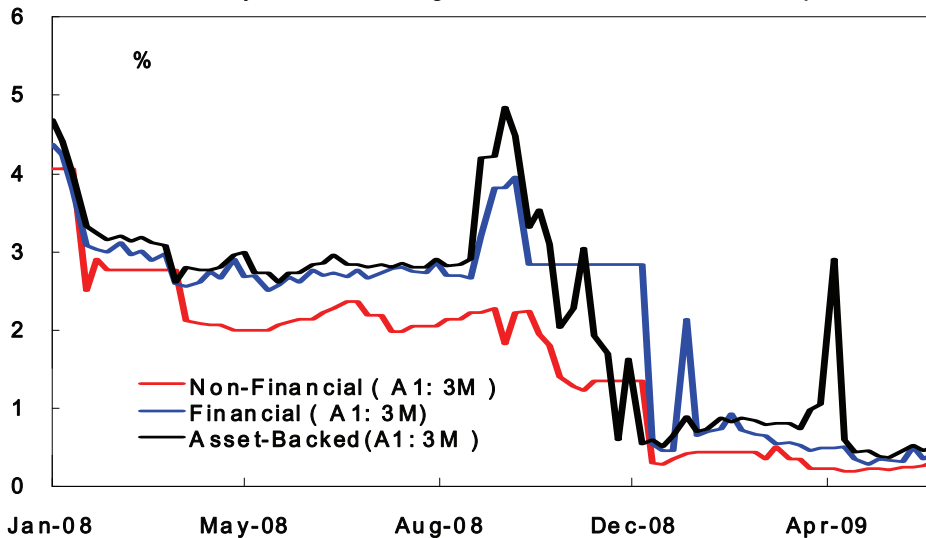
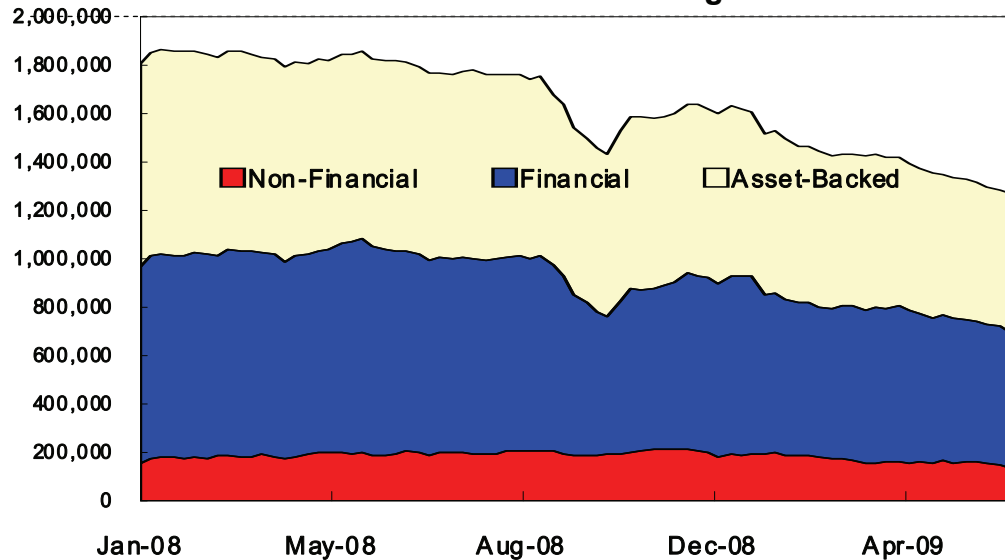
Bank loans (annual rate of growth: average outstanding)



Any content included in this Message is prohibited to quote or reproduce without written permission.
All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

