

## Japan Watch

## BoJ preview: Not there yet

## A quiet start to the year

The BoJ wraps up its first policy meeting of the year, next Tuesday 23 January. We expect a non-event, with the policy board likely to keep all key policy settings, as well as its forward guidance, unchanged. Note that all 51 analysts surveyed by Bloomberg expect the BoJ to stand pat on negative rates/yield curve control (YCC) next week (Exhibit 2).

In its latest outlook report, the BoJ is widely expected to revise down its FY24 Japan-style core inflation (CPI ex fresh food) forecast in addition to FY23 real GDP (Exhibit 1). However, the expected changes to the CPI projections are likely the result of extended government subsidies for energy (see [December CPI: Lull to continue: adjusting our forecasts](#), 9 January 2023).

As such, it should not represent a fundamental change in the BoJ's view on medium-term inflation, which is likely to remain optimistic. In line with this view, we see the board keeping unchanged its forecasts for FY24 and FY25 ex-energy inflation at around 2% (Oct=1.9%).

Finally, the BoJ may announce the launch of a new funds-supplying operation to support financial institutions in disaster areas of the 1 January Noto Peninsula earthquake. However, the operation is likely to be limited in size and is unlikely to have an impact on markets (see further discussion in rates strategy section below).

## Jan BoJ Branch Managers Mtg not conclusive

The BoJ's communications since the 18-19 December Monetary Policy Meeting (MPM), as well as recent natural disasters point, to a very low likelihood that the BoJ will shift its policy stance this month (see [BoJ Watch: Eyes on April](#), 11 January 2024).

In his 26 December interview with NHK, Governor Ueda specifically cited 1) the extent of wage revisions in spring 2024; and 2) the extent to which the rise in labor costs previously would be reflected onto service prices, as the two key points the BoJ would be focused on as it judged whether the pick-up in Japan's inflation would be self-sustaining.

The views highlighted by the central bank in its report of the BoJ's latest quarterly branch managers' meeting, held on 11 January, were mixed, suggesting that the BoJ is not ready to make a conclusive judgment on the outlook for inflation in the very near-term. On the positive side, some branch managers reported that large firms had taken the lead in announcing wage hikes exceeding last year, and that momentum around the spring wage negotiations was picking up earlier than in 2023. However, these optimistic comments were tempered by cautious comments pointing to lingering uncertainties around the outlook for FY24 wages, with the BoJ noting that there were still many companies that had yet to reach an agreement, and that small and medium-size enterprises (SMEs), especially, were still cautious.

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Timestamp: 19 January 2024 02:59AM EST

19 January 2024

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**Exhibit 1: BoJ policy board GDP/CPI forecasts vs. consensus**

The BoJ policy board is expected to downgrade FY24 Japan-style core CPI and FY23 real GDP, but keep unchanged its fundamental views on the outlook

	BoJ old (Oct)	BoJ new (Jan f'cast)*	BBG consensus
<b>Real GDP</b>			
FY23	2.0	1.7	1.5
FY24	1.0	1.0	0.8
FY25	1.0	1.0	0.9
<b>CPI ex fresh food</b>			
FY23	2.8	2.9	2.9
FY24	2.8	2.5	2.2
FY25	1.7	1.7	1.7
<b>CPI ex fresh food &amp; energy</b>			
FY23	3.8	3.9	3.9
FY24	1.9	1.9	2.0
FY25	1.9	1.9	1.7

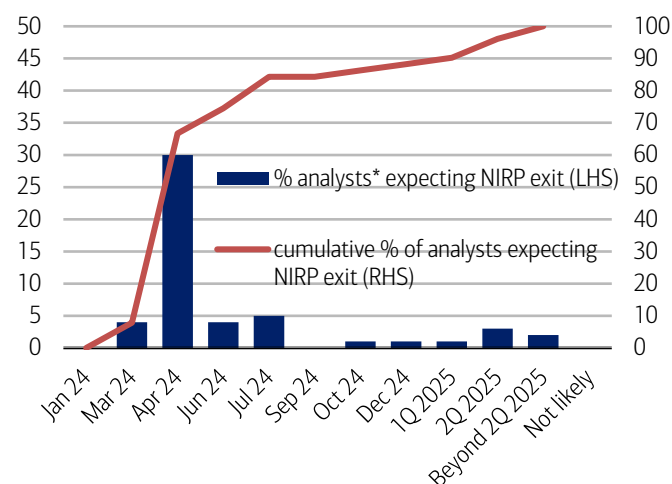
Source: BofA Global Research, BoJ, Bloomberg

\*BoJ January forecasts are BofA's expectations for the Jan Outlook Report

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**Exhibit 2: Consensus expectations of BoJ NIRP exit (BBG survey)**

~85% of analysts expect the BoJ to have exited NIRP by the July MPM



Source: BofA Global Research, Bloomberg BoJ Policy survey

Note: Based on the results of Bloomberg's BoJ Policy survey of analysts conducted between 10-15 January 2024 (N=51).

