

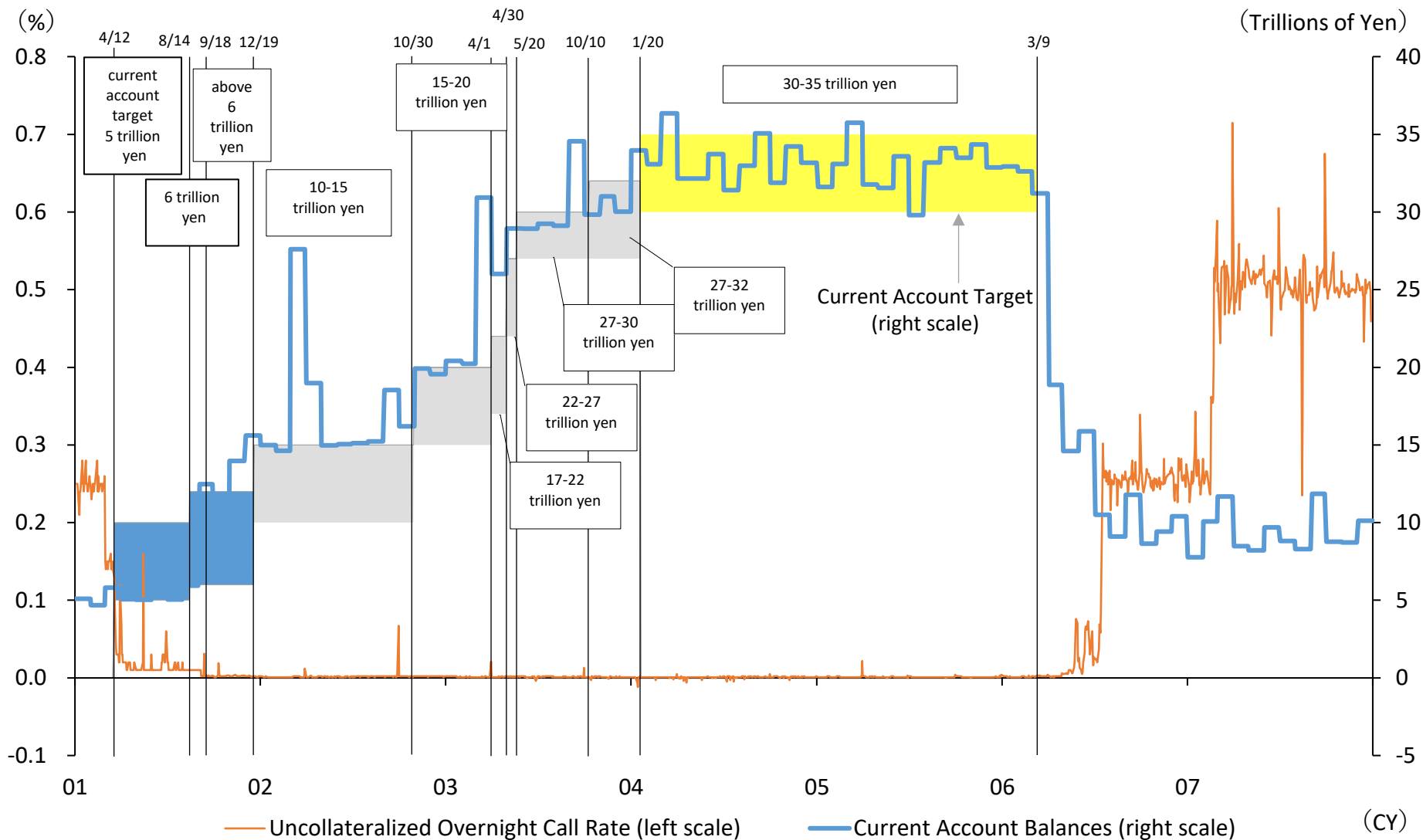
Monetary Policy Normalization

-What We Can Learn from Past Experiences-

November 9, 2023

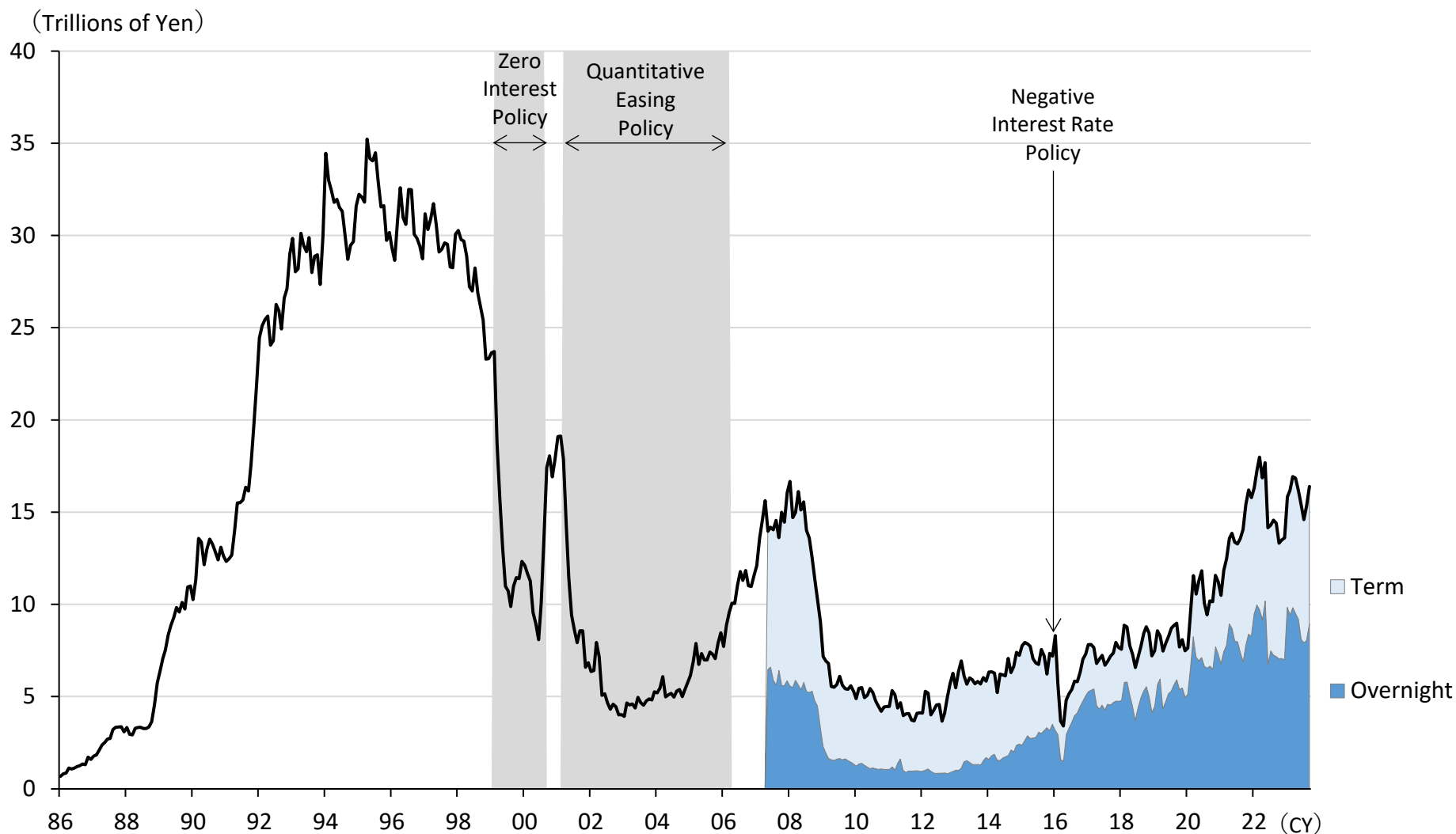
Hiroshi Nakaso
Chairman of the Institute
Daiwa Institute of Research Ltd.

BOJ's 2001-2006 Quantitative Easing Policy (Current Account Balance Targeting)



Source: Bank of Japan; compiled by DIR.

