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Japan Watch

BoJ review: Continuity and difference

28 April 2023

Economics
Japan

Izumi Devalier
Japan and Asia Economist
BofAS Japan
+81 3 6225 6257
izumi.devalier@bofa.com

Shusuke Yamada, CFA
FX/Rates Strategist
BofAS Japan
+81 3 6225 8515
shusuke.yamada@bofa.com

Takayasu Kudo
Japan and Asia Economist
BofAS Japan
+81 3 6225 8592
takayasu.kudo@bofa.com

Tomonobu Yamashita
Rates Strategist
BofAS Japan
+81 3 6225 7950
tomonobu.yamashita@bofa.com

Tony Lin, CFA >>
Equity Strategist
BofAS Japan
+81 3 6225 8123
tony.y.lin@bofa.com

The BoJ voted unanimously to keep its key policy settings unchanged at today's policy meeting, the first under the new leadership led by Governor Ueda. The result was in line with consensus expectations and our baseline scenario, though we had seen a not insignificant risk of YCC changes (see BoJ preview: New beginnings 25 April 2023). The key points of the statement and accompanying Outlook Report are as follows:

- Yield curve control & risk asset purchases: the BoJ kept its target for the short-term interest rate unchanged at -0.1%. It also left the long rate target and tolerance band unchanged at zero% +/-50bp. There were no changes to the BoJ's stance to conduct unlimited, daily fixed-rate bond-buying operations as necessary to defend the target. Meanwhile, the BoJ also kept its targets for ETF and J-REIT purchases unchanged.

- Forward guidance: The BoJ deleted, wholesale, its rates forward guidance, which was loosely tied to COVID-related uncertainties and stated that the central bank "expects short- and long-term policy interest rates to remain at their present or lower levels" (Exhibit 1). The decision comes ahead of the government's announced move to downgrade COVID's legal status in Japan's Infectious Diseases Act on 8 May.

However, the BoJ maintained its commitment to maintain the overall QQE+YCC framework "as long as it is necessary for maintaining the [2% price stability] target in a stable manner," as well as the 2% "overshooting commitment" for the monetary base. It also added new language stressing the need to "patiently continue with monetary easing" amidst "extremely high uncertainties surrounding economies and financial markets at home and abroad." It also stated that aim was to achieve 2% inflation in a "sustainable and stable manner, accompanied by wage increases."

- **Outlook Report:** In its latest Outlook Report, the BoJ upgraded its inflation forecasts across the board while downgrading its near-term real GDP forecasts. It now expects Japan-style core inflation (CPI ex fresh food) to average 1.8%YoY in FY23 (Jan projection: 1.6%), 2.0% in FY24 (Jan: 1.8%) but slow to 1.6%YoY in its newly published FY25 projections. For BoJ-style core inflation (CPI ex fresh food & energy), it upgraded its FY23 projection sharply to 2.5%YoY (Jan: 1.8%), while forecasting 1.7% in FY24 (Jan: 1.6%) and 1.8% in FY25 (Exhibit 3).

Regarding the risk balance around its forecasts, the BoJ continues to see risks to growth as "skewed to the downside" in FY23 but "generally balanced thereafter." For inflation, it sees risks as "skewed to the upside for FY23 but skewed the downside for FY25."

- Launch of long-term "Policy Review": Finally, the BoJ announced today that it would be launching a "broad-perspective review of monetary policy" with a time frame of around 1 to 1.5 years (i.e., concluding April – October 2024). The Review will examine the construct of monetary policy and Japan's economy over the past 25 years. (continued

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Timestamp: 28 April 2023 11:15AM EDT

Exhibit 1: The three layers of the BoJ forward guidance (latest modifications to the rates forward guidance are highlighted in red)
The BoJ dropped its commitment to maintain interest rates at "their present or lower levels"

Forward guidance	Text in policy statement	Introduced	Applies to
Forward guidance for policy rates	~~For the time being, while closely monitoring the impact of COVID-19,~~ the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary~~; it also expects short- and long-term policy interest rates to remain at their present or lower levels.~~	July 2018	~~Current short and long-rate target rate levels~~
QQE+YCC	The Bank will continue with "QQE with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.	April 2013*	Overall QQME+YCC framework (control of interest rates)
Overshooting commitment	It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.	September 2016	BoJ monetary base

Source: Bank of Japan, BofA Merrill Lynch Global Research

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This dates back to 1998, after which the BoJ became independent but which also coincides with the onset of deflation and unconventional monetary policies from ZIRP onwards. The exact agenda of the Review and list of topics to be covered was not disclosed today

In his post-MPM press conference, Governor Ueda stated that the review would be driven by the BoJ staff but that the central bank would involve outside experts and academics throughout the process.