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**We still expect NIRP/YCC exit at the Apr MPM**

We remain bullish on the outlook for FY24 wage revisions and project average base pay hikes at this year's spring wage negotiations to improve to 2.5-3.0%, up from around 2% in FY23 (see [Wages update: Momentum building further for FY24 Shunto](#), 9 January 2024). We thus expect the BoJ to declare its 2% price stability target "insight" and exit negative interest rate policy (NIRP) and YCC in Apr-Jul '24, with the 26-26 April MPM our base case.

While we would not rule out an earlier move at the 18-19 March completely, we think the likelihood is low as the BoJ likely prefers to confirm the results of the April Tankan (due 1 April) as well as the April BoJ branch managers' meeting (early April) in order to have greater confidence in the positive feedback from wages hikes to inflation.

The April Outlook Report will also see the policy board extending its growth and inflation forecasts to FY26. Having already penciled in 1.9% ex-energy core inflation in FY24 and FY25, we think it is likely that the FY26 projection will also see inflation sustained at around 2%, supporting the case for a move off emergency policy settings.

**What to watch: Ueda press conference, Jan MPM SOP**

Given that next Tuesday's MPM decision itself and accompanying Outlook Report are unlikely to surprise, the focus will be on Governor Ueda's characterization of inflation/wage data and the "distance" to the 2% price stability target in his post-MPM press conference. However, we believe that the BoJ wants to retain optionality over the timing of its next move, and therefore would not expect Governor Ueda to offer comments that would signal immediate policy change. Looking ahead, we would keep an eye on the Summary of Opinions of the January MPM, as well as headlines around the FY24 Shunto (see Exhibit 4 in the Appendix for calendar of key BoJ-related releases).

- Izumi Devalier & Takayasu Kudo, Economists

**Rates: BoJ may introduce a funds-supplying operation**

As noted above, our economists expect the BoJ to maintain its monetary policy at the January MPM, and the investors' focus has already shifted to the April MPM (for details, see: [FX and Rates Sentiment Survey: Hung jury 12 January 2024](#)). The JGB auctions held in January were weak, suggesting investors' cautious stance on the potential BoJ's policy revision. Thus, JGBs are unlikely to rally even if the BoJ maintains the status quo.

On the other hand, the BoJ may introduce a funds-supply operation for financial institutions that were affected by the Noto peninsula earthquake to provide funds for restoration and rebuilding. In April 2016, the BoJ introduced a funds-supplying operation<sup>1</sup> for aiding financial institutions that were affected by the Kumamoto Earthquake. Those funds-supplying operations would not be a swing factor for the JGB market, even if the BoJ introduces them at the January MPM.

- Tomonobu Yamashita, Rates Strategist

## FX: BoJ unlikely to boost JPY sustainably in 2024

As the BoJ continues to remain cautious, we do not expect the BoJ's policy normalization to driver JPY higher this year. Without significant new information on the economy and inflation, the Jan MPM is unlikely to be the primary driver of JPY in the near-term either. Instead, JPY would be driven by global factors and seasonality in 1Q24.

Our JPY forecast remains bearish against the consensus (BofA expects USD/JPY at 142 at year-end vs Bloomberg consensus of 135). We are comfortable with our near-term outlook (145 at March-end) as the policy convergence theme would likely cap USD/JPY upside and exporter hedging into fiscal year-end could also weigh on the pair. That said, we think risks for the JPY still tilt to the downside, especially for 2H24 and 2025 (see: [Liquid Insight: Japan risks for 2024](#), 18 January 2024).

- Shusuke Yamada, FX/Rates Strategist

## Equity: Dovish BoJ likely sustaining the 2024 rally

Japan equities kicked off 2024 with a solid start, with Nikkei 225 reaching 36,000 on Jan 15, 17 and 19 – a record high in 34 years. Besides the JPX initiatives<sup>2</sup>, the yen depreciation amid a more dovish BoJ (see [Japan Watch](#) on Jan 11) should also play an important role. We believe the BoJ's potential standing pat could sustain the market rally via a weaker yen - assuming all else being equal - and continue to expect the TOPIX to hit 2,650 by end-2024 (see [Japan Equity Strategy](#) on Jan 11).

We find sectoral opportunities amid the yen moves. Particularly, our sensitivity analysis shows sectors such as auto & transportation equipment, electric appliance and precision, and machinery could benefit from a weaker yen, while pharmaceutical, electric power and gas might be bought if the yen strengthened against the dollar. Also see Exhibit 11 in our Dec 15 report for [the yen-sensitive screen](#).

