

Daiwa's View

Review of process toward BOJ's "examination meeting" in Jul 2018

- Inclusion in statement significant in comparison with policy revision in Jul 2018

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Review of process toward BOJ's "examination meeting" in Jul 2018

In the statement at the 18-19 September monetary policy meeting (MPM), the BOJ stated its policy to "reexamine economic and price developments at the next MPM" (examination wording, same hereinafter in this report).

Actually, a similar "examination meeting" was conducted also last year, an MPM in July 2018 in which price developments were examined. At that meeting, the BOJ adjusted its policy by announcing "Strengthening the Framework for Continuous Powerful Monetary Easing." It would thus be beneficial to look back at processes toward the July 2018 "examination meeting" in projecting the next meeting.

◆ Statement at MPM on 19 Sep 2019

• Given that, recently, slowdowns in overseas economies have continued to be observed and their downside risks seem to be increasing, the Bank judges that it is becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target will be lost. Taking this situation into account, the Bank will reexamine economic and price developments at the next MPM, when it updates the outlook for economic activity and prices.

Soon after the release of the examination wording, market opinions were divided—some thought that it implied additional easing at the next MPM. However, at the post-meeting press conference, BOJ governor Haruhiko Kuroda explained that the wording was not something that heralded additional easing at the next meeting. Therefore, it is highly possible that the BOJ will take no action as a result of this examination. This appears to be the current predominant opinion. In other words, the examination wording is not an advance notice and it is just working to maintain easing expectations in the market.

The biggest reason behind the division/change in the market opinion/interpretation is that the latest examination wording overlapped with that in the July 2016 meeting, which was held immediately before the "Comprehensive Assessment" in September 2016. The statement in July 2016 clearly included the chairman's instructions to the staff to conduct the "Comprehensive Assessment." In September 2016, the BOJ announced a shift to "Quantitative and Qualitative Monetary Easing with Yield Curve Control (YCC)" alongside the results of Comprehensive Assessment.

◆ Statement at MPM on 29 Jul 2016

• There is considerable uncertainty over the outlook for prices against the background of uncertainties surrounding overseas economies and global financial markets. Against this backdrop, with a view to achieving the price stability target of 2 percent at the earliest possible time, the Bank will conduct a comprehensive assessment of the developments in economic activity and prices under "QQE" and "QQE with a Negative Interest Rate" as well as these policy effects at the next MPM. The Chairman instructed the staff to prepare for deliberations at the next meeting.

This time around, the BOJ used the word “examination” unlike “assessment” in 2016. Therefore, the interpretation that the BOJ does not necessarily assume a policy change appears correct¹. In particular, the framework of the YCC policy is unlikely to be changed, as Mr. Kuroda clearly stated.

◆ **Press conference by Gov. Kuroda (19 Sep 2019)**

• Regarding the framework of the monetary policy, I do think that the overall framework for the current Quantitative and Qualitative Monetary Easing with YCC needs to be changed even if we discuss additional easing.

As mentioned, the inclusion of the examination wording in the September 2019 statement reminded market participants of the process toward the Comprehensive Assessment in 2016. The next October meeting is being compared with the case in 2016. However, this similarity is preventing the market from paying attention to the “price examination meeting” in July 2018, when the BOJ conducted policy adjustments—“Strengthening the Framework for Continuous Powerful Monetary Easing.”

Specifically, forward guidance for the policy interest rate was introduced. At the same time, the BOJ admitted a wider operational range for the long-term interest rate as one measure to maintain the YCC. In thinking of the next October meeting to reexamine economic and price developments, it would be important to look back at the process in July 2018.

Unlike the latest statement, “price examination” in July 2018 was not included in the statement. It was triggered by a *Nikkei* article on 8 June 2018 (morning edition)—“BOJ to reexamine the lack of inflation and to consider downgrade to price projections at June and July meetings.” According to the article, “the BOJ will carefully examine reasons behind the lack of inflation when issuing the July *Outlook for Economic Activity and Prices* report (*Outlook report*) following discussions at the June meeting.”