More importantly, he also stated that the long-term Review would not prevent the BoJ from adjusting its current policy settings in the interim. He also hinted at the possibility that the BoJ may release the findings of the Review over time, instead of delivering all of the conclusions in one go at the end of the process.

Ueda press conference: High bar for policy "exit"

Governor Ueda's press conference underscored the fact that the BoJ's exit from its massive easing program would remain gradual.

On inflation, he acknowledged the on-going improvement in underlying inflation, stating that, while the BoJ cannot yet judge that 2% inflation would be sustained, "several" policy board members had noted that there is more hope, or possibility, of achieving the goal than they had seen a while ago.

However, he stressed the uncertainty around the medium-term inflation outlook and stated that, while the BoJ expected underlying inflation momentum to rise gradually towards the 2% target towards the end of its forecast horizon (i.e., in FY25), "the process would take time."

He added that, under these circumstances, "the risk of failing to achieve the 2% inflation sustainably as a result of premature policy tightening was greater than the risk that inflation remains above 2% as a result of delayed tightening, and that the costs of waiting for the underlying inflation rate to rise is not significant."

Policy implications:

Early YCC adjustments still in play...

Markets have interpreted the policy statement and Governor Ueda's press conference remarks as very dovish, and we would not be surprised if consensus expectations around YCC adjustments/removal get pushed back, possibly significantly, as a result of today's decision.

However, we think it's premature to conclude that early YCC adjustment is off the table and continue to think that the BoJ would still be looking to gradually unwind its aggressive easing program, starting with a relaxation of its control over long-end bond yields.

While the BoJ's emphasis on uncertainties around the economy and inflation suggest a desire to wait for more data, and therefore a reduced likelihood of a move in June at the margin, we stick to our call that the BoJ adjusts YCC by the middle of the year, with the 28 July MPM our new base case.

In terms of the form of adjustment, we continue to see the BoJ shift towards YCC centered on the 5yr (i.e. shortening of the duration of the long-rate target) and reduces its intervention on the long end.

…as underlying inflation continues to rise…

Though it may have been forgotten in the excitement over the BoJ MPM, it's worth noting that the preliminary Tokyo CPI, out earlier this morning, surprised strongly to the upside relative to consensus and even our hawkish forecasts.

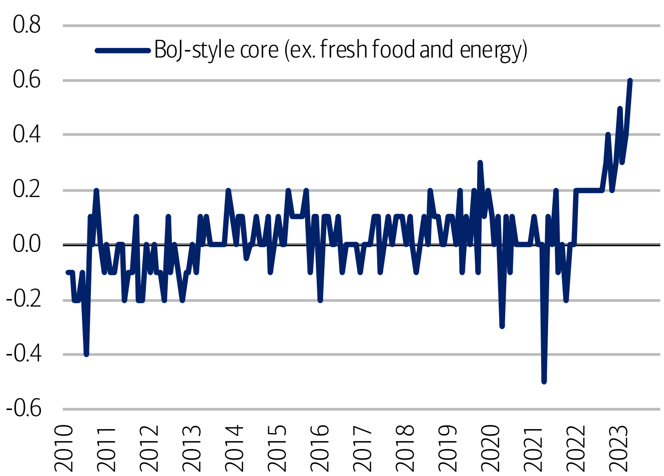
Specifically, BoJ core inflation (CPI ex fresh food) rose further to 3.8%YoY from 3.4% previously (bbg: 3.5%; BofA 3.7%) or 0.6%MoM SA (Exhibit 2). Though the biggest contributor of the pick-up was non-perishable food, private services also accelerated, underscoring the fact that the main driver of inflation is shifting from imported goods to services. Reflecting this, US-style core inflation (CPI ex food and energy) also jumped to 2.3%YoY, from 2.0% previously.