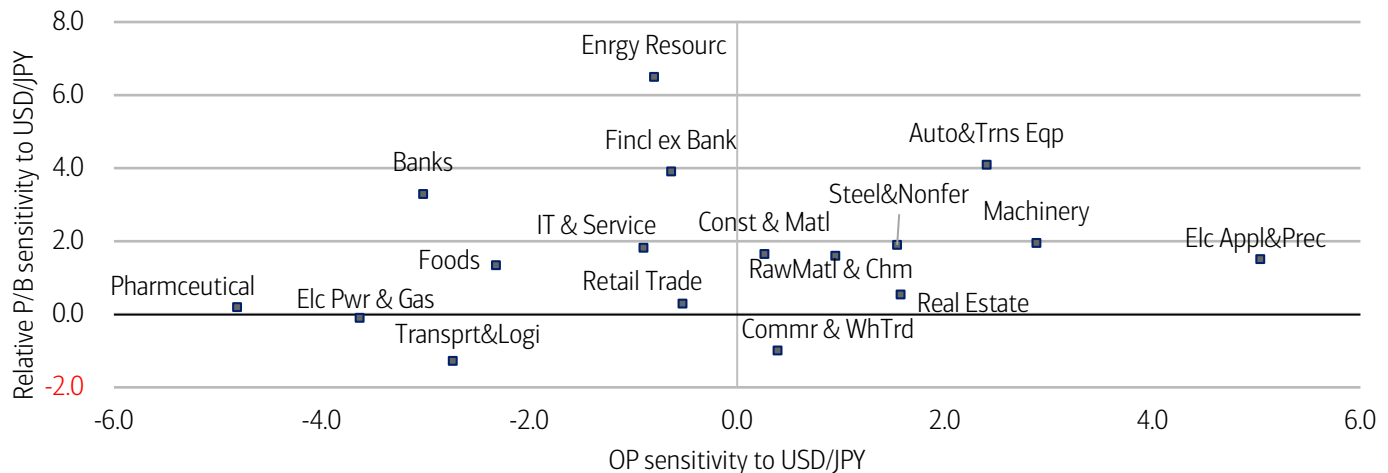
- Masashi Akutsu & Tony Lin, Equity Strategists

<sup>1</sup> The specifics of that operation were the following: the total amount of loans was set at 300 billion yen; the BoJ would provide loans at a zero interest rate; and twice as much as the amount outstanding of financial institutions' borrowing through this operation would be added to their Macro Add-on Balances, to which a zero interest rate was applied.

<sup>2</sup> Tokyo Stock Exchange, Inc. (TSE) Has Published a List of Companies That Have Disclosed Information Regarding "Action to Implement Management That is Conscious of Cost of Capital and Stock Price," 15 Jan 2024.

**Exhibit 3: Sector divergence could be prominent amid yen moves**

Auto&Trns Eqp, Elc Appl&Prec and Machinery could benefit from a weaker yen, while Pharmaceutical and Elc Pwr & Gas might be bought if the yen strengthened



Source: BofA Global Research, Bloomberg, QUICK

OP sensitivity is defined as % OP change given 1% change in USD/JPY, weekly basis, last 5 years. Similar for relative P/B sensitivity.

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## Appendix

**Exhibit 4: Calendar of key BoJ-related events**

Mar-Apr data key for the BoJ's assessment of sustained and stable 2% inflation

Date	Key events
2024 Jan-Feb	Response period for BoJ special survey on corporate behavior since the mid-1990s (part of Broad Perspective Review)
Jan 11	Regional Economic Report & Quarterly meeting of BoJ Branch Managers
Jan 22-23	BoJ MPM (outlook report)
Late January	Keidan to release "Report of the Special Committee on Management and Labor Policy", reflecting big business' recommended negotiating stance
Jan 26	Start of Regular Diet Session
Jan 31	BoJ Jan MPM Summary of Opinions
End Jan / Early Feb	Release of Survey on wage increases by Institute for Labour Administration
Feb 15	4Q CY23 GDP (1st estimate)
Mar 11	4Q CY23 GDP (revised)
Mar 15	Rengo announces results of FY24 Shunto preliminary respond
Mar 18-19	BoJ MPM
Mar 28	BoJ Mar MPM Summary of Opinions
Mar - Jul	Spring wage negotiation results to be announced by industry organizations
Apr 1	BoJ Tankan (1Q)
Early Apr	Regional Economic Report & Quarterly meeting of BoJ Branch Managers
Apr 25-26	BoJ MPM (outlook report)
Apr 28	By-elections (Lower House Shimane 1st District)
Around May	2nd Workshop re: BoJ Broad-Perspective Review
9 May	BoJ Apr MPM Summary of Opinions
Mid-May	1Q CY24 GDP (1st estimate)
Late May / early Jun	2024 BoJ-IMES Conference
June	JPY40K/person flat-rate income tax reductions commence
Early Jun	April Monthly Labour Survey (preliminary)
Early Jun	1Q CY24 GDP (revised)
Jun 13-14	BoJ MPM
Mid-Jun?	End of Regular Diet Session
Mid-Jun?	Cabinet approval of Basic Policy on Economic and Fiscal Management and Reform 2024 (Strong Bone Policy)
Jun 24	BoJ Jun MPM Summary of Opinions
Jul 7	Tokyo Gubernatorial Election
Late Jul	May Monthly Labour Survey (final)
Jul 30-31	BoJ MPM (outlook report)
Aug 8	BoJ Jul MPM Summary of Opinions
Sep	LDP presidential election
2025 Summer	Upper House election
Fall	Lower House term ends

Source: BofA Global Research, Reuters, Bank of Japan

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