

# Latest 5yr JCTB auction receives warm reception despite market volatility

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Japan's 5th climate transition bond (JCTB) issue — its 7th including re-opened issuances — on 15 Jul was met with high demand (for full details please see Table 1). This new 5yr JCTB (1% 6/20/2030) received almost 4x bid/cover ratio with 5yr JGBs yields reaching highs since March.[1] Previous issues have seen an average bid/cover of 3.2 times, with the 10yr JCTB tranches being relatively less popular.

Japan issued its inaugural JCTB, the world's first, in Feb 2024,[2] and has since issued a total of JPY 3.3 trn. These JCTBs have essentially the same government backing and credit as Japan government bonds (JGBs) but adhere to a labelled format based on the Japan Climate Transition Bond framework. The GX Policy aims to transition Japan into a clean-energy economy and is the main strategy for Japan to achieve net-zero by 2050. To finance this plan, Japan intends to issue JPY 20trn of JCTBs over 10 years from FY2023.

It has been observed that JCTBs exhibit lower liquidity than equivalent JGBs, which may hinder issuance and take-up of these bonds. However, this most recent JCTB issuance has seen one of the highest subscriptions on record. This could be a reflection of current market circumstances and investor preference for the short end at this time. In this paper, we assess the performance and liquidity of the current JCTBs that are outstanding and reflect on possible approaches for JCTB issuance going forward, which could include:

- A more nimble and opportunistic approach to tap a broader investor base, for example by issuing JCTBs in a retail format, a hard currency format, or integrated issuance format.
- A larger issuance that may make the securities more attractive to all investors.

*Table 1. Japan climate transition bonds outstanding. Source: Bloomberg, accessed 16 Jul 2025.*

| ISIN | Issuer Name | Issue Date | Cpn | Amt (JPY Bn) | Maturity | Series | Crncy | Bid/ Cover | BOJ owned |
|---|---|---|---|---|---|---|---|---|---|
| JP1480011Q23 | Japan Government Ten Year Bond | 15/2/2024 | 0.7 | 799.5 | 20/12/2033 | 1 | JPY | 2.90 | 42.10% |
| JP1470011Q24 | Japan Government Five Year Bond | 28/2/2024 | 0.3 | 799.8 | 20/12/2028 | 1 | JPY | 3.39 | 40.14% |
| JP1480021Q54 | Japan Government Ten Year Bond | 29/5/2024 | 1 | 699.6 | 20/3/2034 | 2 | JPY | 3.31 | 39.57% |
| JP1470021Q71 | Japan Government Five Year Bond | 19/7/2024 | 0.5 | 699.4 | 20/6/2029 | 2 | JPY | 3.19 | 35.66% |
| JP1470031R78 | Japan Government Five Year Bond | 16/7/2025 | 1 | 299.8 | 20/6/2030 | 3 | JPY | 3.98 | NA |

[1] Bid/cover represents the ratio of the total order book compared with issued size, and is a measure of bond demand.

[2] For a complementary proposal on using linked debt, please see "Transition linkers", AFII, 18 Nov 2024.

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## JCTB trading challenges

Market participants note that JCTBs have seen limited trading after their initial issuance. This lack of liquidity can discourage further investment, since if investors are unsure of their ability to exit a position, they may choose not to invest in the first place.

Based on our conversations with market participants, factors contributing to this lack of liquidity may include:

1) Smaller JCTB issuance sizes. The average JCTB size has been JPY350-700bn, versus more than JPY 2.5trn for a regular JGB. This small size may be deterring some investors.

2) Large Bank of Japan (BOJ) holdings. The BOJ currently owns about 35-42% of the previously issued JCTBs, lowering the free float of the bonds further.