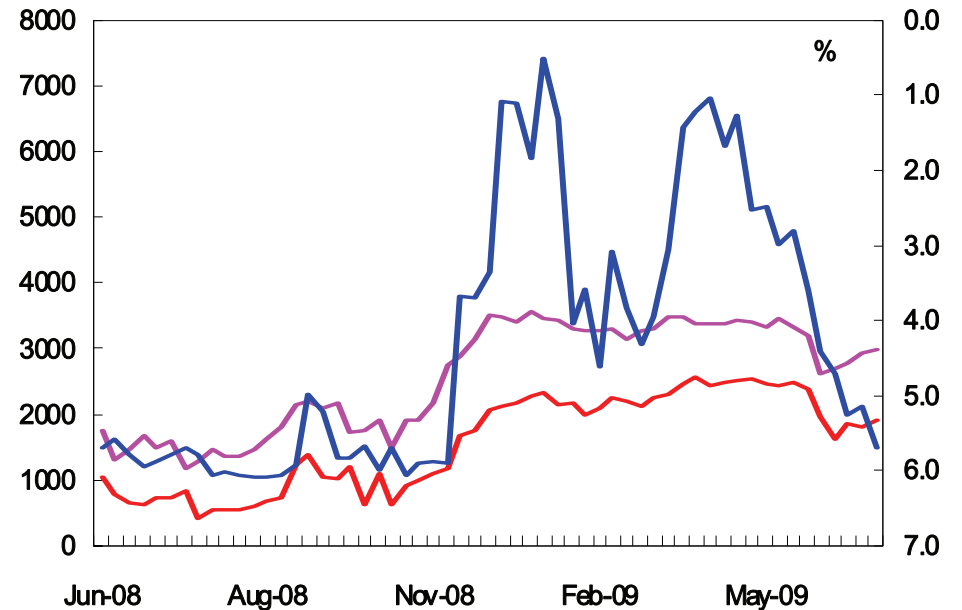
(Chart 4-2) US credit market conditions

CP rates and outstanding



(source): FRB, Freddie Mac, MBA, Thomson Reuters

Mortgage rates vs refinancing index (rates on RHS <reversed>)

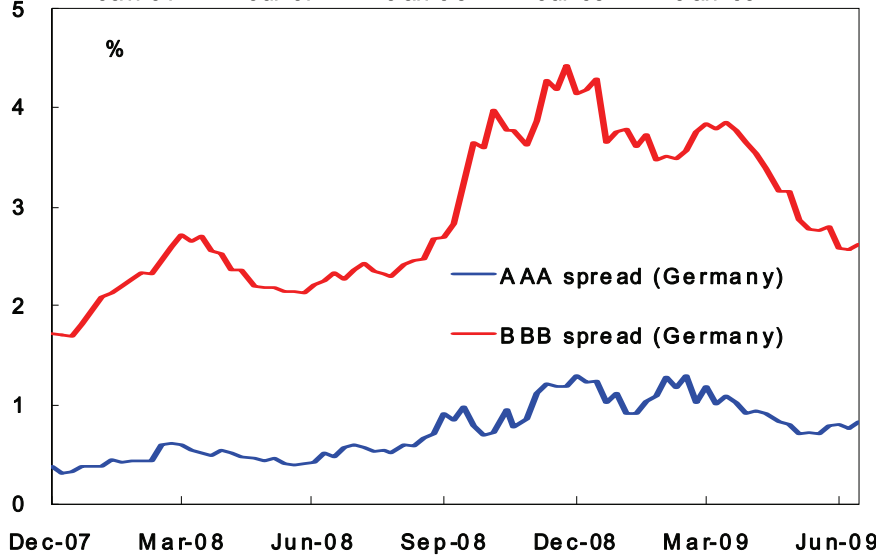
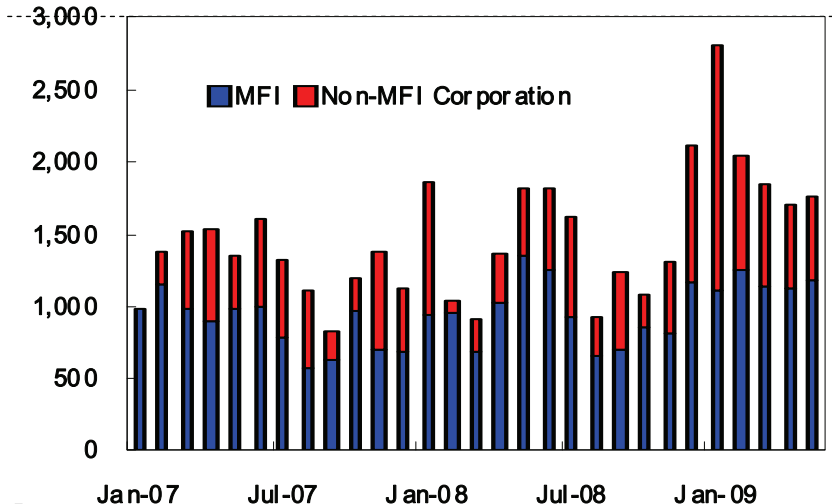