The results suggest that April nationwide BoJ core inflation (due 19 May) will print 4.2% in April and increase our confidence that ex-energy core inflation will remain above 3% throughout 2023 (see March CPI: Main driver of inflation shifting from imported goods to services 31 March 2023).

Beyond the fact that the BoJ's medium term inflation forecasts (particularly the FY23 projection) remain too low (Exhibit 3), the rise in underlying inflation means that, under the YCC framework, monetary policy is getting easier, reflecting the drop in real yields. Indeed, the drop in real yields was an argument that the BoJ used when the Kuroda BoJ justified its decision to widen the 10yr target band in December 2022.

Exhibit 2: Tokyo CPI: %MoM SA growth in BoJ-style core inflation (CPI ex fresh food & energy)

BoJ core inflation accelerated further, to 0.6% MoM SA in the prelim April Tokyo CPI report



Source: BofA Global Research, MIAC

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Exhibit 3: Comparison of BoJ, BofA and Consensus core CPI forecasts

Despite today's upward revisions, the BoJ's inflation forecasts remain too low, in our view

	BoJ (Old)	BoJ (New)	Consensus	BofA
CPI (ex fresh food)				
FY23	1.6	1.8	2.0	3.3
FY24	1.8	2.0	1.4	2.0
FY25	n.a.	1.6	n.a.	n.a.
CPI (ex fresh food and energy)				
FY23	1.8	2.5	2.3	3.0
FY24	1.6	1.7	1.0	1.7
FY25	n.a.	1.8	n.a.	n.a.

Source: BofA Global Research, BoJ, Bloomberg

Note: Consensus forecasts are based on the Bloomberg Survey conducted 11-14 April 2023. BoJ forecast represent the median of the 9-member policy board, with the highest and lowest projections removed.

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…and pro-cyclical YCC policy becomes increasingly easy

Governor Ueda actually acknowledged this point in his post-MPM press conference: When asked about the appropriateness of yield curve control and the current policy of maintaining the 10 year JGB yield at "zero% +/-50bp," Ueda started by explaining that, at the time of its introduction (in 2016), YCC was devised as a tool for additional easing at a time when short-term interest rates were already very low—that is, by "preventing nominal long-term interest rates from rising above a certain level."

He then went on to state:

"Although this may not be included in your question, when underlying inflation is weak, the effect [of YCC] is not very strong. However, as the underlying inflation rate rises a bit, inflation expectations also increase, and by keeping nominal interest rates down, [YCC] has the effect of lowering the real interest rate—nominal interest rates less inflation expectations—and the easing effect is strengthened. However, it could also be said that as we reach such a phase, the side effects of the policy also increase. I think we have been in such a phase since last year. Thus, I think we need to continue to analyze the benefits and side effects [of YCC] and closely monitor the situation."

Balancing the trade off between YCC's easing benefits vs. side effects

The comment on needing to balance the positive easing effects of YCC vs. its side effects, is very similar to the one Governor Ueda made in his inaugural press conference.[1]

On YCC's side effects, Governor Ueda noted that they had been easing as a result of the various measures introduced by the BoJ since the January MPM. However, he noted that there were still areas of concern, such as the deterioration in JGB market depth.

Together with comments from his inaugural press conference, we think the BoJ will justify further flexibilization of YCC based on the double-pronged argument that 1) underlying inflation, though not yet certain to be sustained at 2%, had risen sufficiently to keep policy easy (i.e. real yields low) despite a rise in long-term yields and that, 2) this was further justified in view of lingering side effects on market functioning. The removal of the rates forward guidance can also be seen as a step to set the groundwork for such a move.

The reason we now see July as more likely than June is that more data will be available, including three more Tokyo CPI prints, wage prints up to May (which would allow the BoJ to have a better idea of the impact of the Shunto spring wage revisions on macro wages), and the July BoJ Tankan (Exhibit 8).

This should be more than enough evidence for the BoJ to argue that 1) there has been a sufficient rise in underlying inflation momentum and 2) reduced downside risks to domestic growth, to justify loosening control over long-end yields.

