

Bank of Japan Monetary Policy Decision

No surprise in policy rates, but highlight rising inflation expectations

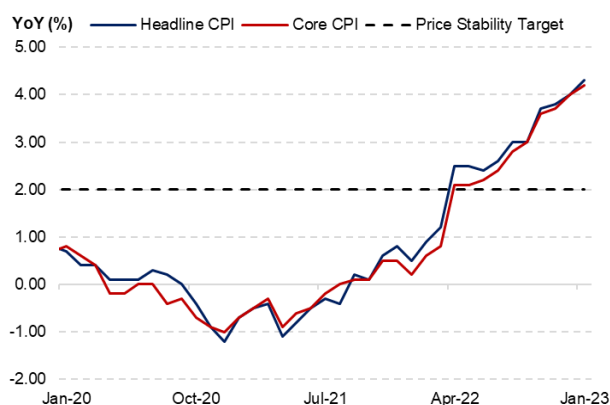
- Policy status quo maintained.** The Bank of Japan (BoJ) maintained the short-term policy rate at -0.1%, long-term interest rate target band at 0.5%, and reaffirmed its commitment to take additional easing measures if required. The BoJ also expects short- and long-term policy interest rates to remain at their present or lower levels.
- 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 (ETFs) and Japan real estate investment trusts (J-REITs) on annual paces of increase in their amounts outstanding. The upper limit for ETFs is about JPY12.0t, while that for J-REITs is about JPY180.0b.
 - BoJ will purchase commercial paper (CP) and corporate bonds at a rate similar to that before the COVID-19 outbreak, 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**, 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.
- Incoming BoJ governor, Kazuo Ueda may take a wait-and-see approach on negative rates until demand-driven inflation materialised**
 - We expect Ueda to maintain the ultra-dovish stance of his predecessor, Kuroda, at the upcoming BoJ policy meeting and is likely to keep a close eye on inflation expectations and wage growth before making any significant policy adjustments. If clear signs of demand-pull inflation emerge, we reckon that Ueda may adjust his views and potentially end the YCC and negative interest rate policy as early as 2H23.
 - USDJPY year-end forecast (117.04; 2022: 131.12): the yen may continue to face depreciatory pressure and trade above the 135.0 level in the next few weeks as the Fed is likely to continue hiking rates and maintain its "higher-for-longer" stance. However, any indications of persistent inflationary pressure, especially on the demand side, may benefit the yen, as it may signal the end of Japan's ultra-loose monetary policy.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% (+0.50%)	New Zealand	Official Cash Rate	Feb-23
6.00% (+0.50%)	Philippines	Overnight Reverse Repurchase	Feb-23
3.35% (+0.25%)	Australia	Cash Rate	Feb-23
4.00% (+0.50%)	UK	Base Rate	Feb-23
4.50% - 4.75% (+0.25%)	USA	Funds Rate Target	Feb-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
1.50% (+0.25%)	Thailand	Repo Rate	Jan-23
2.50% (+0.50%)	Euro Area	Fixed Rate	Dec-22
1.75% (+0.125%)	Taiwan	Discount Rate	Dec-22
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

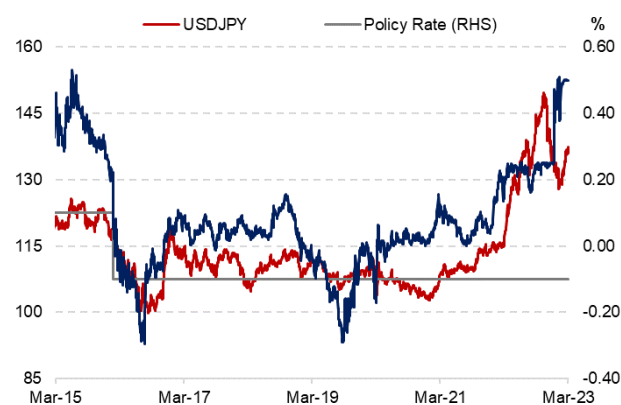
Source: Bloomberg, CEIC, Kenanga Research

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

13 March 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 type="checkbox"/>	No change	
4 th	15-16 June (Thu and Fri)	<input type="checkbox"/>	No change	
5 th	27-28 July* (Thu and Fri)	<input type="checkbox"/>	50% probability of 20 bps hike	
6 th	21-22 September (Thu and Fri)	<input type="checkbox"/>	No change	
7 th	30-31 October* (Mon and Tue)	<input type="checkbox"/>	No change	
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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