Any content included in this Message is prohibited to quote or reproduce without written permission. All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

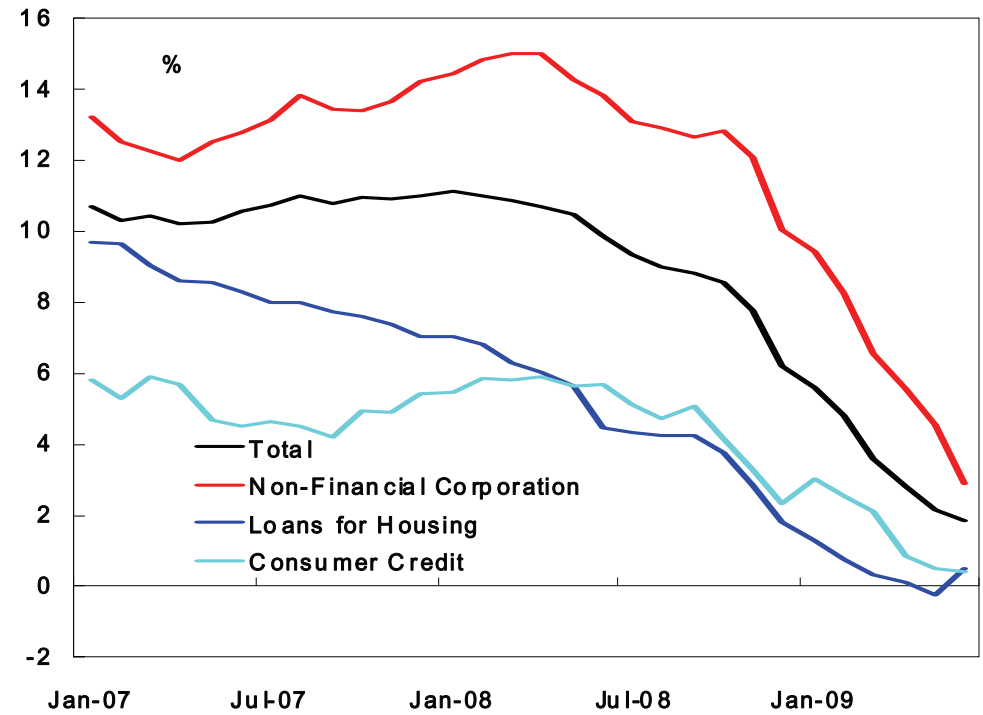
(Chart 4-3) Eurozone credit market conditions

Bond rates and issuance

(source): ECB, Thomson Reuters



Bank loans (annual rate of growth)



Any content included in this Message is prohibited to quote or reproduce without written permission. All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