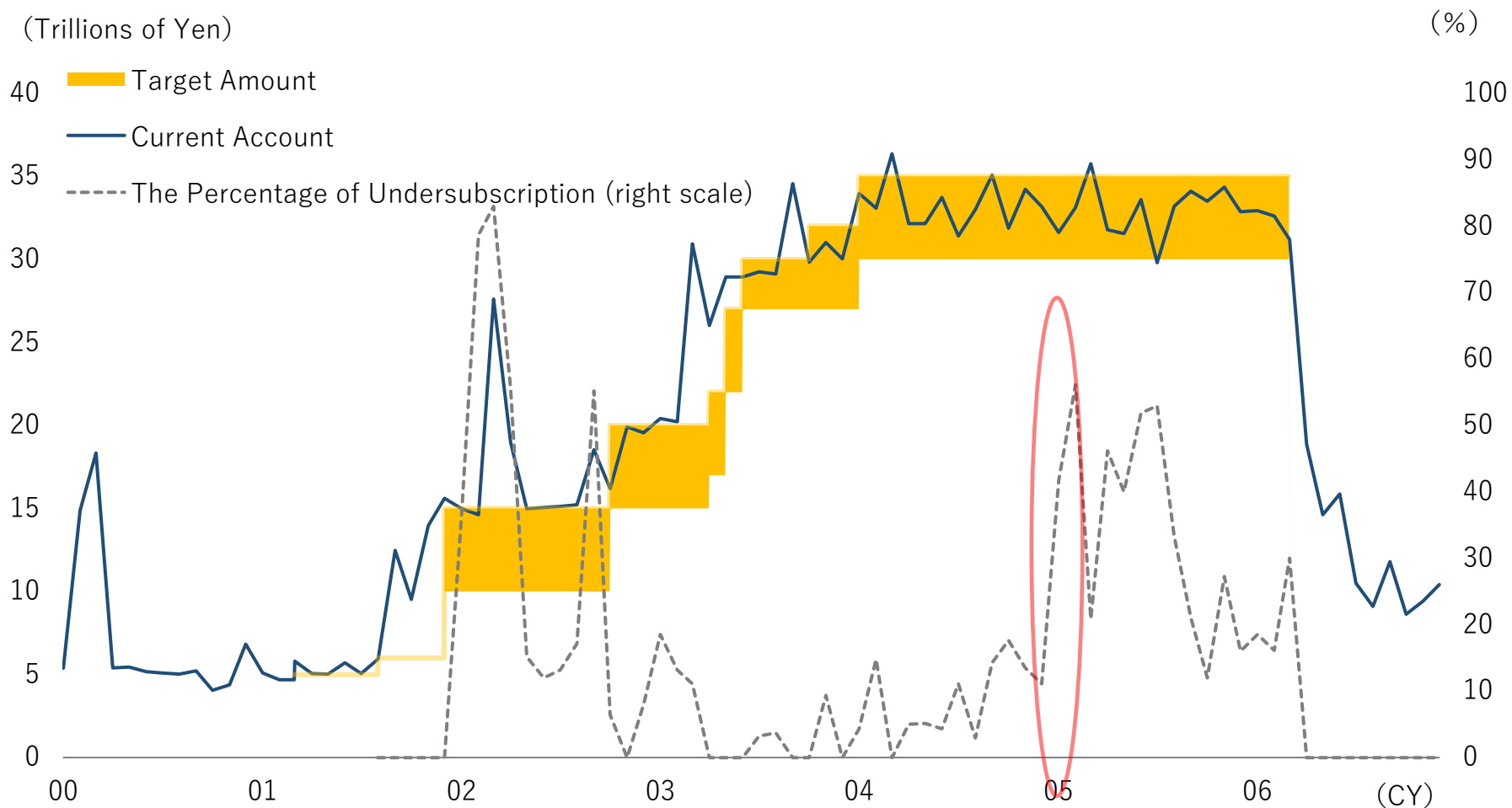
Average Amounts Outstanding in Uncollateralized Call Market



Note: There are no statistics available per term before May 2007.

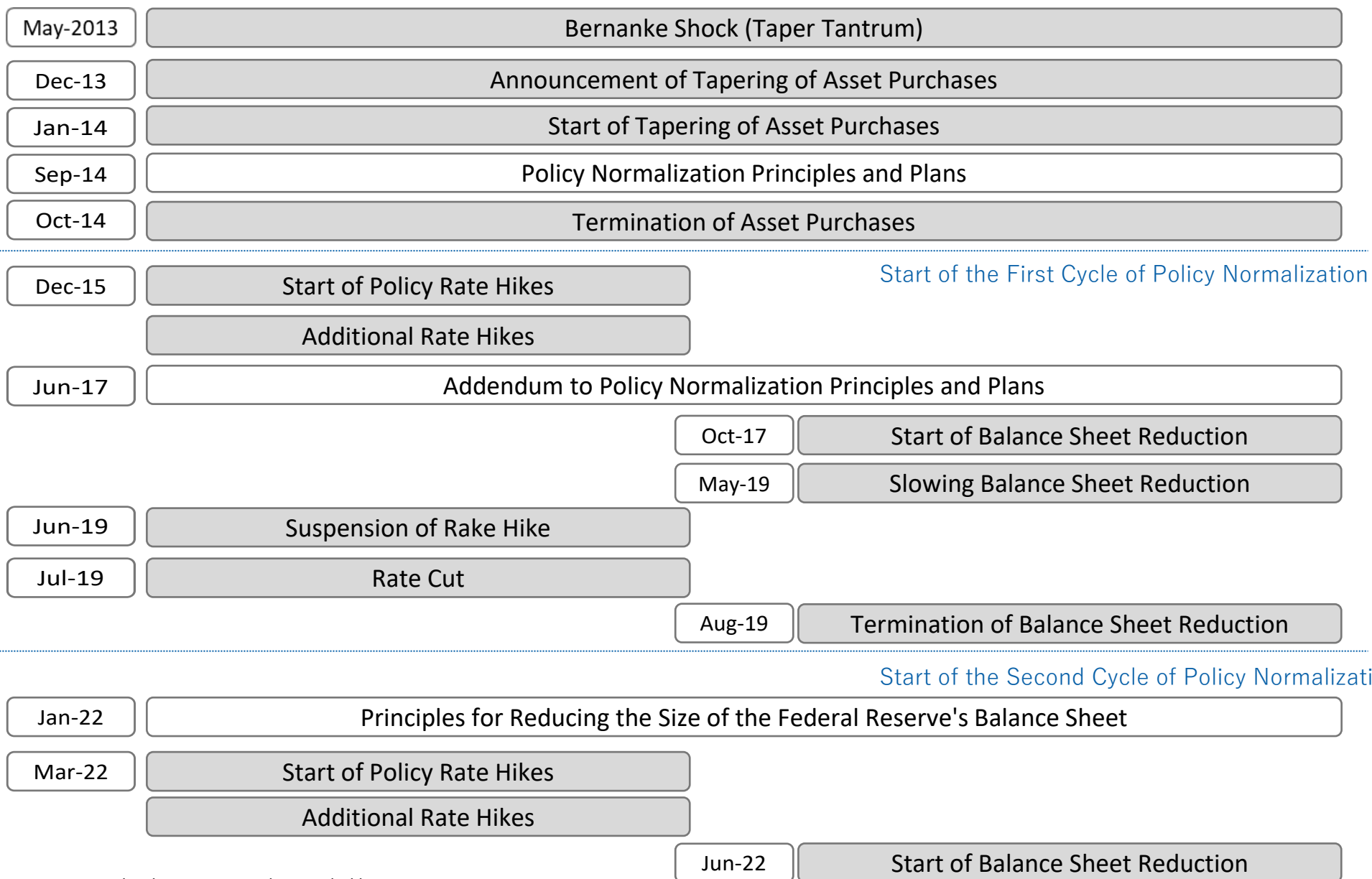
Source: Bank of Japan; compiled by DIR.

BOJ Current Account Balances and Undersubscription In Funds-supplying Auctions



Source: Bank of Japan, Tokyo Tanshi; compiled by DIR.

