

Bank of Japan Monetary Policy Decision

Surprised the market by tweaking the conduct of YCC; highlights upside risks to inflation

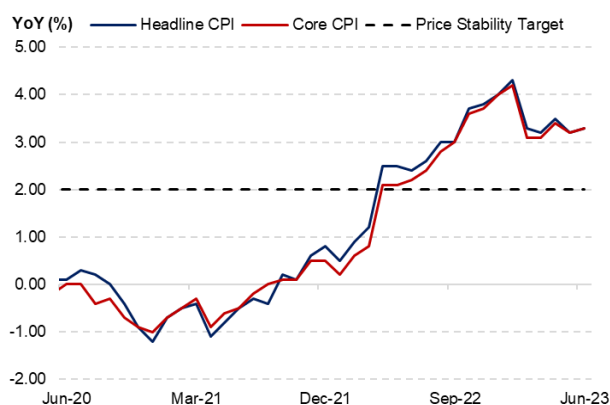
- Bank of Japan's (BoJ) Ueda first surprise move.** The BoJ kept the short-term policy rate at -0.1% and long-term interest rate target band at 0.5%. However, it shocked the market by enhancing the sustainability of monetary easing through greater flexibility in conducting Yield Curve Control (YCC).
- An 8-1 majority vote on the conduct of YCC**
 - The short-term policy interest rate:** maintained a negative interest rate of -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the bank.
 - The long-term interest rate:** to purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit to keep the 10-year JGB yields at around 0.0%.
 - To implement the above guideline for market operations, the BoJ will continue to allow 10-year JGB yields to fluctuate in the range of around +/- 0.50% from the target level, while it will **conduct YCC with greater flexibility and offer to purchase 10-year JGBs at 1.0%** every business day through fixed-rate purchase operations.
- Guidelines for asset purchases (unanimous vote)**
 - BoJ will continue to buy exchange-traded funds (upper limit: JPY12.0t) and Japan real estate investment trusts (upper limit: JPY180.0b) on annual paces of increase in their amounts outstanding.
 - BoJ will keep the outstanding amount of commercial paper at about JPY2.0t and maintain its previous purchasing rate of corporate bonds before the COVID-19 pandemic. This is to ensure that the outstanding amount of corporate bonds gradually returns to its pre-pandemic level of approximately JPY3.0t.
- The bank has revised its 2023 growth forecast downward to 1.3% YoY (previously 1.4%) while adjusting its **inflation forecasts upward to 2.5% (previously 1.8%) for headline and 3.2% (previously: 2.5%) for core**. The BoJ highlights that the growth forecast is subject to risks related to global economic activity and the situation in Ukraine, while the risks to price forecasts are contingent on firms' wage and price-setting behaviour, as well as future developments in foreign exchange rates and commodity prices.
- Despite Ueda's cautious tone, the vague tightening acts as a precursor to the withdrawal from ultra-easy policy**
 - The BoJ's loosening grip on bond yields suggests that policy normalisation is looming. However, Governor Ueda continues to argue that stable inflation with wage growth remains elusive, and economic uncertainty remains high, making further adjustments dependent on incoming data. The leading indicator for the national CPI (i.e. Tokyo inflation) ran hotter-than-expected. This, coupled with a sustained rise in Japan's wages may prompt the BoJ to tweak the YCC further this year and consider adjusting its negative interest rate in 2024.
 - USDJPY year-end forecast (122.89; 2022: 131.12): despite the lack of clarity over the BoJ's policy change, the yen is expected to benefit from the overall hawkish move by the central bank and remain supported below the 140.0/USD threshold. Looking ahead, signs of persistent demand-driven inflation in Japan, along with the ongoing disinflationary trend in the US, may bolster the yen's appreciation and push it below the 125.0 level by year-end.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.20% (+0.25%)	Euro Area	Fixed Rate	Jul-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
5.00% (+0.50%)	UK	Base Rate	Jun-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-23
3.55% (-0.10%)	China	Loan Prime Rate (1Y)	Jun-22
2.00% (+0.25%)	Thailand	Repo Rate	May-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

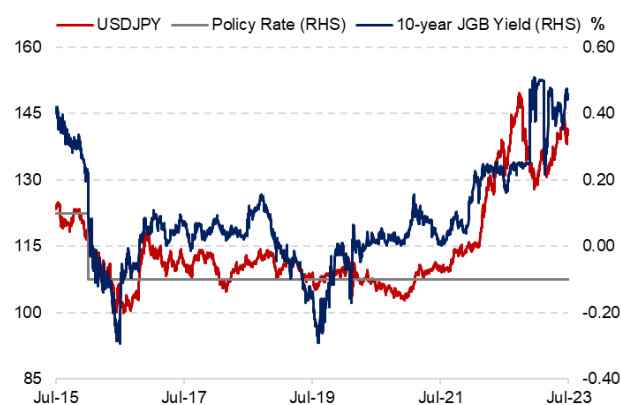
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Headline and Core Inflation Rates



Source: Bloomberg, Kenanga Research

Graph 2: USDJPY and Policy Rates (short- and long-term)



Source: Bloomberg, Kenanga Research

31 July 2023

Table 2: Bank of Japan Monetary Policy Meeting Schedule for 2023/ KIBB Outlook

No.	Date		KIBB Research Outlook	BoJ Decision
1 st	17-18 January* (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
2 nd	9-10 March (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
3 rd	27-28 April* (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
4 th	15-16 June (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
5 th	27-28 July* (Thu and Fri)	<input checked="" type="checkbox"/>	Adjustment of YCC to 0.75%	YCC with greater flexibility at 1.00%
6 th	21-22 September (Thu and Fri)	<input type="checkbox"/>	No change	
7 th	30-31 October* (Mon and Tue)	<input type="checkbox"/>	Adjustment of YCC to 1.00%	
8 th	18-19 December (Mon and Tue)	<input type="checkbox"/>	No change	

Source: Bank of Japan, Kenanga Research

*Meeting associated with The Bank's View (outlook for economic activity and prices)

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