15 June 2018
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Daiwa Securities

BOJ MPM (Jun 2018)

BOJ Watch Commentary REPE824

More emphasis on giving an honest assessment than on affecting expectations?

- Policy is unchanged, with no revision to long-term JGB purchase targets
- The downward revision to its assessment of actual inflation may signal a change in its external communication stance, but we think this would have minimal policy implications
- Board member Goushi Kataoka argued for additional easing if the Bank revised downward its assessment of inflation expectations

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Status quo maintained

At its Monetary Policy Board meeting held on June 14-15, the BOJ voted 8 to 1 to stick with its yield curve control rate targets (IOER of -0.1% and long-term yield of around 0%),[1] and voted unanimously to stick with its current policy on purchases of assets other than JGBs. It also made no change in its statement's language regarding the guideline of long-term JGB purchase amount. The Monetary Policy Board's decision to revise its inflation assessment seems to have been seen as dovish, resulting in a slight weakening of the yen at one point, but overall the market's reaction was limited.

Downward revision to its price assessment

While it generally left the economic assessment in its written statement alone, it lowered its assessment of actual inflation to "in the range of 0.5-1.0%." Although it is true that the y/y change in the April nationwide core CPI slowed to +0.7%, given that rising energy prices are expected to push it back up to around 1%, it is surprising that it felt compelled to lower its assessment. We think the policy implications from that move will be minimal, however, because it ultimately decided to keep monetary policy unchanged and stuck with its reference to "maintaining momentum toward achieving the price stability target." With it viewing the recent drop-off in the inflation rate as temporary and going no farther than revising its assessment of the current inflation rate, it will probably not be long before it revises that back upward to "around 1%."

More emphasis on giving an honest assessment than on affecting expectations?

That said, it does seem fair to say the BOJ has changed its stance on external communications. Namely, rather than persisting with bullish assessments and forecasts to work on people's expectations, it appears that it has begun putting a greater priority on giving an honest assessment of the landscape. Its decision to remove language on the timing for reaching 2% inflation (around FY2019) from the *Outlook Report* published at end-April may be another reflection of that. Having been reminded of how difficult it is to push inflation higher after more than five years of QQE, the BOJ appears to have become careful to ensure that frustration with unreasonable assessments does not lead to demands for additional policy measures.[2] For the time being, the BOJ will probably pursue its current easing policy persistently while watching closely for any evidence of side effects from sustained easing, all the while mustering expertise within the Bank in preparation for making its theoretical case.

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[1] Board member Goushi Kataoka continued to argue that "taking account of risk factors through FY2020 such as the consumption tax hike and a possible economic downturn in the United States, it was desirable to further strengthen monetary easing." Although he did not go so far as to submit his own proposal this time, he cast a dissenting vote, arguing that it was "appropriate for the Bank to purchase JGBs so that yields on JGBs with maturities of 10 years and longer would broadly be lowered further."

[2] This makes it likely that the BOJ must be more careful than before about revising its assessments, since doing so could be tied directly to its assessment of whether inflation has momentum toward reaching the 2% price stability target. In fact, Mr. Kataoka said that in order to reinforce the inflation-overshooting commitment and achieve the price stability target of 2% at the earliest possible time, if the BOJ "were to revise downward its assessment of medium- to long-term inflation expectations, it should take additional easing measures," and make that explicit in the text (up until now, he had been arguing that additional easing would be necessary "if there was a delay in the timing of achieving the (2% inflation) target due to domestic factors," but because mention of such timing was removed from the April *Outlook Report*, he probably felt compelled to change his statement).

Reference: Changes in BOJ's Assessment of Current Conditions and Outlook

	Apr.		Jun.	Chg.
Current condition				
Japan's economy	"is expanding moderately, with a virtuous cycle from income to spending operating."	⇒	**"is expanding moderately, with a virtuous cycle from income to spending operating."**	➔
Overseas economies	"have continued to grow firmly on the whole."	⇒	**"have continued to grow firmly on the whole."**	➔
Exports	"have been on an increasing trend."	⇒	**"have been on an increasing trend."**	➔
Capex	"has continued on an increasing trend with corporate profits and business sentiment maintaining their improving trend."	⇒	**"has continued on an increasing trend with corporate profits and business sentiment maintaining their improving trend."**	➔
Private consumption	"has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation."	⇒	**"has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation."**	➔
Public investment	"has been more or less flat, remaining at a relatively high level."	⇒	**"has been more or less flat, remaining at a relatively high level."**	➔
Housing investment	"has been weakening somewhat."	⇒	**"has been weakening somewhat."**	➔
Industrial production	"has been on an increasing trend."	⇒	**"has been on an increasing trend."**	➔
Labor market conditions	"have continued to tighten steadily."	⇒	**"have continued to tighten steadily."**	➔
Financial conditions	"are highly accommodative."	⇒	**"are highly accommodative."**	➔
Prices	"The year-on-year rate of change in the CPI is around 1%. Inflation expectations have been more or less unchanged."	⇒	**"The year-on-year rate of change in the CPI is in the range of 0.5-1.0%. Inflation expectations have been more or less unchanged."**	↓
Outlook				
Economy	"is likely to continue its moderate expansion."		**"is likely to continue its moderate expansion."**	➔
Prices	"The year-on-year rate of change in the CPI is likely to continue on an uptrend and increase toward 2%, mainly on the back of the improvement in the output gap and the rise in medium- to long-term inflation expectations."		**"The year-on-year rate of change in the CPI is likely to continue on an uptrend and increase toward 2%, mainly on the back of the improvement in the output gap and the rise in medium- to long-term inflation expectations."**	➔

Source: BOJ; compiled by Daiwa Securities

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2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
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■ Credit Rating Agencies

[Standard & Poor's]

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The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")
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The information is posted under "Unregistered Rating Information" (http://www.standardandpoors.co.jp/unregistered) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (http://www.standardandpoors.co.jp)

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

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[Fitch]

The Name of the Credit Rating Agencies group, etc

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May 2018

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

• In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
• For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
• There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
• There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
• Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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