

Bank of Japan Monetary Policy Decision

Policy status quo maintained as BoJ waits for signs of a more sustainable demand-pull inflation

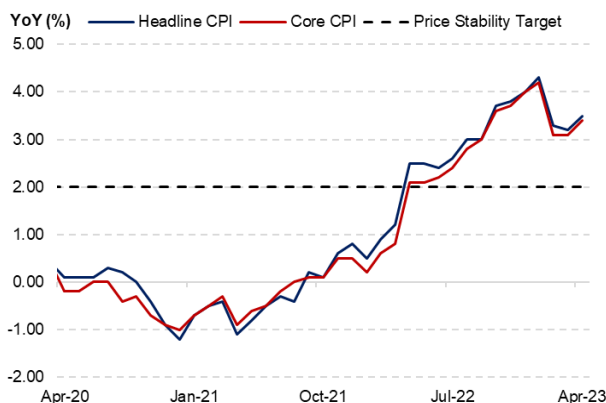
- Bank of Japan (BoJ) kept ultra-loose monetary policy settings unchanged.** The BoJ kept the short-term policy rate at -0.1%, long-term interest rate target band at 0.5%, and reiterated its readiness to take additional easing measures if necessary.
- Unanimous vote on Yield Curve Control (YCC)**
 - 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 BoJ.
 - 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 and will offer to purchase 10-year JGBs at 0.5% 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 purchase commercial paper (CP) and corporate bonds at a rate similar to that before the COVID-19 pandemic, aiming to restore their outstanding amounts to pre-pandemic levels, namely, about JPY2.0t for CP and about JPY3.0t for corporate bonds.
- The Bank anticipates a recovery in Japan's growth,** supported by the materialisation of pent-up demand, but admitted that it may face headwinds from high commodity prices and global economic slowdown. Meanwhile, **it expects inflation to decelerate in the middle of fiscal 2023 but may re-accelerate moderately** amid an improvement in the output gap, and rising inflation expectations and wage growth.
- Despite BoJ's Ueda dovish tone, the bank may surprise the market by tweaking its yield curve control in July**
 - As the recent increase in inflation is still attributable to the rise in import prices rather than demand-driven factors, the BoJ still stick to its ultra-easy monetary policy to avoid any premature tightening. However, Ueda acknowledges that there are indications of changes in the corporate price-setting behaviour in the country, which could potentially lead to higher inflation than initially anticipated. Hence, we reckon that the BoJ may revise up its inflation forecast in its meeting in July and potentially expand the target band for the long-term interest rate by 25 bps to 0.75%.
 - USDJPY year-end forecast (122.89; 2022: 131.12): the yen may continue to trade under pressure near the 140.0 level in the coming weeks due to the continued monetary policy divergence between the Fed and the BoJ. However, the potential weakening of the USD amid expectations that US inflation may continue to trend lower, coupled with growing market expectations that the BoJ may revise its inflation forecast upward and tweak its policy setting in July may help the yen to recover.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.00% (+0.25%)	Euro Area	Fixed Rate	Jun-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-23
2.00% (+0.25%)	Thailand	Repo Rate	May-23
5.50% (+0.50%)	New Zealand	Official Cash Rate	May-23
4.50% (+0.25%)	UK	Base Rate	May-23
5.00% - 5.25% (+0.25%)	USA	Funds Rate Target	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
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

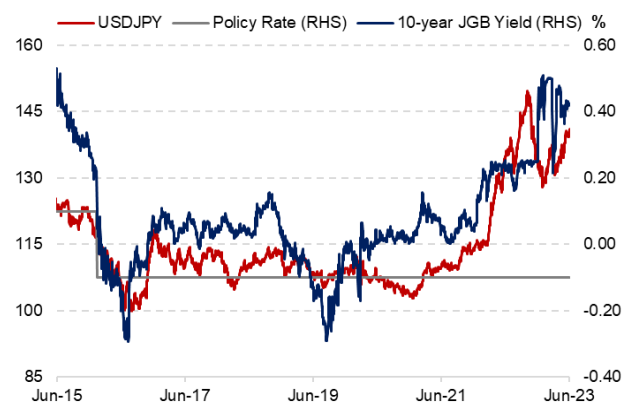
Source: Bloomberg, CEIC, Kenanga Research

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

19 June 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 type="checkbox"/>	Adjustment of YCC to 0.75%	
6 th	21-22 September (Thu and Fri)	<input type="checkbox"/>	No change	
7 th	30-31 October* (Mon and Tue)	<input type="checkbox"/>	Termination of YCC	
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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