

# Bank of Japan Monetary Policy Decision

Holds rate steady, signals potential for further policy normalisation

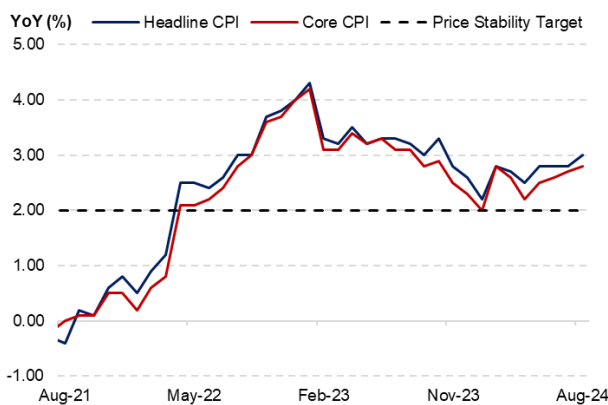
- Bank of Japan (BoJ) left its policy settings unchanged, as expected, but Governor Ueda signaled potential for further monetary policy normalisation.** This shows that BoJ is increasingly confident in achieving sustainable inflation, supported by stronger consumption trends.
- Short-term interest rate (unanimous vote):** The BoJ maintained the overnight call rate at 0.25%.
- Long-term interest rate:** The central bank is set to reduce monthly purchases of Japanese government bonds (JGB) to JPY3.0t trillion in 1Q26, down from JPY6.0t. However, it remains open to increasing JGB purchases if long-term rates rise sharply.
- Asset purchase guidelines:** To gradually reduce and ultimately halt the purchase of commercial paper and corporate bonds within one year.
- BoJ growth and inflation outlook:** The economy continues to recover at a moderate pace, aided by accommodative financial conditions. While inflation is driven by rising service prices, the impact of past import price hikes has lessened. Looking ahead, growth is expected to surpass potential levels, backed by stronger consumption and income growth, with inflation gradually aligning with the BoJ's price stability target. Importantly, exchange rate fluctuations are becoming increasingly significant, as firms adjust wages and prices, making currency movements critical for future policy decisions.
- Robust economic recovery, driven by strong consumption, supports continued policy normalisation**
  - In his post-meeting remarks, Governor Ueda indicated that future monetary policy decisions would depend on economic, price, and financial developments. He stressed the need to monitor whether wage increases become more widespread, particularly as some smaller firms continue to struggle. This suggests the BoJ is cautious about further rate hikes, opting to assess key economic data before advancing with policy normalisation. While an October move is not entirely ruled out, December seems a more likely window, especially if demand-driven inflation shows sustainability.
  - USDJPY year-end forecast (145.70; 2023: 141.04): The yen's recent appreciation has alleviated concerns over rising import costs, and we expect it to trade in the 142.0 to 146.0 range against the USD in the coming months. The Fed's ongoing easing cycle should provide additional support for yen strength. However, downside risks remain due to the BoJ's cautious stance on rate hikes and stretched long yen positions. Political and geopolitical uncertainties, particularly the upcoming US election, also add to this risk.

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

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% - 5.00% (-0.50%)	USA	Funds Rate Target	Sep-24
6.00% (-0.25%)	Indonesia	BI Rate	Sep-24
3.50% (-0.25%)	Euro Area	Key Deposit Facility Rate	Sep-24
4.25% (-0.25%)	Canada	Overnight Rate	Sep-24
5.25% (-0.25%)	New Zealand	Official Cash Rate	Aug-24
6.25% (-0.25%)	Philippines	Target Reverse Repurchase	Aug-24
0.25% (+0.15%)	Japan	Overnight Call Rate	Jul-24
5.00% (-0.25%)	UK	Base Rate	Jul-24
3.35% (-0.10%)	China	Loan Prime Rate (1Y)	Jul-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

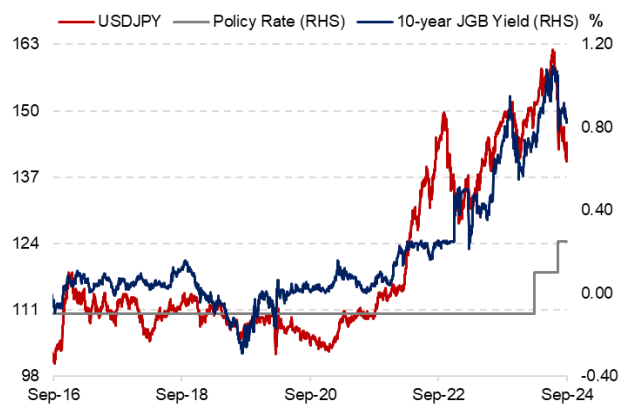
Source: Bloomberg, CEIC, Kenanga Research

**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

23 September 2024

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

Forecasts made in	Real GDP		Core CPI	
	April 2024	July 2024	April 2024	July 2024
<b>Fiscal 2024</b>	+0.7 to +1.0 (+0.8)	+0.5 to +0.7 (+0.6)	+2.6 to +3.0 (+2.8)	+2.5 to +2.6 (+2.5)
<b>Fiscal 2025</b>	+0.8 to +1.1 (+1.0)	+0.9 to +1.1 (+1.0)	+1.7 to +2.1 (+1.9)	+2.0 to +2.3 (+2.1)
<b>Fiscal 2026</b>	+0.8 to +1.0 (+1.0)	+0.8 to +1.0 (+1.0)	+1.6 to +2.0 (+1.9)	+1.8 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 checked="" type="checkbox"/>	No change	Taper bond buying and 15 bps hike
6 <sup>th</sup>	19-20 September (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
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"/>	15 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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