(Table 3) Managing credit risk of credit easing in advanced economies

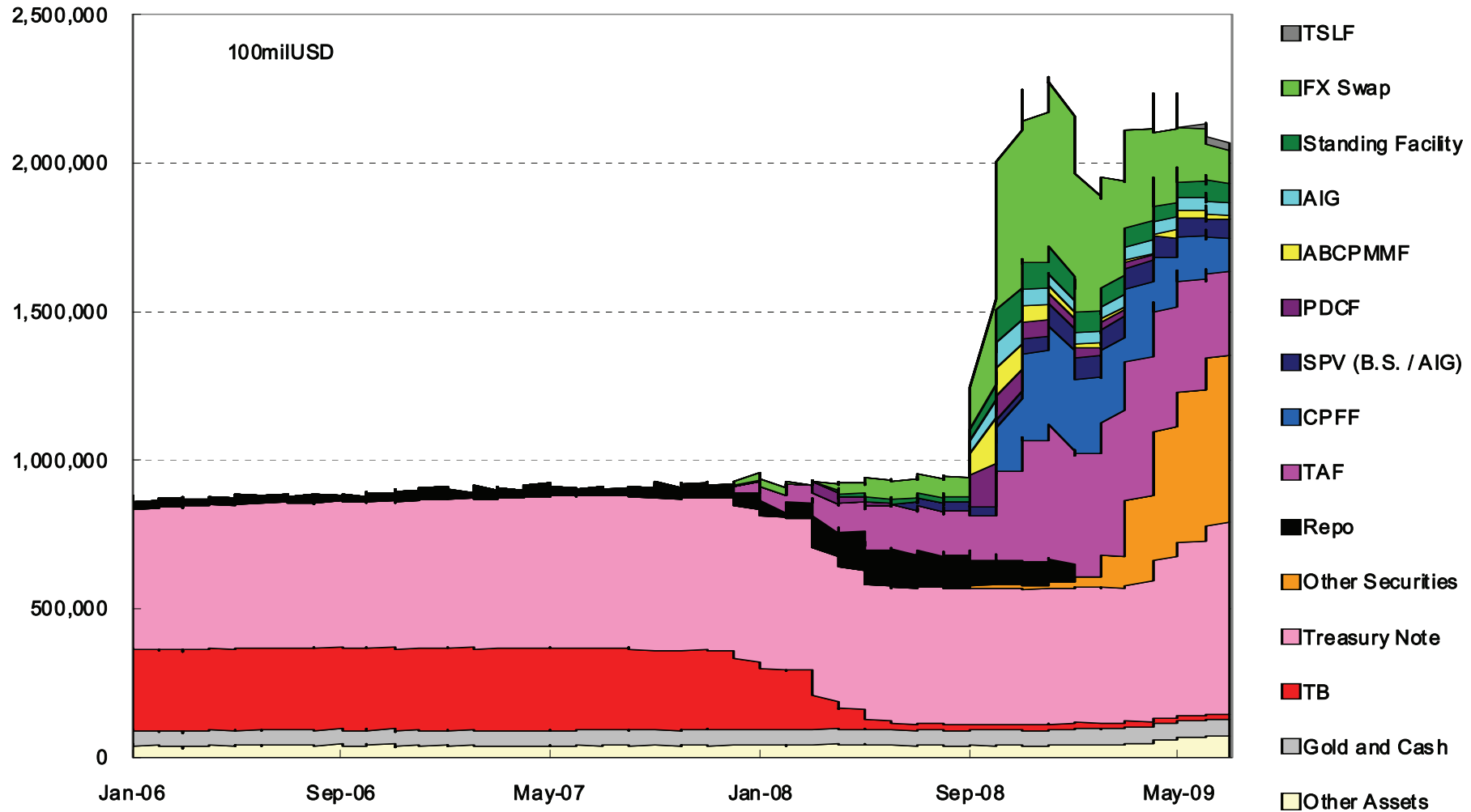
(source): BOJ, FRB, BOE, ECB

Central Bank	Program	Measures
BOJ	Purchase of CP and ABCP	<ul style="list-style-type: none"> • Limited to paper rated a-1 or higher • Ceiling on total purchase from single issuer (¥100bn) • Yield floor (eg. policy target rate + 20bp for paper matured in a month)
	Purchase of Corporate Bonds	<ul style="list-style-type: none"> • Limited to bonds rated A or higher • Ceiling on total purchase from single issuer (¥50bn) • Yield floor (eg. policy target rate + 40bp for bonds matured in six months)
FRB	TALF	<ul style="list-style-type: none"> • Limited to investment grade (small business loans guaranteed by the SBA) • Haircuts by underlying asset class and time to maturity (eg. 10% for auto loans <matured in a year> and 15% for CMBS) • Spreads by underlying assets and fixed/floating status (eg. 1MLibor+100bp for auto loans <variable rates> and 3YLibor swap +100bp for CMBS) • (US Treasury to provide up to \$20bn in subordinated loans to SPV)
	Purchase of MBS	<ul style="list-style-type: none"> • Limited to GSE-guaranteed securities
BOE	Purchase of CP and Corporate Bonds	<p>(CP)</p> <ul style="list-style-type: none"> • Limited to paper rated A3 or above • Spreads by rating (eg. OIS rate + 75bp for A1 rating) • Ceiling on total purchase from single issuer (not announced) <p>(Corporate Bonds)</p> <ul style="list-style-type: none"> • Limited to bonds rated BBB or above (not applicable to debentures guaranteed by the govt) • Spreads (no details announced) • Ceiling on total purchase from single issuer (not announced)
ECB	Purchase of Covered Bonds	<ul style="list-style-type: none"> • As a rule, limited to bonds rated AA or above and eligible as collateral to ECB • Underlying assets limited to home loans and public sector loans

Any content included in this Message is prohibited to quote or reproduce without written permission.
 All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