3) No bookrunner sponsorship of JCTBs compared to JGBs. However, the government appointed 12 domestic and international banks as "promoters".[3]

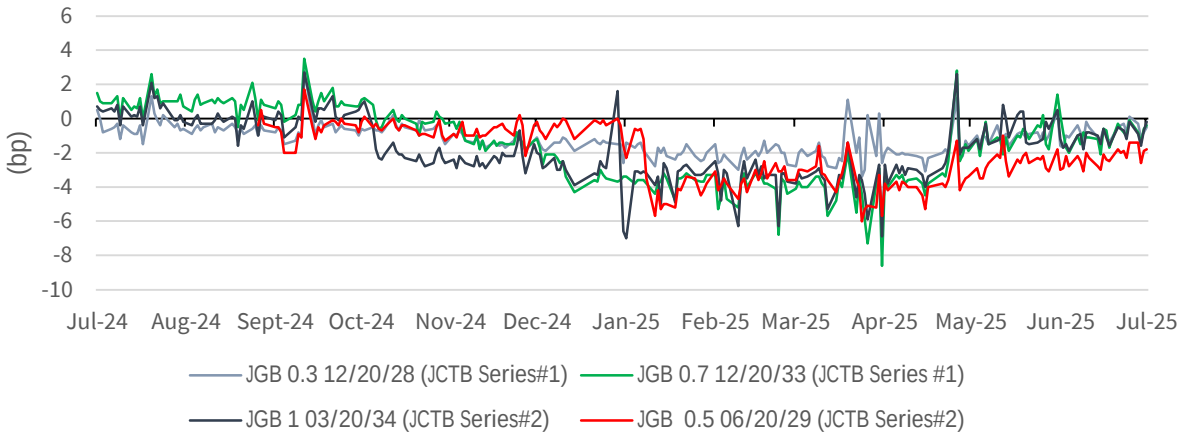
4) Securities markets participants including dealers, banks, and top players have been holding off JCTBs from entering the Subsequent Collateral Allocation repos. This could potentially impact dealers' ability to quote market prices in a transparent manner compared to regular JGBs.

5) Given the JCTBs are relatively short in maturity, demand from insurance companies to date has been limited due to investment preferences for longer duration bonds for asset-liability matching purposes.

## Market Pricing

The presence of a negative greenium of all JCTBs trading in the market, when compared to regular JGBs with similar maturities and coupons, demonstrate some sort of illiquidity 'premium' required for holding JCTBs.

*Figure 1. JCTBs Series #1-2 historical trading exhibits negative greenium compared to counterpart JGBs of the same maturity. Chart shows this yield differential for each JCTB versus its JGB counterpart. Source: Bloomberg, 17 Jul 2025.*



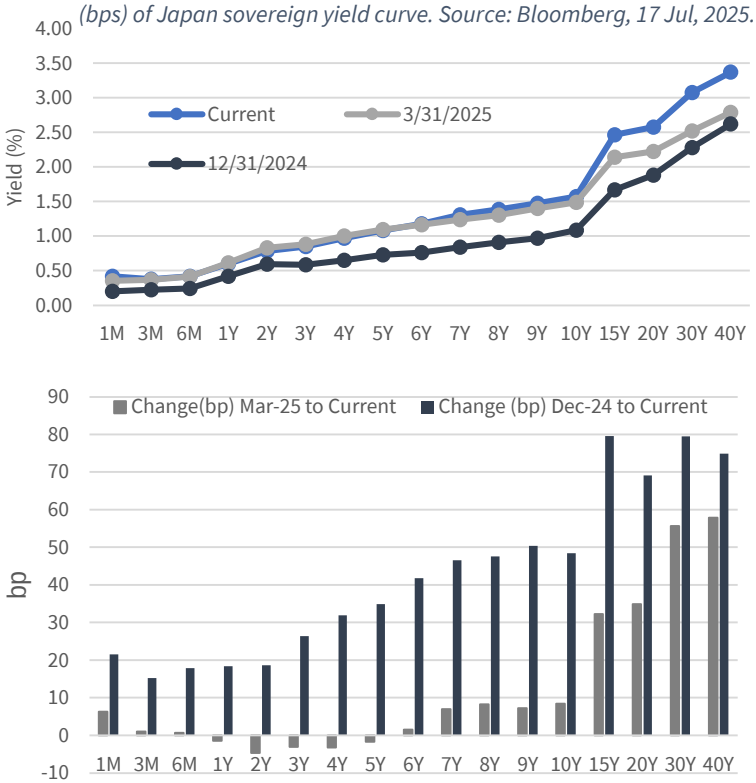

[3] "JGB/GX Promoter", Ministry of Finance Japan, 31 Jul 2024.