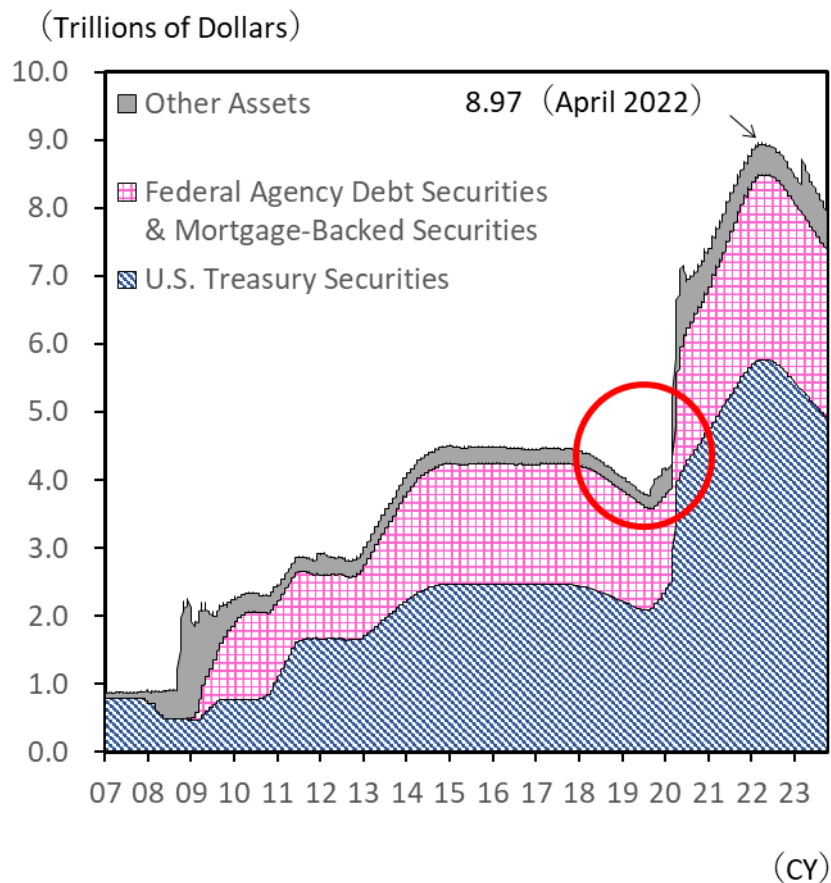
Timelines of Fed's Policy Normalization (2013-)



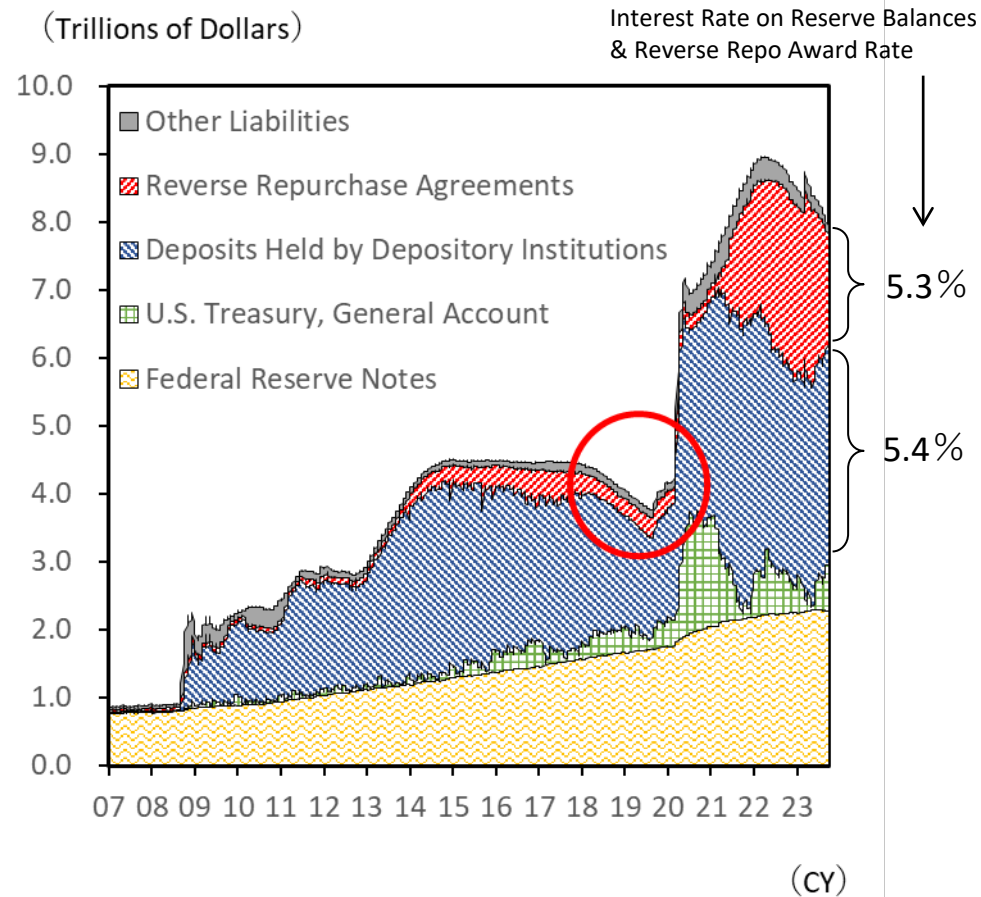
Source: Federal Reserve Board; compiled by DIR.