(Chart 5-1) Balance Sheet of FRB

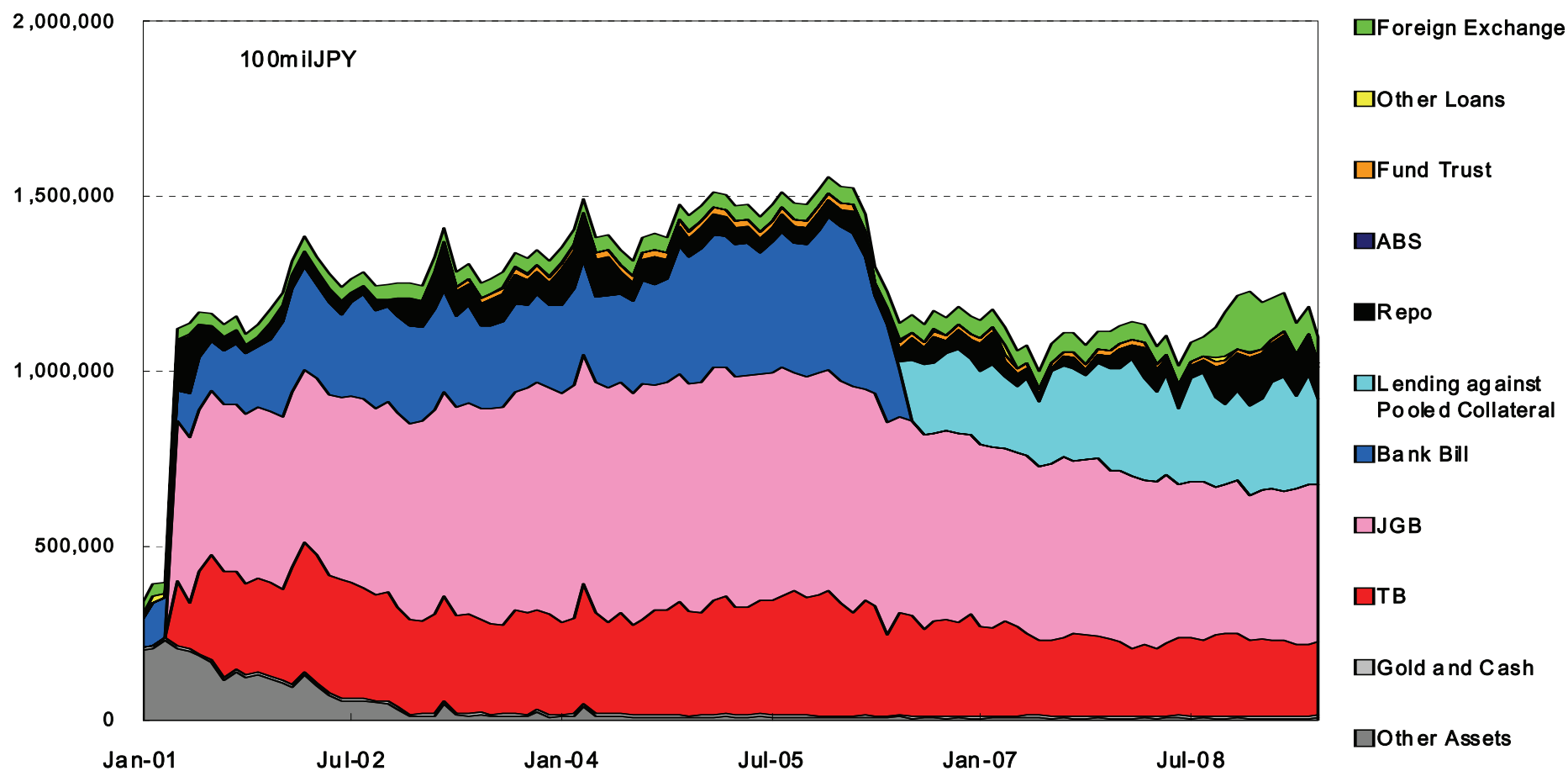
(source): FRB



Any content included in this Message is prohibited to quote or reproduce without written permission.
All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

