

Bank of Japan Monetary Policy Decision

Kept powder dry on interest rate but raised its inflation forecasts

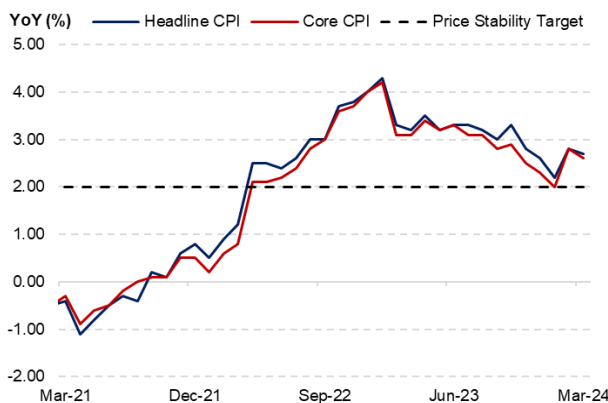
- Status quo as expected.** The Bank of Japan (BoJ) kept its interest rate unchanged and continues to hold off on any further increases to its overnight call rate (OCR) owing to significant uncertainties surrounding firms' wage- and price-setting behavior. It is notable that while the Bank raised its 2024 inflation target, it concurrently downgraded its GDP growth forecast.
- Unanimous vote on guideline for market operations**
 - The short-term policy interest rate:** the bank maintained the OCR in a range of 0.0 – 0.1%.
 - To achieve this guideline, the BoJ will apply an interest rate of 0.1% to deposits held by financial institutions at the Bank.
 - The long-term interest rate:** the BoJ continues to commit to purchasing Japanese government bonds as necessary to prevent a rapid increase in interest rates.
- Guidelines for asset purchases (unanimous vote)**
 - Implement a gradual reduction in the purchase of commercial paper and corporate bonds, with the intention to halt purchases within one year.
- Inflation is forecasted to remain elevated and hover near the 2.0% target until 2026, while GDP is expected to grow moderately.** The bank has upwardly revised its **2024 inflation forecast to 2.8% YoY (previously 2.4%)**, attributing this adjustment to the recent surge in crude oil prices and the diminishing impact of government economic measures. Consequently, inflation is anticipated to gradually converge towards the Bank's 2.0% target, with **forecasts for both 2025 and 2026 standing at 1.9%**, driven by ongoing improvements in the output gap and the deepening interplay between wages and prices. **GDP growth outlook for 2024 has been revised downward to 0.8% (previously 1.2%)**, primarily reflecting weaker private consumption. However, the bank's projections are subject to significant external and domestic uncertainties, particularly pertaining to geopolitics, wages, and foreign exchange dynamics.
- The BoJ to monitor the impact of yen and wage pass-through on inflation before considering further rate hikes**
 - Tokyo's recently published inflation report for April fell below expectations, with core price growth slowing to 1.6% YoY, primarily attributed to education subsidies. Although this may not be reflected in the nationwide CPI, tepid price pressures, particularly in food prices, could prompt caution from the BoJ for the time being. The BoJ will closely monitor the impact of the weak yen and wage increases on prices before considering any further adjustments to its policy rate. We expect that July could be the earliest opportunity for another BoJ rate hike, particularly if wage increases in Japan spread to smaller firms, which employ most of the Japanese workforce. Higher wages could boost spending in the coming months, giving the BoJ more reason to raise interest rates, although economic vulnerabilities may limit its ability to do so.
 - USDJPY year-end forecast (132.02; 2023: 141.04): Governor Ueda remarked that the Bank "will adjust the degree of monetary easing if the underlying inflation rate rises," affirming that "easy financial conditions will be maintained for the time being." This stance may continue to exert pressure on the yen, particularly as the US economy demonstrates strength, with September now appearing as the most likely point for a Fed rate cut. Nevertheless, potential intervention by the BoJ could help mitigate losses in the yen in the short term. We anticipate two more rate hikes by the BoJ in 2H24, which could help strengthen the undervalued yen to below 140.0/USD by year-end.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
6.25% (+0.25%)	Indonesia	BI Rate	Apr-24
0.00% - 0.10% (+0.10%)	Japan	Overnight Call Rate	Mar-24
4.35% (+0.25%)	Australia	Cash Rate	Nov-23
6.50% (+0.25%)	Philippines	Target Reverse Repurchase	Oct-23
2.50% (+0.25%)	Thailand	Repo Rate	Sep-23
4.50% (+0.25%)	Euro Area	Fixed Rate	Sep-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23

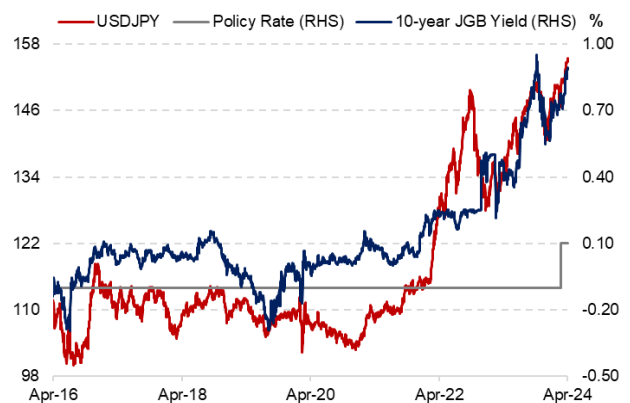
Source: Bloomberg, CEIC, Kenanga Research

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

29 April 2024

Table 2: Bank of Japan Outlook for Economic Activity and Prices (YoY %)

Forecasts made in	Real GDP		Core CPI	
	January 2024	April 2024	January 2024	April 2024
Fiscal 2023	+1.6 to +1.9 (+1.8)	+1.3 to +1.4 (+1.3)	+2.8 to +2.9 (+2.8)	+2.8
Fiscal 2024	+1.0 to +1.2 (+1.2)	+0.7 to +1.0 (+0.8)	+2.2 to +2.5 (+2.4)	+2.6 to +3.0 (+2.8)
Fiscal 2025	+1.0 to +1.2 (+1.0)	+0.8 to +1.1 (+1.0)	+1.6 to +1.9 (+1.8)	+1.7 to +2.1 (+1.9)
Fiscal 2026	-	+0.8 to +1.0 (+1.0)	-	+1.6 to +2.0 (+1.9)

Source: Bank of Japan, Kenanga Research

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates)

Table 3: Bank of Japan Monetary Policy Meeting Schedule for 2024/ KIBB Outlook

No.	Date		KIBB Research Outlook	BoJ Decision
1 st	22-23 January* (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
2 nd	18-19 March (Mon and Tue)	<input checked="" type="checkbox"/>	No change	Termination of YCC and 10 bps hike
3 rd	25-26 April* (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
4 th	13-14 June (Thu and Fri)	<input type="checkbox"/>	No change	
5 th	30-31 July* (Tue and Wed)	<input type="checkbox"/>	10 bps hike	
6 th	19-20 September (Thu and Fri)	<input type="checkbox"/>	No change	
7 th	30-31 October* (Wed and Thu)	<input type="checkbox"/>	10 bps hike	
8 th	18-19 December (Wed and Thu)	<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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