Federal Reserve Balance Sheet

Assets

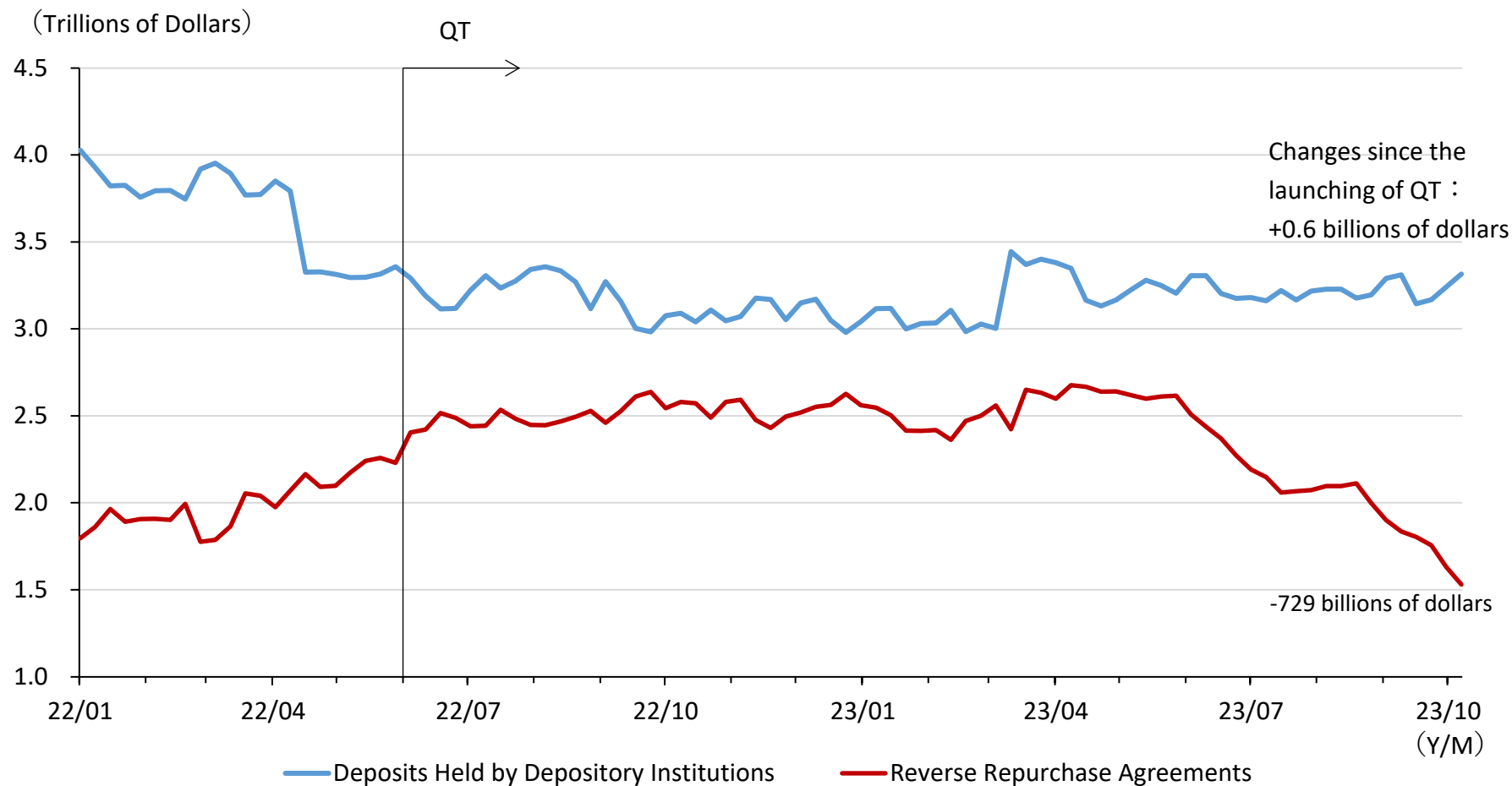


Liabilities



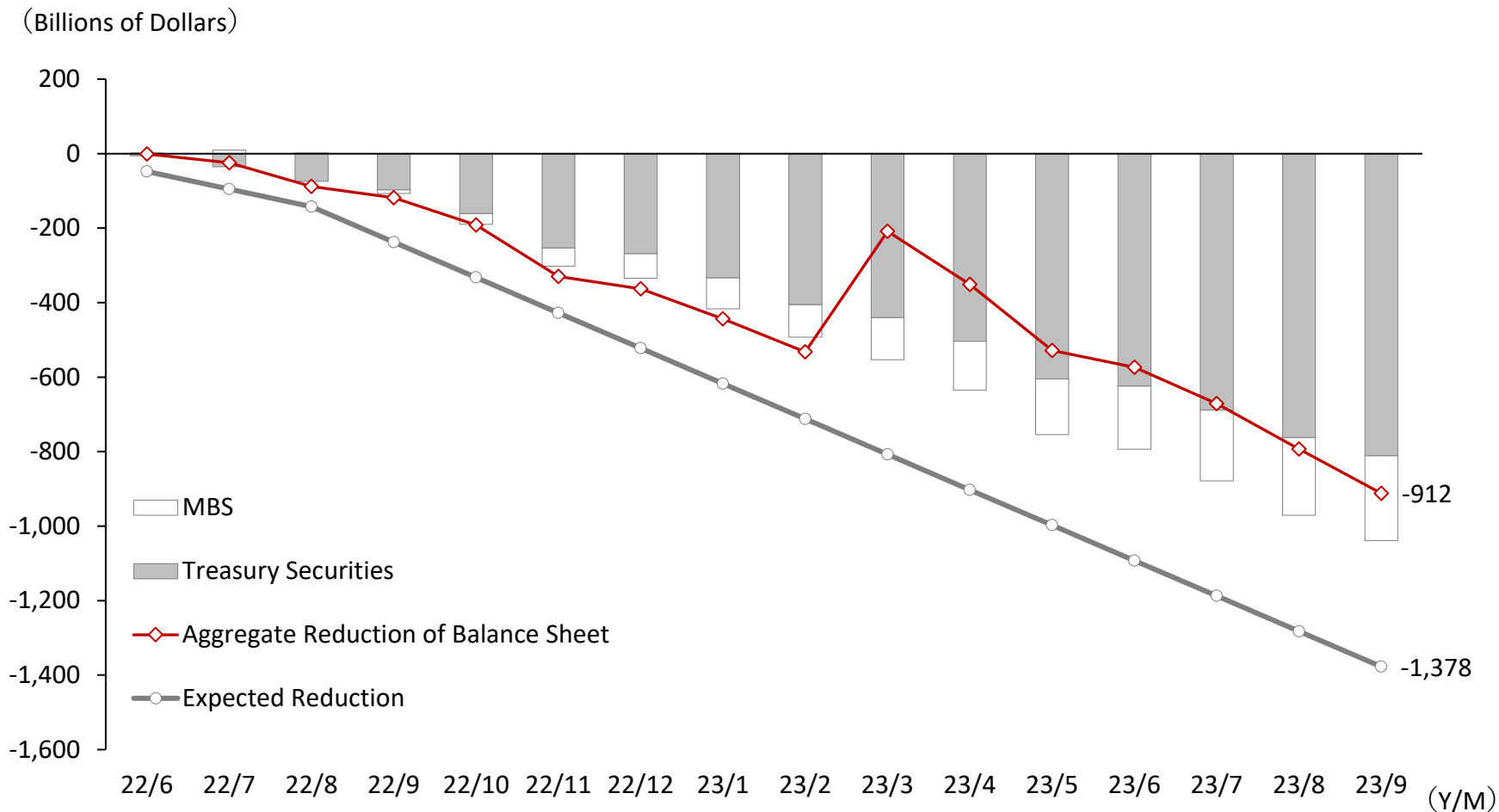
Source: Federal Reserve Board; compiled by DIR.

Deposits of Depository Institutions and Reverse Repurchase Agreements



Source: Federal Reserve Board , Haver Analytics; compiled by DIR.

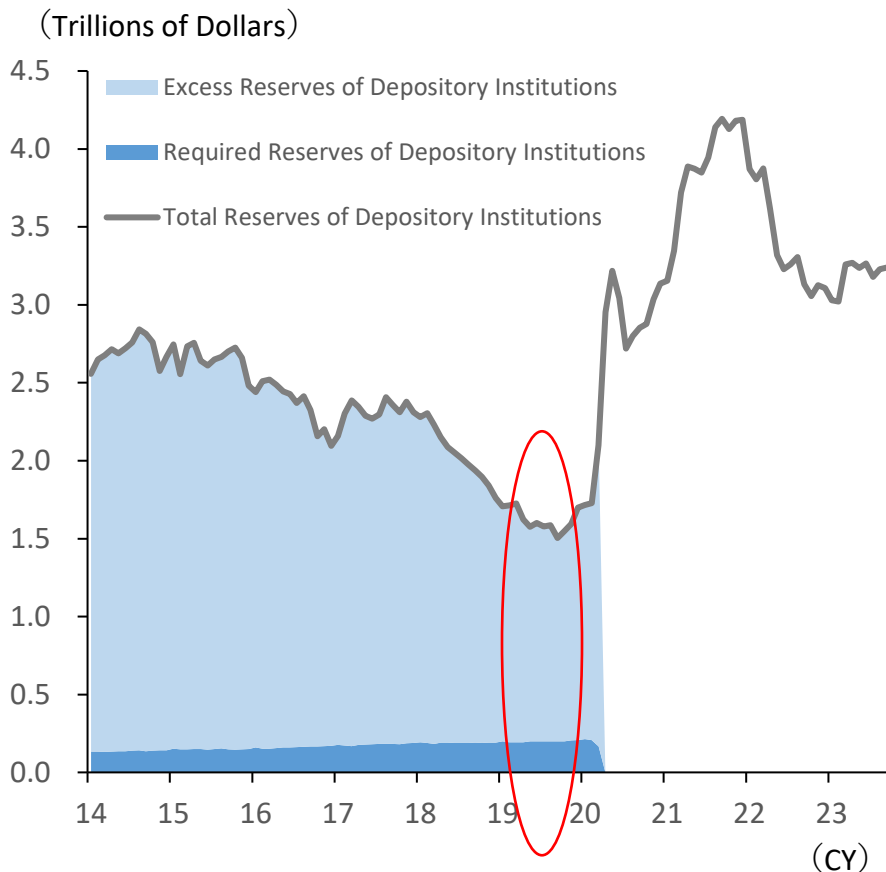
Progress of Reduction of Balance Sheet (Accumulated Total)



Source : Federal Reserve Board , Haver Analytics; compiled by DIR.

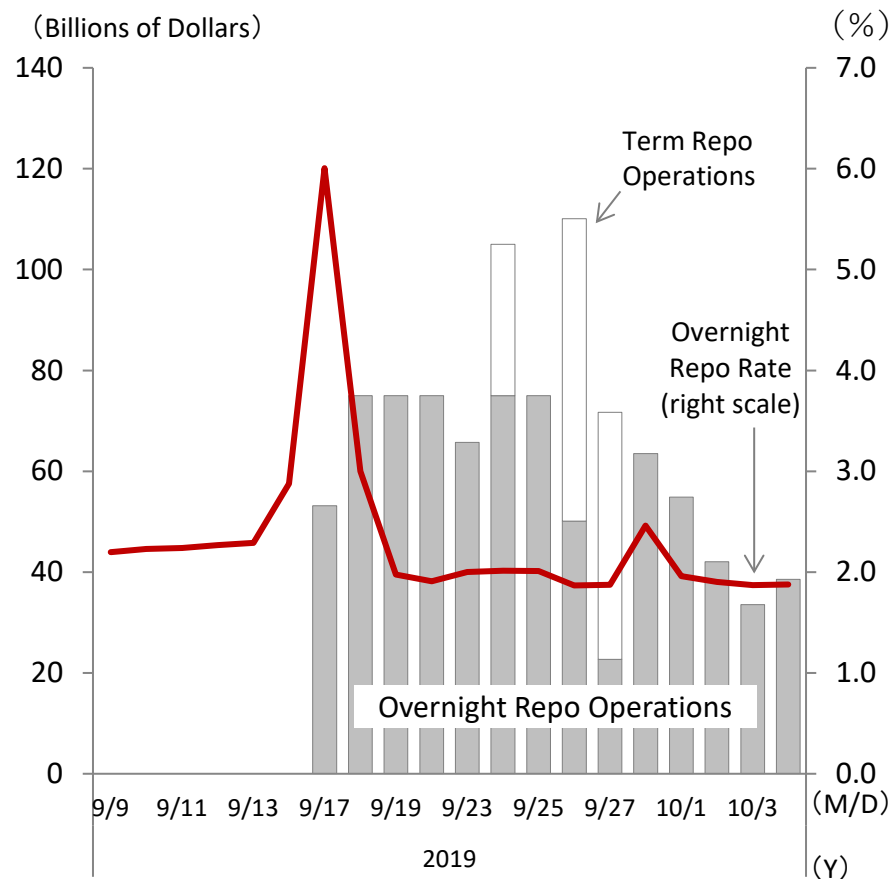
Excess Reserves of Depository Institutions and Repo Rate Spike in US

Total Reserves of Depository Institutions



Source: Federal Reserve Board, Haver Analytics; compiled by DIR.