(Chart 5-2) Balance Sheet of BOJ

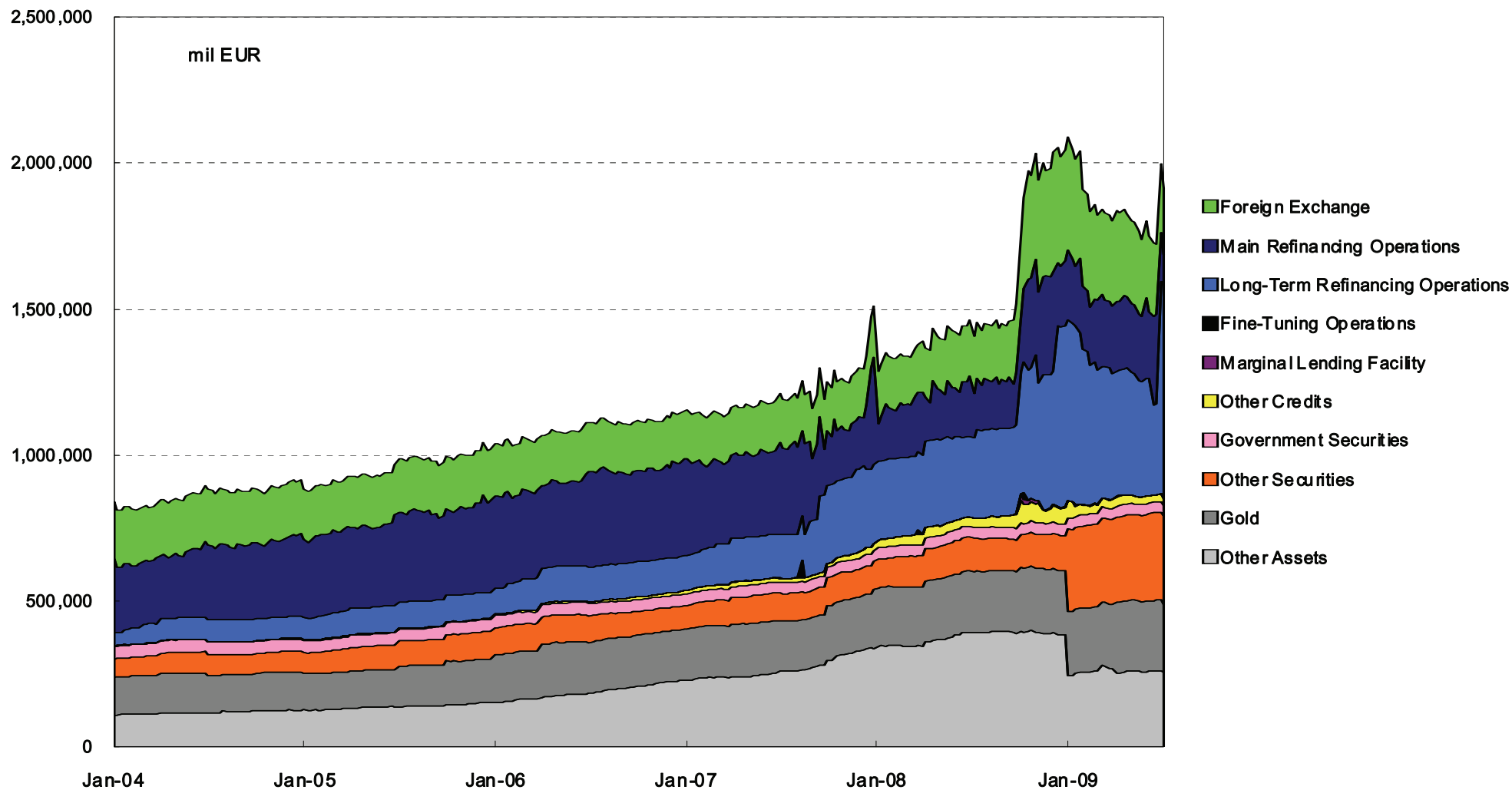
(source): BOJ



Any content included in this Message is prohibited to quote or reproduce without written permission. All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

(Chart 5-3) Balance Sheet of ECB

(source): ECB



Any content included in this Message is prohibited to quote or reproduce without written permission. All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

Overview of Financial Markets Panel

(source): NRI

Financial Markets Panel

Overview of recent major developments of financial markets

+

Discussion on desirable policy measures for financial markets from innovative and neutral perspective