Early snap elections a source of uncertainty for policy change timing

One source of uncertainty for our continued call for an early YCC adjustment is the possibility of early snap elections, given the recent rise in Prime Minister Kishida's approval ratings.

If the PM indeed calls general elections and the 28 July falls during the period between Diet dissolution and voting, we think the BoJ will refrain from making policy changes, pushing back the timing of adjustments. However, this should not be the case in the event PM Kishida calls for elections around the scheduled end of the regular Diet session, on 21 June.

Locus of YCC "attacks" may shift from JGB to FX markets—watch USDJPY

We would also add that the USDJPY is an important variable that has the potential to hasten YCC adjustment. Developments last year demonstrated that USDJPY at 145 was

[1] The quote was "In principle, the decision on whether to make major revisions to YCC should be made by looking at underlying trends for the economy, inflation, and financial conditions. Under these circumstances, the BoJ should make the decision by weighing the benefits of YCC against its side effects."

a pain point for the government. That could shift the locus of YCC "attacks," away from the JGB markets and back to the FX market, as was the case last summer.

The resulting sell off in the yen could reignite public backlash against the BoJ, and encourage an early adjustment (see our FX strategists section below for more details on our JPY view, which remains much more bearish than the consensus).

YCC removal and front end hike(s) further out

Meanwhile, the bar for an outright end to YCC as well as NIRP removal is higher and we continue to see this as a 2024 event, with our base case being a policy change in mid-2024. This would allow the BoJ to confirm the momentum for price and wage hikes at the beginning of the next fiscal year, although Governor Ueda specifically said in his press conference that the BoJ may be able to make that judgement earlier.

While we think the decision to remove YCC and NIRP will be justified based on inflation developments, we think the BoJ's newly announced "Review" will give them the option to end the policy from the standpoint of financial stability.

Whether to do so would partly be a function of the economic and market environment at the time. But all things considered, we think the Review raises the likelihood that YCC and NIRP will be phased out within the next 1-1.5 years.

- Izumi Devalier and Takayasu Kudo, Japan Economists

Rates: dovish reaction, but possibility of a policy change would contain fall in yen rates

As noted above, the BoJ neither revised nor abolished YCC at its April MPM. While the consensus was for the BoJ to maintain the status quo at its April meeting, JPY rates fell and JGB futures rose after the announcement. It appears the bond market sees the BoJ decision more dovish than previously expected.

In addition, the BoJ's schedule of outright purchases of JGBs, which was announced today at 5pm Japan time, did not reveal any changes in the purchase size per auction or the frequency of auctions to be held. The BoJ announces a purchase size range per auction for JGBs with coupons with residual maturities of more than one year, and while a future reduction in the amount to be purchased at each auction cannot be ruled out, the BoJ's current excessively large purchase volumes limit the upside potential for JGB yields.

On the other hand, given the recent increase in inflation in Japan and, as pointed out by our economists, the fact that Governor Ueda's remarks at his press conference were not entirely dovish, we continue to see some possibility of a policy change in the near term. We therefore think JGB yields are unlikely to stay on a downward path, and we expect the 10-year JGB yield to hover at around 0.40% until the next MPM on 15-16 June.

- Tomonobu Yamashita, Rates Strategist

FX: Greenlight for yen-carry trade

We took the result of the BoJ's MPM generally dovish and negative for the yen. The BoJ under Ueda is likely to be patient and careful in examining the sufficient improvement in Japan's inflation trend that justifies full policy normalization. While the BoJ could adjust or even remove YCC in 2023, which could cause temporary yen strength time to time, the front end rate is likely to remain low for the time being. The lack of expectations for a NIRP removal for the next several months could promote yen-carry trade with light positioning (see: Liquid Insight: Yen-carry trade redux 17 April 2023). We continue to expect USD/JPY to rise despite our expectations for a lower USD for 2023, leading to higher cross-yen.

- Shusuke Yamada, FX/Rates Strategist

Equity: A warm welcome to Gov. Ueda's debut MPM

The equity market reacted positively to Governor Ueda's first MPM, with TOPIX rising 1.2% on 28 Apr, in line with our expectation (BoJ preview: New beginnings 25 April 2023). Sector-wise, electric power & gas and machinery sectors outperformed TOPIX on 28 Apr, while banks slightly underperformed (Exhibit 4). We believe the overall encouraging market price action might reflect three aspects below.