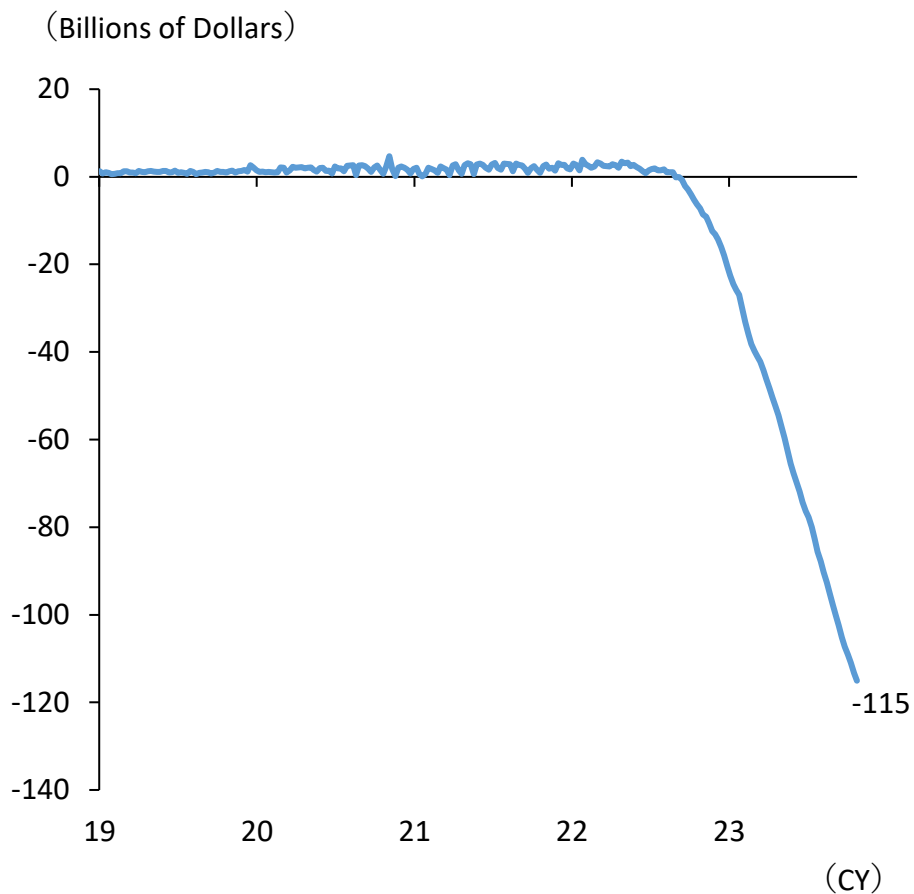
The Repo Rate Spike and NY Fed's Operations



Note: 1. Amount of repos is Total-Accept. Term repo's maturity is 10 days. Excess reserves data is the average of each week.
 2. Repo rate as of overnight Treasury GC repo transactions weighted average.

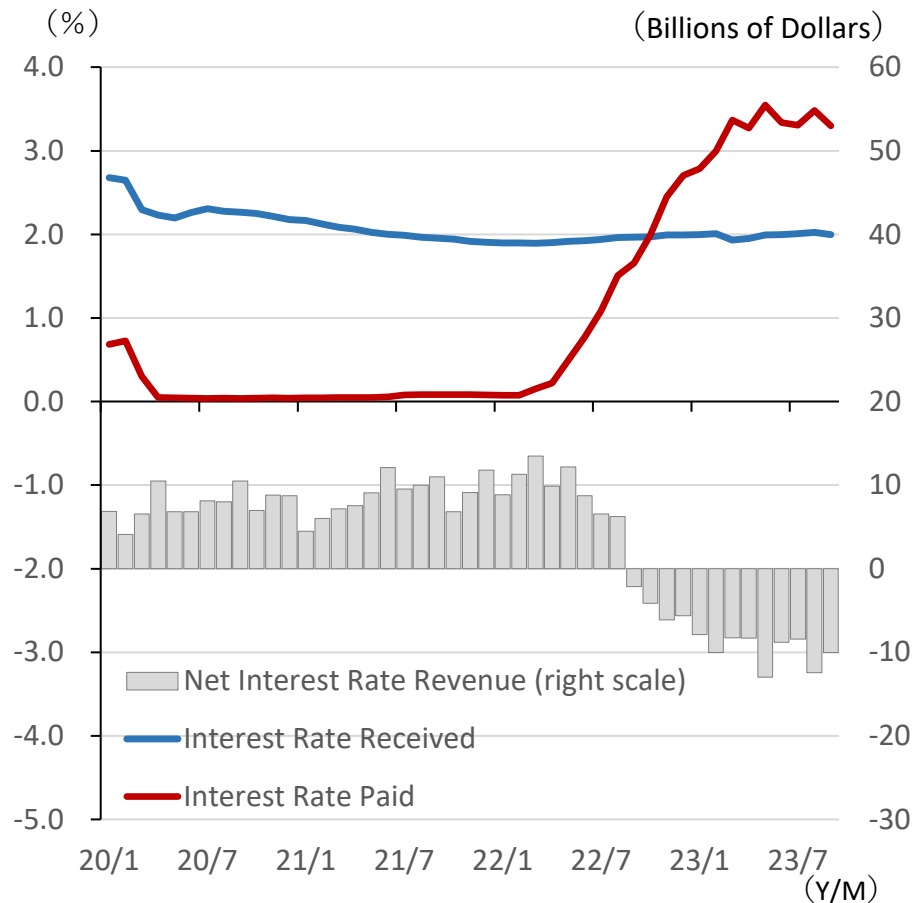
Source: NY Fed, DTCC, Haver Analytics; compiled by DIR.

Fed's Interest Rate Margin and Profitability



Note: The positive values indicate weekly earnings which are transferred from the Fed to the Treasury. The negative values indicate accrued debt. Returning to the break-even point, the Fed will restart remittance.

Source : Federal Reserve Board , Haver Analytics; compiled by DIR.