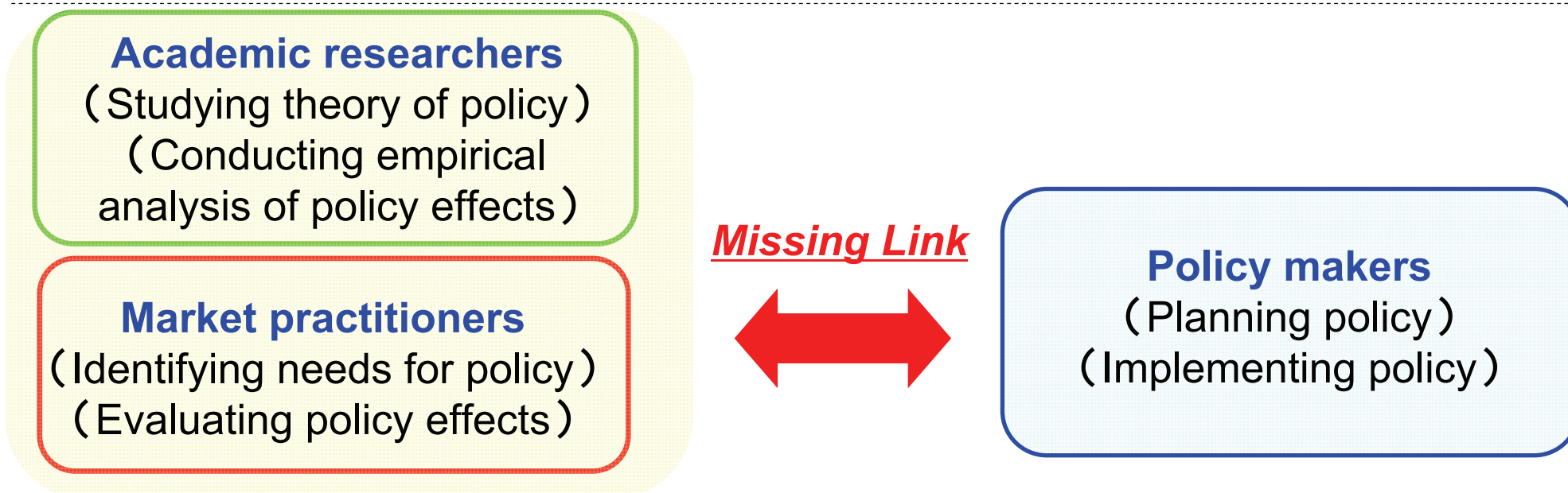
||

Addressing globally the results of the discussions

- Regular meeting by designated members from both academics (economics and finance) and financial business
- Devoting to the topics relating financial markets
- Covering broad areas of policy measures relating to financial markets
 - including monetary policy, financial regulations, and best practices

Overview of Financial Markets Panel

(source): NRI



<Role of Financial Markets Panel>

- Introducing the forum for academic researchers and market practitioners to discuss policy issues from neutral and innovative perspectives
 - overcoming constraints of relevant information and lack of analytical tools
- proposing measures both with practical feasibility and theoretical backgrounds
 - overcoming “***Missing Link***” in our policy process

Any content included in this Message is prohibited to quote or reproduce without written permission.
All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.

Overview of Financial Markets Panel

(source): NRI

For discussion on policies

Addressing the results of the discussion from neutral and innovative view points contributes to more sound discussion on policies in relation to financial markets.

For panel members

Academic members benefit from updated information of financial markets, and members from financial industry benefit from knowledge about state-of-the-art economic/financial theory.

For financial markets

Establishing the forum on financial markets and policies leads the networks for discussion bridging academics and financial industry.

Overview of Financial Markets Panel

(source): NRI

Name	Current Title/Area of Research or Business
Shin-ichi Fukuda	Professor, Department of Economics, University of Tokyo Monetary Economics, Macro Economics, International Finance
Ryuzo Miyao	Professor, Institute of Economy and Management, Kobe University Economic Policy
Noriyuki Yanagawa	Associate Professor, Department of Economics, University of Tokyo Contract Theory, Corporate Finance
Toshiaki Watanabe	Professor, Economic Institute, Hitotsubashi University Finance, Econometrics
Izuru Kato	Chief Economist, Totan Research Money Markets, Monetary Policy
Hajime Takata	Chief Strategist, Department of Financial Market Research, Mizuho Securities JGB Market, Monetary Policy
Tetsuya Inoue	Chief Researcher, Department of Financial Market Studies, Nomura Research Institute Secretary of Financial Markets Panel

Secretary of Financial Markets Panel

(Mail : fmp@nri.co.jp)



Any content included in this Message is prohibited to quote or reproduce without written permission.
All information is subject to copyrights, which are protected under the Copyright Law of Japan and under relevant international treaties.