As mentioned, the statement at that time did not clearly say that the BOJ would conduct an “examination,” unlike the current case. Basically, the market recognized the possibility triggered by the *Nikkei* article, followed by other media. As shown below, however, the BOJ also sent messages in the Summary of Opinions at the Monetary Policy Meeting on 14-15 June 2018. Moreover, the *Bank of Japan Review* report (released 18 Jun 2018) showed that inflation has been reined in by increasing online shopping (Amazon effect).

◆ **Summary of Opinions at Monetary Policy Meeting on 14-15 Jun 2018**

• In view of the next Outlook Report, it is necessary to thoroughly analyze once again the background to the recent weakness in wages and prices as well as its effects on inflation expectations.

In an interview in the *Asahi Shimbun* on 27 June 2018 entitled “Difficult to easily achieve 2% price target, implying policy revision in the future,” BOJ deputy governor Masayoshi Amamiya admitted the difficulty in mechanically achieving the 2% price target. He also admitted that the BOJ would reexamine price developments at the July MPM, saying that “we again examine the reasons preventing inflation. We closely monitor what is happening.”

This was an important interview as it emphasized the side effects of monetary policy and implied the policy revision in July 2018. However, this was initially played down by the market, leading to the flattening of the yield curve². However, *Jiji Press*, *Reuters*, and the *Asahi Shimbun* reported on 20 July 2018 that “the BOJ would consider measures to improve the sustainability of monetary easing by taking into consideration the side effects from prolonged easing.” As other media reports followed suit the next day, the market quickly factored in a policy revision.

This is the process toward the policy revision in July 2018. Compared to the wording in the Comprehensive Assessment in 2016, the significance of the latest examination wording is light. On the other hand, the fact that it was included in the statement is significant compared to the July 2018 price examination meeting, which conducted the policy revision.

Of course, the situation now is very different—the July 2018 price examination meeting was held amid global growth and the Fed’s normalization process, while the current market is

¹ Refer to our 20 Sep 2019 report: [Daiwa's View: BOJ to examine economic/price developments at Oct MPM.](#)

² On 14 Mar 2018, BOJ’s Monetary Affairs Department (Yosuke Okazaki, Nao Sudo) released working paper [Natural Rate of Interest in Japan—Measuring its size and identifying drivers based on a DSGE model](#), which could be used as logic for policy adjustments.

facing a global economic slowdown and monetary easing domino effect. In that sense, the BOJ is unable to formulate measures only to cope with the side effects. Meanwhile, more than a year has passed since July 2018, meaning that the cumulative impact of the side effects is increasing. The hurdle for implementation of additional easing alone is also heightening. In short, if the BOJ announces any measures, it is expected to formulate a package including both easing and measures to address the side effects.

The chart below shows important events scheduled from this week to the October MPM. In addition to these, the media and BOJ may intermittently release information, as was the case in the July 2018 price examination meeting. Based on the aforementioned recognition, we intend to closely monitor the developments over the next month.

Chart: Upcoming BOJ-related Events and Schedule for Economic Indicators

Sep-19	24	Speech by BOJ governor Haruhiko Kuroda	
	25	Minutes of Monetary Policy Meeting on 29-30 Jul	
		Speech by policy board member Takako Masai	
	26	Speech by BOJ governor Haruhiko Kuroda	
	27		Sep CPI in ward-area of Tokyo
30	Summary of Opinions at Monetary Policy Meeting on 18-19 Sep	Aug industrial production (preliminary)	
Oct-19	1	Consumption tax hike (8→10%)	Sep BOJ Tankan (summary)
	2		Sep BOJ Tankan (Inflation outlook of enterprises, comprehensive data set)
	3	Speech by policy board member Yukitoshi Funo	
	7		Aug Consumption Activity Index
	8		Sep Economy Watchers Survey
	10	Speech by BOJ deputy governor Masayoshi Amamiya	Aug machinery orders statistics
	11		BOJ Opinion Survey
	15	Opening remarks by BOJ governor Haruhiko Kuroda (branch managers meeting)	
		Regional Economic Report (Sakura report)	
	Mid-month	Financial System Report	
	18		Sep nationwide CPI
	21		Sep trade statistics (preliminary)
	29		Oct CPI in ward-area of Tokyo
30~31	BOJ Monetary Policy Meeting (Outlook Report)	Sep industrial production (preliminary, 30th)	

Source: Cabinet Office, BOJ; compiled by Daiwa Securities.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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- 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.

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