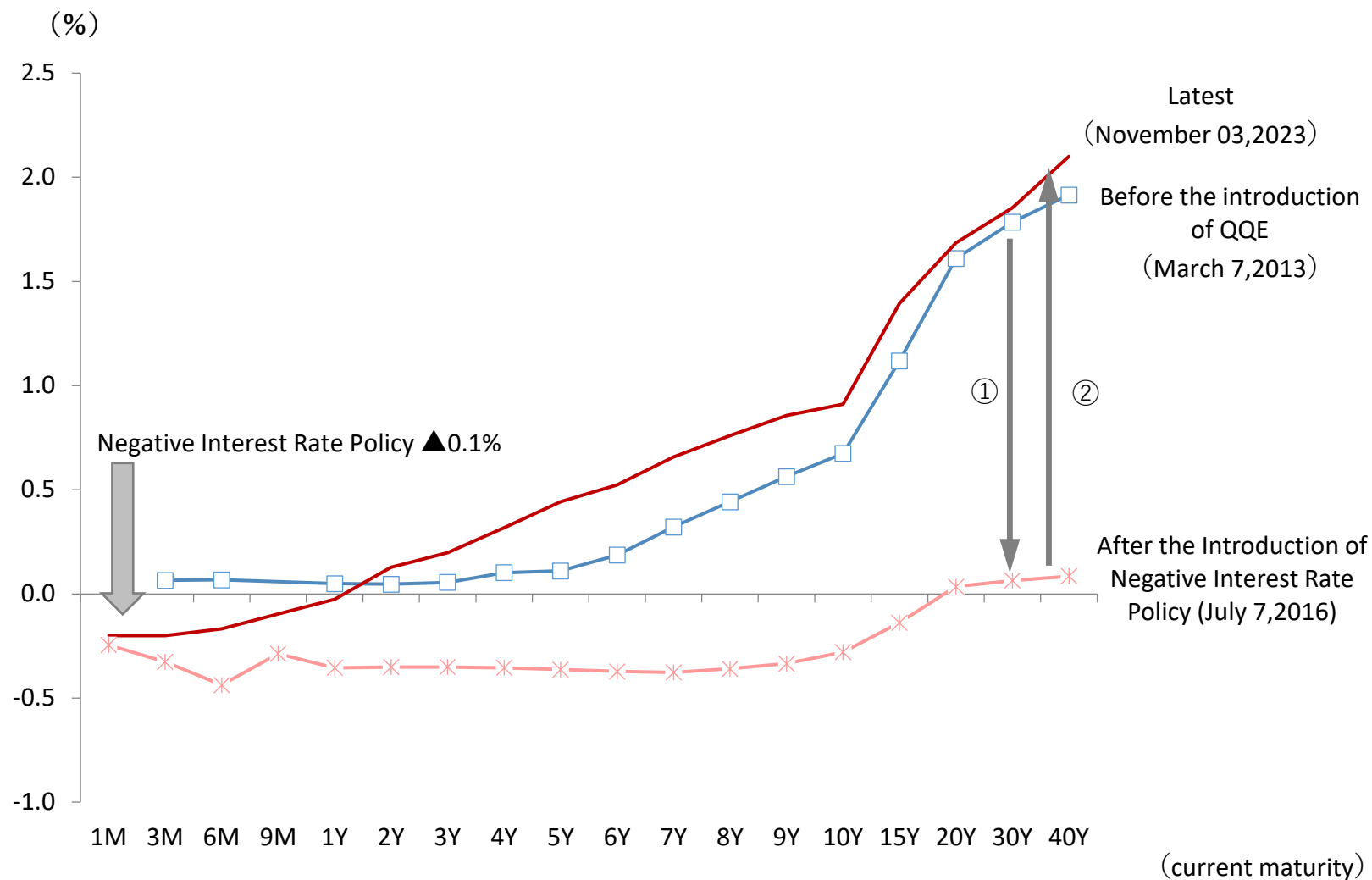


Note : Interest rate received= (Interest rate on Treasury securities, Federal agency debt securities, and MBS) ÷ total assets.

Interest rate paid=(Interest rate on deposits held by depository institutions, reverse repurchase agreements) ÷ total liabilities & total capital.

Source : Federal Reserve Board , Haver Analytics; compiled by DIR.

Change in Shape of Yield Curve (Japanese Government Bonds)

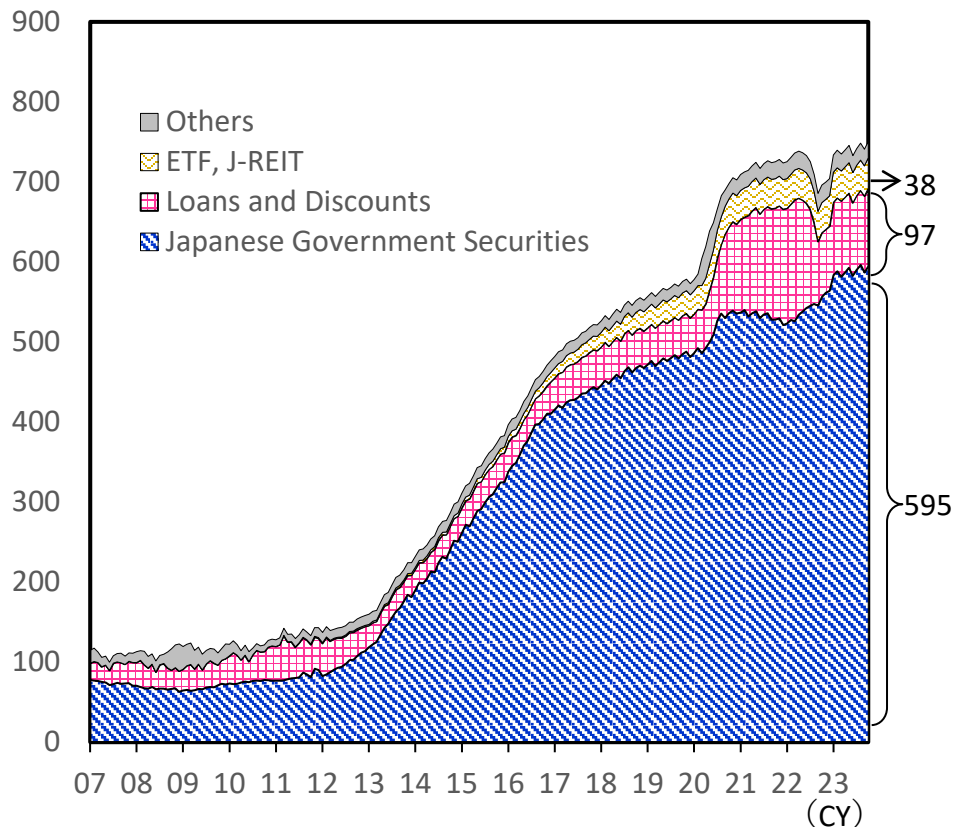


Source: Haver Analytics; compiled by DIR.

Bank of Japan's Balance Sheet

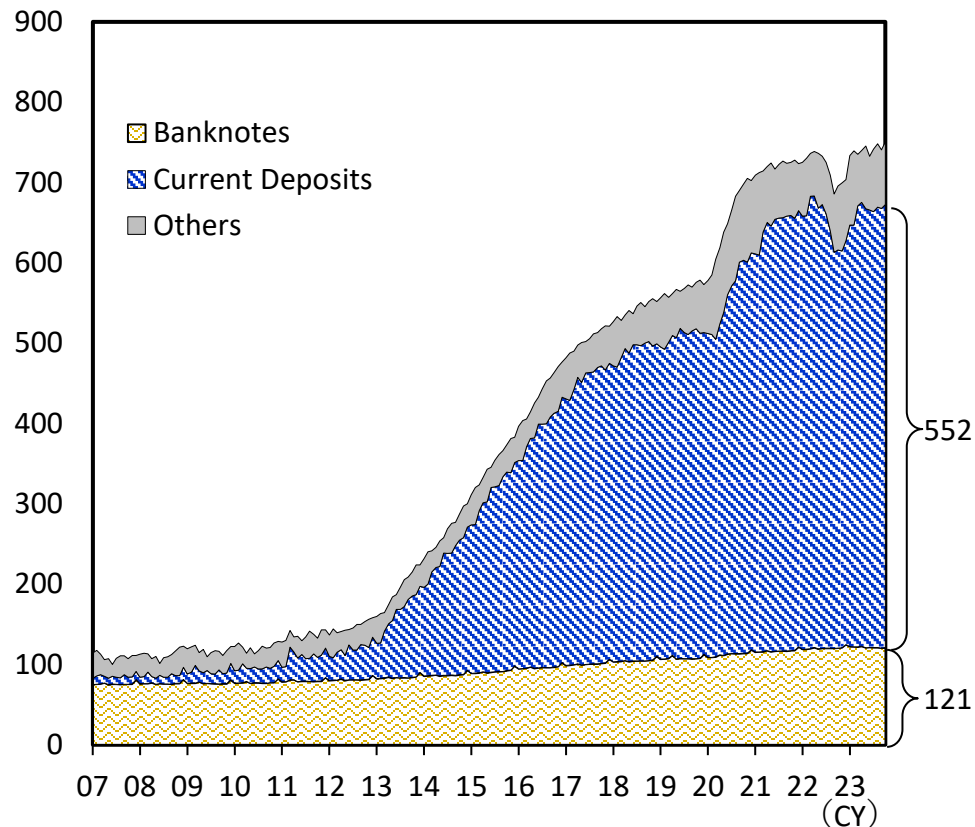
Assets

(Trillions of Yen)