Figure 1 on the previous page shows the four JCTBs' yield differential against corresponding JGBs of the same maturity. These JCTBs show an average negative greenium of 1.5bps to 2.9bps since their inception, with the worse day for the JCTB 0.7% 33s registering -8.6bps back in April, at the time of a JGB sell-off. If an investor was able to purchase a JCTB on a day with the large negative greenium, that would be a very positive endeavour.

## JGB market context

Japan started its path to rate normalisation last year, but the road has been rocky. The JGB market witnessed significant volatility in Apr and May, and a violent steepening of the yield curve (10yr bonds up 9bps and 30yr bonds up 54bps since Mar 31), although the entire curve has also shifted upwards since the beginning of the year.

*Figure 2 & 3. (Top) Japan sovereign curve. (Bottom) Change in yield (bps) of Japan sovereign yield curve. Source: Bloomberg, 17 Jul, 2025.*




This Apr-May volatility at the long end was caused by a confluence of factors, including US tariff volatility, life insurance duration demand changes, and shifting investor positionings which led to a severe demand and supply imbalance. This in turn spurred larger than expected cuts in the super-long JGB issuance by the Ministry of Finance (MoF) in June. However, the reprieve on long-end JGBs was short lived. The market is now focused on Japan's fiscal sustainability and braced for potential negative ratings actions on the sovereign. While the likely outcome of the 20 Jul elections for the Upper House on July 20 is hard to call, the key risk for the JGB market is a perceived lack of fiscal restraint in face of mounting fiscal expenditures.

## JCTB opportunities

Given the ongoing volatility at the long end of the JGB market, the current focus of JCTB issuance around the 5yr and 10yr points makes sense. At present, JCTBs have only been distributed to domestic investors. But there are ways in which Japan could diversify the investor base.

One untapped market includes the retail market which has been more active recently as JGB bond yields start to rise. Households have not typically participated in the government bond market, holding only about 1.2% of total JGBs as of 31 Dec 2024.[4] However, with yields rising, the domestic retail market could be more inclined to hold JCTBs and actively participate in the country's green

[4] "Japanese Government Bonds", Ministry of Finance, Japan, Apr 2025.

transition. In addition, the illiquid nature and small size of the JCTB tranches may not be negative factors for the typical retail investor.

Given the dynamic and rapidly evolving nature of the JGB and global bond markets, there could also be merit to taking a flexible approach to issuance formats. JCTBs could be structured in new ways, for example as 'Transition linkers'.[5] To spur heightened interest from foreign investors, they could be denominated in hard currencies. The MoF has also engaged in dialogue with international investors, including central banks, during non-deal roadshows this year. Sounding out potential new investors like these for a hard currency JCTB could provide useful feedback.

Another format for JCTB issuance could be in the "integrated issuance" format, as part of conventional JGBs,[6] which would make these instruments more fungible.

## Conclusions

Japan's JCTB issuances since 2024 have been successful in harnessing capital for its GX transformation program.

However, its focus on issuing 5yr and 10yr bonds in small tranches to domestic investors has brought with it limitations, most obviously in relation to trading liquidity and the ability to access a wide variety of investors, including insurers. This suggests more capital could be raised if adjustments were made to the bonds' structures and size.

Japan's path to normalisation of interest rates has been challenging this year, with extreme volatility in the long end of the curve ongoing. The JGB market is likely to be weighed down by concerns about fiscal sustainability for the immediate future. This will make funding for the MoF more challenging, whether for its regular issuance of JGBs or for GX transformation in JCTBs.

Expanding the investor base for JCTBs to include both domestic retail investors and foreign investors could be worth exploring. Alternative formats, like retail-targeted JCTBs, hard currency JCTBs, and integrated issuance structures similar to conventional JGBs, may also be considered.

[5] "Transition linkers", AFII, 18 Nov 2024.
[6] "Japan's Spending Plan for Climate and Energy 2025", Climate Integrate, Apr 2025.

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