

Daiwa's View

Historic remarks at BOJ, Fed, ECB in 2019

- This year's final press conference by BOJ governor Kuroda
- Review of 2019

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Final BOJ MPM in 2019 uneventful

At the 18-19 December Monetary Policy Meeting (MPM), the final MPM in 2019, the BOJ decided to stick with the status quo by a 7-2 majority vote. As expected, the meeting was uneventful. As the central bank maintained its stance of paying close attention to downside risks on overseas economies in the near term, it is likely to persist with monetary easing in 2020 in an attempt to take a balance of policy effects and side effects.

At press conference, BOJ gov. Kuroda negative on shift of YCC target to shorter maturity

At the post-meeting regular press conference by BOJ governor Haruhiko Kuroda, he suggestively smiled twice. First, asked about the IMF's proposal of shifting the YCC target to a shorter maturity, he showed a negative opinion, saying that "I am not considering it at the moment." However, he said with a smile that "if asked 'will the BOJ never do so in the future?' we would make a decision, based on economic, price, and financial developments." If the BOJ changes the YCC target to a shorter maturity in the future, I think it would happen when the current framework is reviewed. The requirements are (1) a certain level of economic improvement, (2) the lack of deflation, and (3) the US not being in the rate cut period. In such a situation, the BOJ is expected to remove negative interest rates and adopt a shorter maturity at the same time. This will take some time to happen.

Provided glimmer of real opinion—"it is better for superlong yields to steepen a little bit more"

Second, asked about the yield curve, he also replied with a smile that "it is better for superlong yields to steepen a little bit more." This was impressive. Last week (12 Dec), asked about the fact that the 10-year JGB yield reached positive territory, BOJ deputy governor Masayoshi Amamiya replied coldly that "the move is just consistent with (or within) the current adjustment stance under the current YCC policy." In contrast to this, Mr. Kuroda's reply appears to be a considerable degree of lip service, with a glimmer of his real opinion. The basis is probably expectations for bright signs of overseas economies, although he said that downside risks would remain strong going forward. In the January 2020 *Outlook for Economic Activity and Prices* report (*Outlook Report*), which factors in the boosts by the government's economic package, forecasts for the FY19-21 GDP growth rate are likely to be lifted. If the upward revision leads to improvement in the output gap, price projections may also be raised. In addition, overseas yields have started to steepen gradually partly due to the end to preemptive rate cuts by the Fed and the removal of the negative interest rate by the Swedish central bank. Therefore, the BOJ may be assuming that JGB superlong yields will also go in that direction automatically.

Basis would be expectations for bright signs of overseas economies

In 2019, BOJ continued with powerful easing by revising forward guidance twice

We positively view avoidance of additional easing by taking advantage of BOJ language

Historic events at BOJ, Fed, ECB in 2019: Fed's preemptive rate cuts, ECB's additional easing package, and start of new board headed by Christine Lagarde

Best remarks by central bank chiefs in Japan, US, Europe in 2019

Fed chair Powell fears "Japanification"

Ex-ECB president Draghi's remark led to stream of fiscal policy

Lagarde declared aim to be "owl"

Mr. Kuroda's phrase is "without hesitation"

While gov't took action without hesitation, BOJ did hesitate

In 2019, the BOJ revised forward guidance twice (Apr, Oct) to continue with powerful easing. In July and September, it showed a stance of leaning toward additional monetary easing by adding expressions in the statement. However, at the October re-examination meeting, it just showed the method to assess the momentum by clarifying its easing bias in policy operations. Given the side effects, we positively view the fact that the BOJ avoided additional easing by taking advantage of its language. The central bank overcame the situation. The easing bias is being maintained in December, and the period of "as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost" will probably continue throughout 2020. As long as the Fed continues to suspend rate cuts, the BOJ and ECB would have some leeway. Regarding the BOJ's indirect support to fiscal policy, the central bank would only refrain from reducing JGB purchase amounts in order to rein in yield rises.

It is almost the end of 2019. Among the BOJ, Fed, and ECB, historic and important events are (1) the Fed's decision on preemptive rate cuts, (2) ECB former president Mario Draghi's decision to ram through an additional easing package in September, (3) and the start of the new board headed by Christine Lagarde from November. The BOJ also faced difficulties throughout the year as it was hard to forecast moves by the Fed. However, as there were no major policy revisions, people may forget this year as time passes. Here, I introduce my selections of the four best remarks by central bank heads.

First is a remark by Fed chair Jerome Powell in Q&A session at the 10 July congressional testimony. Citing persistently low inflation in Japan, he said that "we don't want to get on that road." As low inflation is caused by many globally common factors such as the slack in the labor market and technical innovation, it is no longer a Japan-specific issue. However, the US and Europe still fear it as "Japanification." Even nations that had achieved the 2% inflation target in the past do not appear to have admitted the limitations of monetary policy or the root of the problem that inflation does not easily rise to 2%. If so, the US only has to show upward inflation trends from next spring via the easing effects.

Next is a remark by former ECB president Mario Draghi. At a press conference after ramming through additional easing at the Governing Council meeting on 12 September, he strongly stated that "fiscal policy should become the main instrument." It appears that the strong message has been recently received by the Japanese government, instead of the eurozone and Germany. This will likely remain as important words of wisdom, which led to a stream toward fiscal policy. At her first press conference (12 Dec) since becoming president of the ECB, successor Christine Lagarde said "I am neither a dove nor a hawk. My ambition is to be this owl that is often associated with a little bit of wisdom." This is an impressive remark at her debut meeting. I also strongly hope to become an owl.

The last is a remark by BOJ governor Haruhiko Kuroda. Thus far, he has reiterated the phrase of "without hesitation," not just in this year. The July 2019 statement clearly said that "the Bank will not hesitate to take additional easing measures." People may think that Mr. Kuroda's pet phrase is "without hesitation." However, what actually took action without hesitation was the government, which decided on fiscal spending, while the BOJ did hesitate. That said, if the government and BOJ work as a team toward next year's Tokyo Olympic Games, the Year of the Rat could be prosperous in line with the proverb for the stock market. Best wishes for the coming year.

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