Liabilities

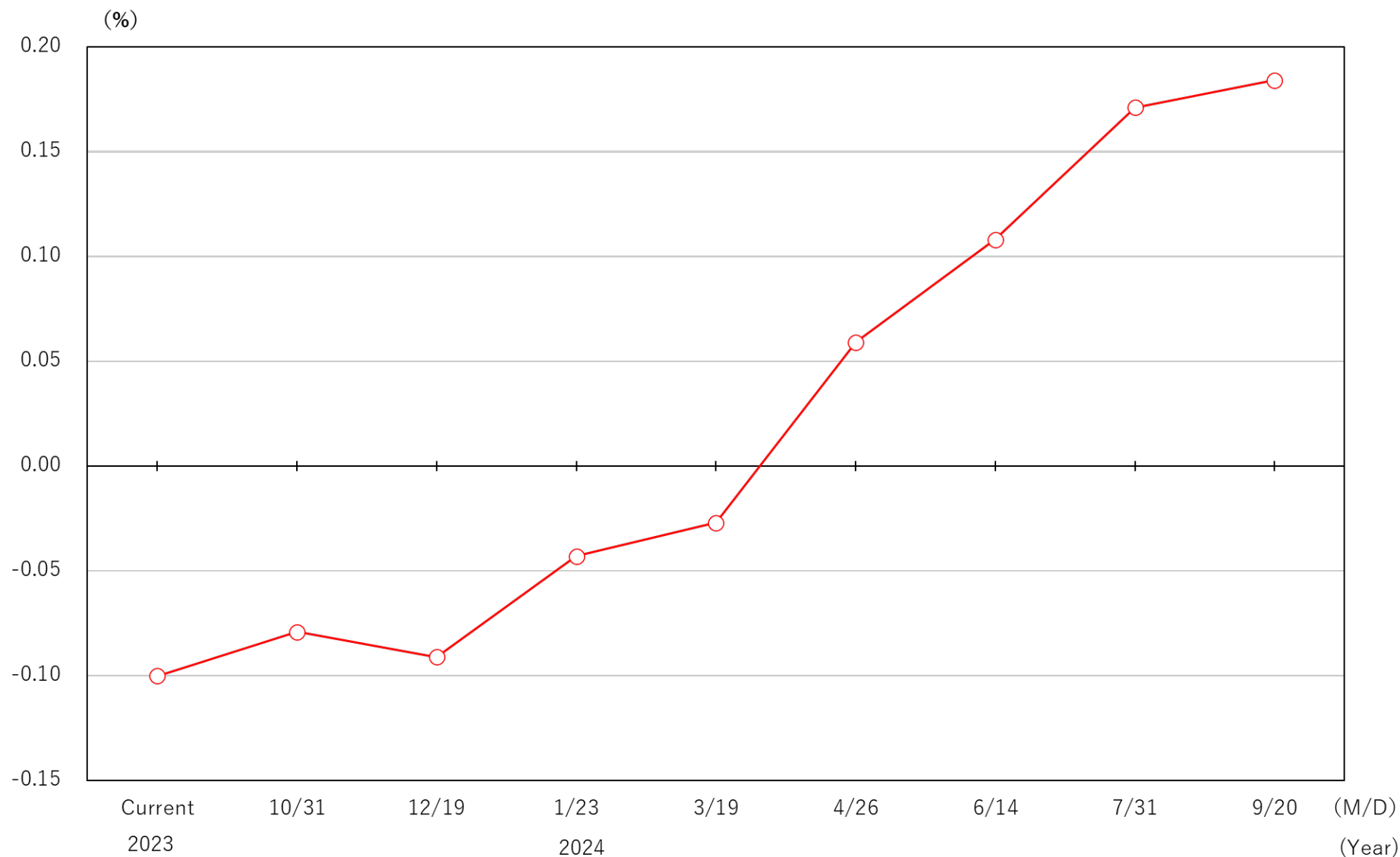
(Trillions of Yen)



Note: Most recent values from October.

Source: Bank of Japan; compiled by DIR.

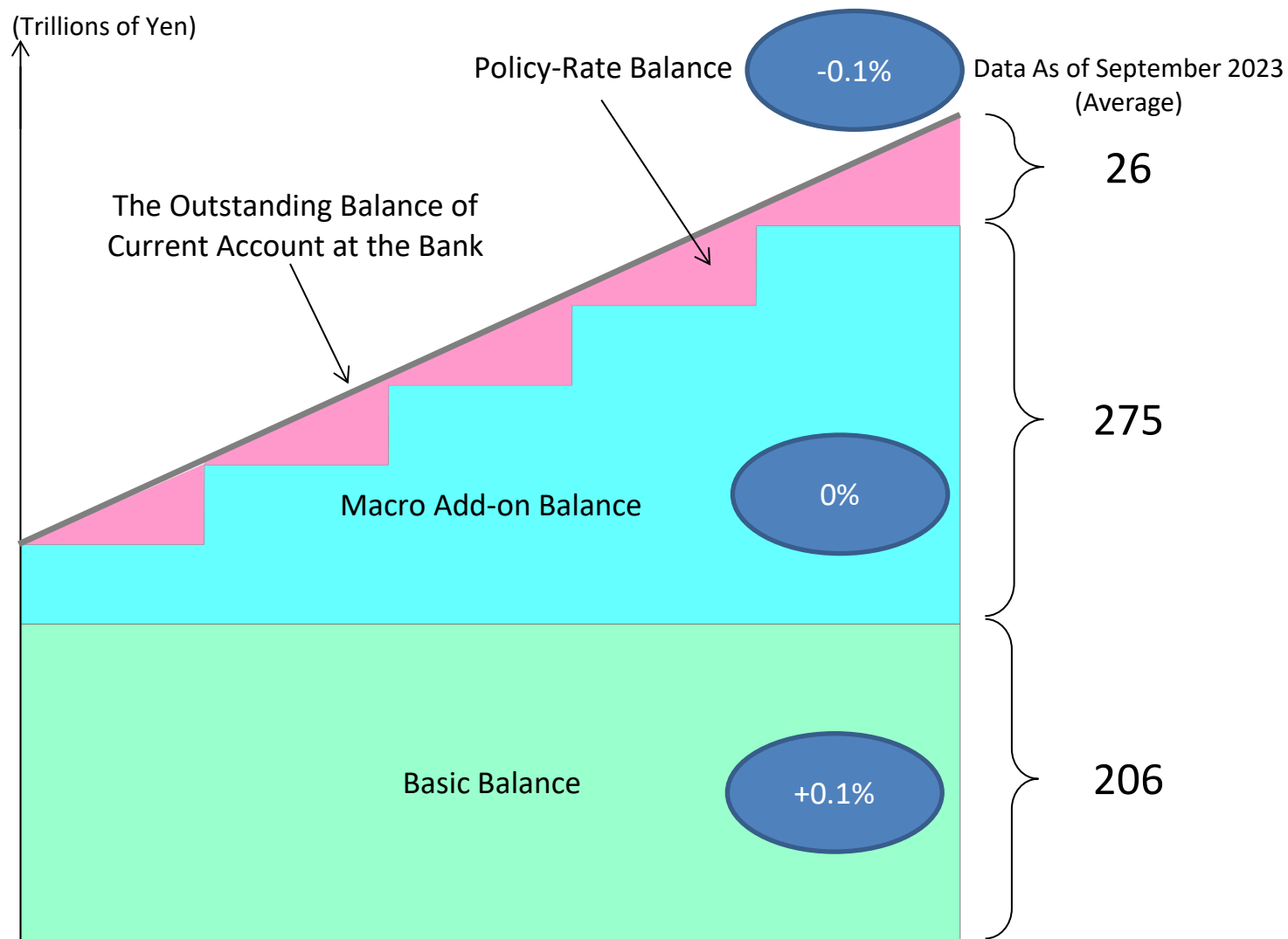
Development in Yen OIS Rate



Note: The data are as of Oct. 1, 2023. The vertical axis shows dates the monetary policy decision will be made. The data are extrapolated from overnight index swaps for uncollateralized call rate.

