

20 March 2024

Bank of Japan Monetary Policy Decision

Delivers its first hike since 2007 and scraps the yield curve control

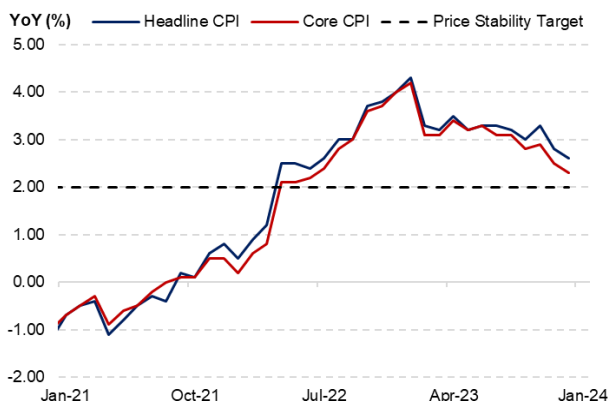
- A pivotal moment in history.** The Bank of Japan (BoJ) became the last central bank in the world to abandon the negative interest rate policy, alongside terminating its yield curve control measures. However, it maintained its bond-buying operations, provided no future guidance on further policy normalisation and pledged to maintain accommodative financial conditions.
- 7-2 majority vote on guideline for market operations**
 - The short-term policy interest rate:** transitioned towards a more conventional approach by setting the overnight call rate in a range of 0.0 – 0.1%.
 - To achieve this guideline, the BoJ will apply an interest rate of 0.1% to deposits held by financial institutions at the Bank.
 - The long-term interest rate:** the BoJ, in an 8-1 majority vote, commits to buying Japanese government bonds as necessary to prevent a rapid increase in interest rates.
- Guidelines for asset purchases (unanimous vote)**
 - Discontinuation of buying exchange-traded funds and Japan real estate investment trusts.
 - Gradual reduction of purchases of commercial paper and corporate bonds, with a plan to cease purchases within approximately one year.
- The bank judged that the **price stability target of 2.0% would be achieved in a sustainable and stable manner**, supported by **evidence of a virtuous cycle between wages and prices**. A key factor contributing to this decision was the outcome of this year's shuntō negotiations, with the first round indicating a weighted average salary increment of 5.28%, the highest in more than three decades. On the growth front, while Japan's economy is likely to continue recovering moderately for the time being, there still exist extremely high uncertainties.
- The BoJ's next move will depend on the impact of wage growth on consumers' spending**
 - Governor Ueda has reminded the market that "there is still some distance for inflation expectations to reach 2.0%," emphasising the necessity to maintain accommodative monetary conditions. The final outcome of wage negotiations, expected in April, holds significant importance as it will encompass the remaining 70.0% of jobs in Japan. If strong wage growth extends to these SMEs and results in robust and sustainable spending behaviour, then further rate hikes are likely. We reckon that evidence of increased consumption levels in the coming months could prompt the BoJ to consider two additional hikes, possibly in 2H24. However, for now, the bank may opt to maintain the status quo and closely monitor the inflation trend.
 - USDJPY year-end forecast (132.02; 2023: 141.04): As it may take some time before the BoJ implements further rate hikes, the direction of the yen will primarily be influenced by Japan's inflation data and the US Fed policy outlook. While we anticipate that Japanese investors may begin to reduce their overseas debt holdings (e.g., US Treasuries) and repatriate funds to Japan, which could strengthen the yen, we have adjusted our end-2024 target slightly higher to 132.02/USD, compared to 125.11 previously. This adjustment accounts for the BoJ's policy uncertainty, which may deter significant movements in asset reallocation. However, it's important to note that the yen is still expected to appreciate by more than 13.0% from its current level, based on our anticipation of a 100-125 basis points reduction in Fed funds rates starting from June 2024.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.00 - 0.10% (+0.10%)	Japan	Overnight Call Rate	Mar-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
6.00% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Oct-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
4.50% (+0.25%)	Euro Area	Fixed Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-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
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

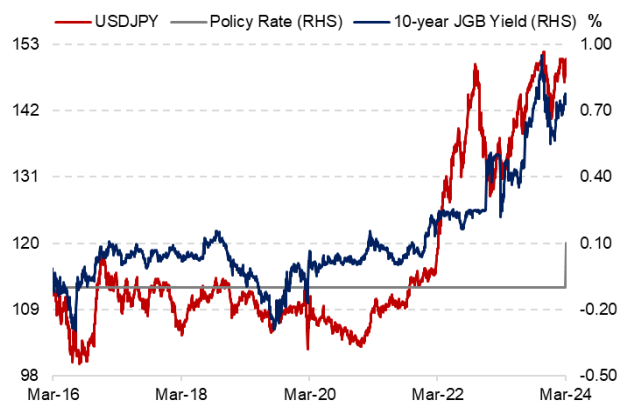
Source: Bloomberg, CEIC, Kenanga Research

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

20 March 2024

Table 2: Bank of Japan Outlook for Economic Activity and Prices (YoY %)

Forecasts made in	Real GDP		Core CPI	
	October 2023	January 2024	October 2023	January 2024
Fiscal 2023	+1.8 to +2.0 (+2.0)	+1.6 to +1.9 (+1.8)	+2.7 to +3.0 (+2.8)	+2.8 to +2.9 (+2.8)
Fiscal 2024	+0.9 to +1.4 (+1.0)	+1.0 to +1.2 (+1.2)	+2.7 to +3.1 (+2.8)	+2.2 to +2.5 (+2.4)
Fiscal 2025	+0.8 to +1.2 (+1.0)	+1.0 to +1.2 (+1.0)	+1.6 to +2.0 (+1.7)	+1.6 to +1.9 (+1.8)

Source: Bank of Japan, Kenanga Research

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates)

Table 3: Bank of Japan Monetary Policy Meeting Schedule for 2024/ KIBB Outlook

No.	Date		KIBB Research Outlook	BoJ Decision
1 st	22-23 January* (Mon and Tue)	☑	No change	No change
2 nd	18-19 March (Mon and Tue)	☑	No change	Termination of YCC and 10 bps hike
3 rd	25-26 April* (Thu and Fri)	☐	No change	
4 th	13-14 June (Thu and Fri)	☐	No change	
5 th	30-31 July* (Tue and Wed)	☐	10 bps hike	
6 th	19-20 September (Thu and Fri)	☐	No change	
7 th	30-31 October* (Wed and Thu)	☐	10 bps hike	
8 th	18-19 December (Wed and Thu)	☐	No change	

Source: Bank of Japan, Kenanga Research

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

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my