

# Bank of Japan Monetary Policy Decision

Kept current policy rate; delay bond tapering plan until July 31<sup>st</sup>

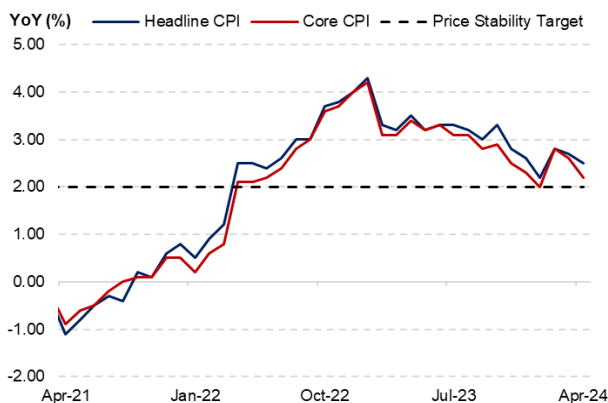
- Kept overnight call rate (OCR) unchanged and decided to delay bond tapering until end-July.** The Bank of Japan (BoJ) maintained status quo and offered few details about its bond purchase reduction, partly due to pockets of weakness in the economy and lack of evidence for demand-driven inflation.
- Unanimous vote on the short-term interest rate:** the bank maintained the OCR in a range of 0.0 – 0.1% by applying an interest rate of 0.1% to deposits held by financial institutions at the Bank.
- The long-term interest rate (8-1 majority vote):** BoJ plans to reduce its purchase of Japanese government bonds (JGB) to allow long-term rates to be determined more freely by financial markets. The Bank will gather views from market participants and decide on a detailed reduction plan at the next monetary policy meeting.
- Guidelines for asset purchases (unanimous vote):** To implement a gradual reduction in the purchase of commercial paper and corporate bonds, with the intention to halt purchases within one year.
- BoJ growth and inflation outlook:** Japan's economy is poised to grow above its potential rate, fuelled by a **virtuous cycle of income and spending** alongside **accommodative financial conditions**. Inflation is expected to rise through fiscal 2025, driven by **narrowing output gaps and increasing medium- to long-term inflation expectations**, aligning with the bank's 2.0% price stability target. However, this optimistic outlook is tempered by significant risks, including uncertainties in global economic activity, fluctuating commodity prices, and domestic wage and price-setting behaviour.
- The BoJ is on track towards normalising monetary policy and may hike again in September**
  - BoJ Governor Kazuo Ueda stated that "it is conceivable to adjust rates earlier if the price outlook is revised upward or if upside risks heighten." Consensus for Japan's May core inflation expects an acceleration to 2.6% from 2.2% in April as the country phases out utility subsidies. Although this does not signal demand-pull inflation, the impact of the largest wage hikes in three decades and rising service prices may soon push overall inflation higher, potentially compelling the BoJ to consider another rate hike in September. The BoJ may then continue to adopt a data-driven approach, possibly hiking again in December if necessary.
  - USDJPY year-end forecast (145.70; 2023: 141.04): Despite delaying the tapering of its bond purchases, Ueda mentioned that the reduction of JGB purchases will be substantial and will commence immediately following the decision at the next meeting. This, coupled with a potential rate hike in September and a possible rate cut by the Fed in the same month, could help the yen trade closer to its fair value. However, the yen may not strengthen as much as previously expected due to Japan's gloomy domestic economic outlook. Consequently, we have revised our end-2024 USD/JPY forecast to 145.70 from an earlier projection of 132.00.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.25% (-0.25%)	Euro Area	Fixed Rate	Jun-24
6.25% (+0.25%)	Indonesia	BI Rate	Apr-24
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
2.50% (+0.25%)	Thailand	Repo 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

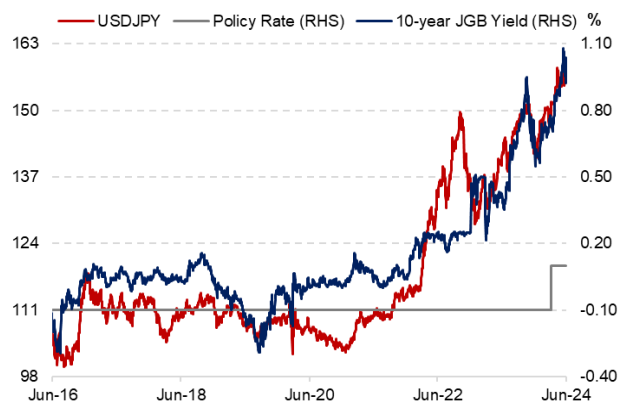
Source: Bloomberg, CEIC, Kenanga Research

**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

18 June 2024

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

Forecasts made in	Real GDP		Core CPI	
	January 2024	April 2024	January 2024	April 2024
<b>Fiscal 2023</b>	+1.6 to +1.9 (+1.8)	+1.3 to +1.4 (+1.3)	+2.8 to +2.9 (+2.8)	+2.8
<b>Fiscal 2024</b>	+1.0 to +1.2 (+1.2)	+0.7 to +1.0 (+0.8)	+2.2 to +2.5 (+2.4)	+2.6 to +3.0 (+2.8)
<b>Fiscal 2025</b>	+1.0 to +1.2 (+1.0)	+0.8 to +1.1 (+1.0)	+1.6 to +1.9 (+1.8)	+1.7 to +2.1 (+1.9)
<b>Fiscal 2026</b>	-	+0.8 to +1.0 (+1.0)	-	+1.6 to +2.0 (+1.9)

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 <sup>st</sup>	22-23 January* (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
2 <sup>nd</sup>	18-19 March (Mon and Tue)	<input checked="" type="checkbox"/>	No change	Termination of YCC and 10 bps hike
3 <sup>rd</sup>	25-26 April* (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
4 <sup>th</sup>	13-14 June (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
5 <sup>th</sup>	30-31 July* (Tue and Wed)	<input type="checkbox"/>	No change	
6 <sup>th</sup>	19-20 September (Thu and Fri)	<input type="checkbox"/>	10 bps hike	
7 <sup>th</sup>	30-31 October* (Wed and Thu)	<input type="checkbox"/>	No change	
8 <sup>th</sup>	18-19 December (Wed and Thu)	<input type="checkbox"/>	10 bps hike	

Source: Bank of Japan, Kenanga Research

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

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