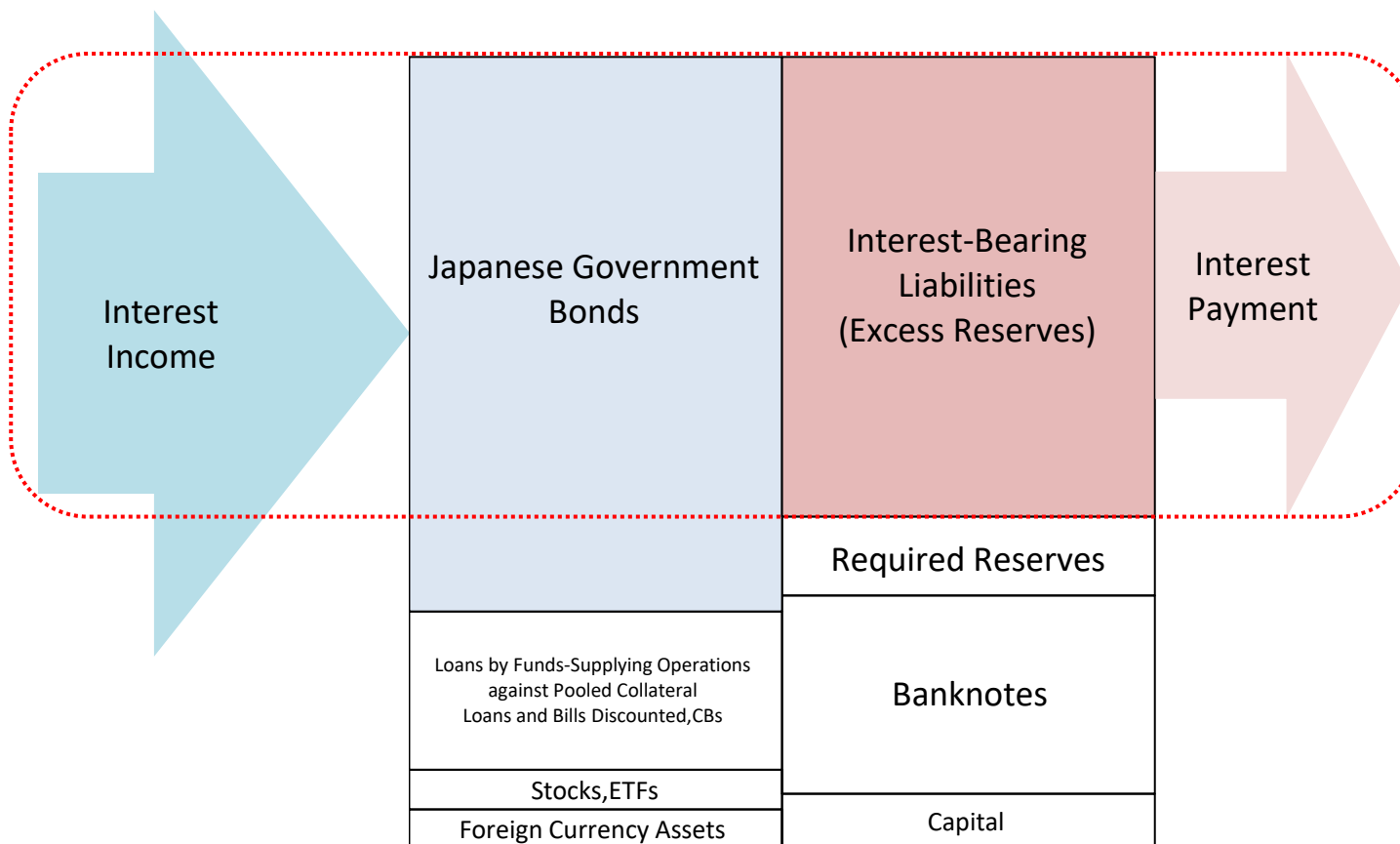
Source: Bloomberg; compiled by DIR.

Three-Tier System under the Negative Interest Rate Policy



Source: Bank of Japan; compiled by DIR.

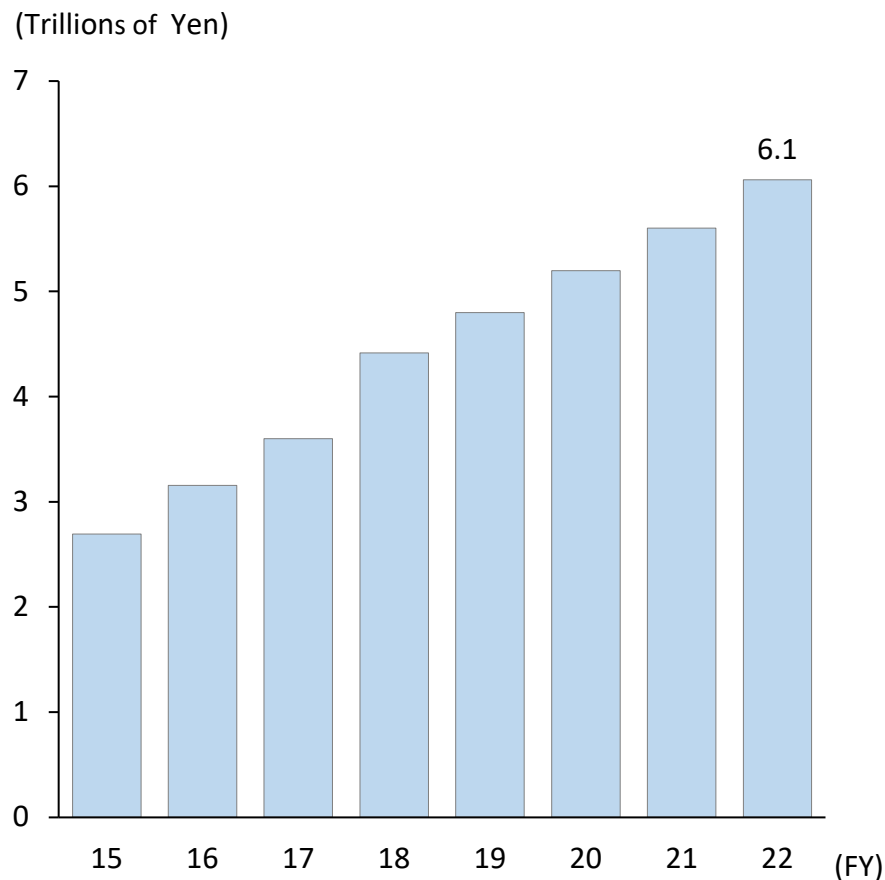
Provisions to Cover Losses on Bond Transactions (introduced in November 2015)



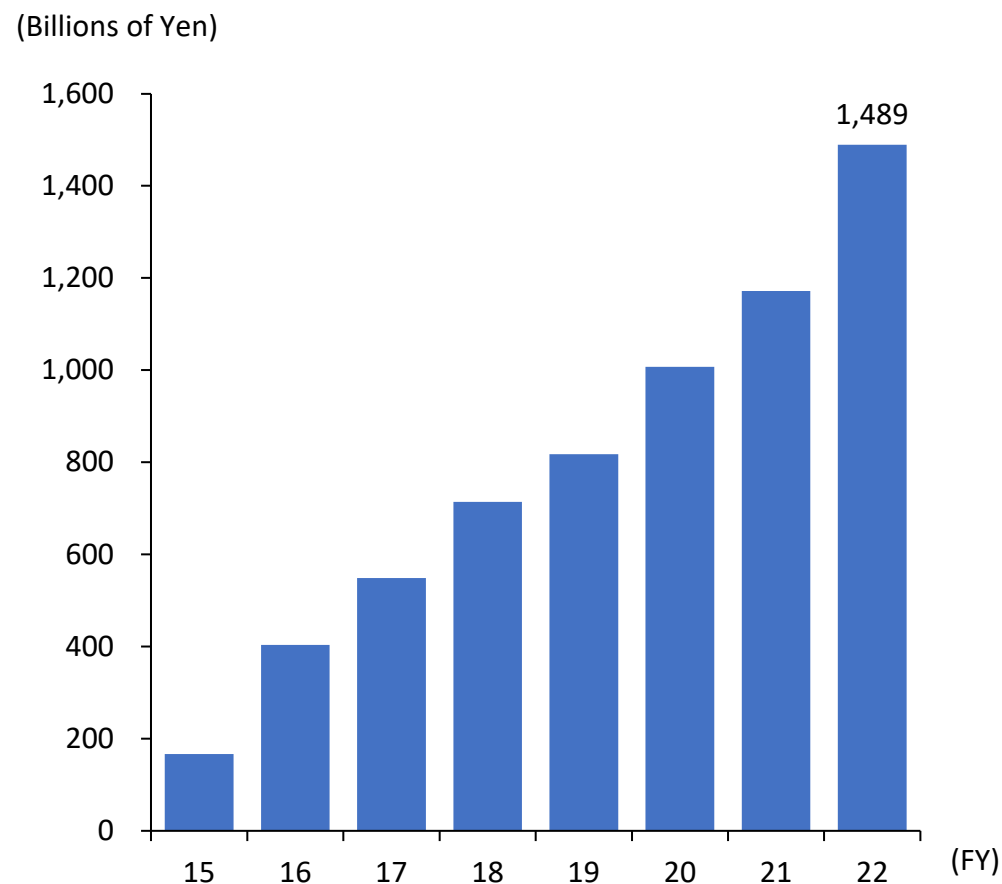
Source: Bank of Japan; compiled by DIR.

BOJ's Provision for Possible Losses on Bonds Transaction and Gains on Pecuniary Trusts

Provision for Possible Losses on Bonds (Amount)



Gains on Pecuniary Trusts (Flow)



Note: Gains on pecuniary trusts of stocks, index-linked exchange-traded funds, and Japan real estate investment trusts.

Source: Bank of Japan; compiled by DIR.

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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

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(Kin-sho) No.108

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