- The passage of event – no imminent/ major policy changes in the BoJ's easing framework (QQE, NIRP & YCC) – helps reconfirm Governor Ueda's overall dovish bias and comfortably prompt investors to shift focus to fundamentals, at least for the near term, as there will be no BoJ policy meeting in May.

- The BoJ's scrapping of forward guidance on rates, coupled with the broad-based policy review for 1-1.5 years, hints at the BoJ's changing stance towards a more neutral-policy direction but likely in a gradual manner, depending on inflation dynamics, etc. This might help sustain global investors' interest in Japan equities over the medium term from a macro standpoint (see The Flow Show: Ahead of the Curve 27 April 2023). In fact, we have already seen ¥2tn net inflows from foreign investors since April (the largest monthly inflow from foreign investors since Oct-2017; Exhibit 5).

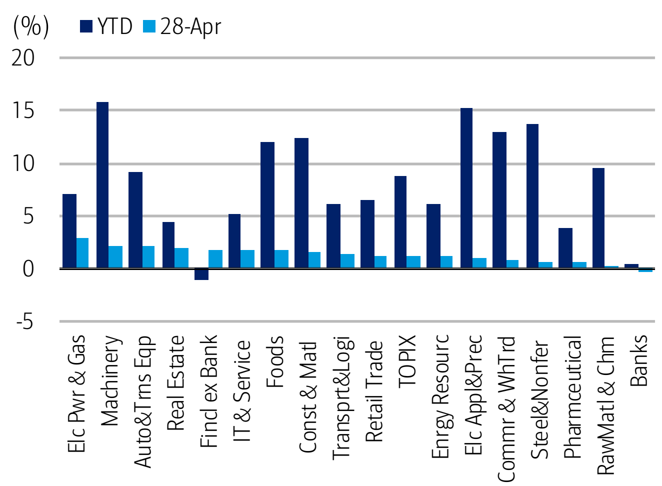
- Resilient earnings results from early reporters may have also signaled a green light for investors' risk appetite (Exhibit 6). While we think defensive and domestic demand-oriented sectors stand out near-term given relatively resilient corporate earnings outlook for FY3/24 so far, investors are likely to revisit select exporters and cyclical sectors post the earnings season, with fundamental conservatism fully factored in and more clarity on the cyclical dynamics (also see Revaluing Japan stocks on savings, inbound, wage growth, corporate reform 25 April 2023). We list large-cap stocks with recent share buybacks announcements (Exhibit 7).

Please refer to our report for more detailed earnings calendar: Earnings Calendar: 1st May – 12th May announcements 28 April 2023.

- Tony Lin, Equity Strategist

Exhibit 4: Share price performance by sector

Electric power/gas, financials and machinery sectors outperformed on 28 Apr



Source: BofA Global Research, Bloomberg

Ranked by share price performance on Apr 28.

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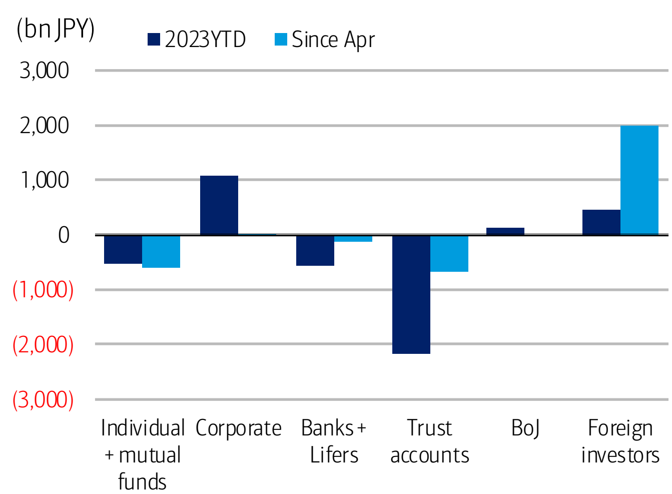
Exhibit 5: Japan flow (flow by investor type)

Foreign investors are the largest net buyers of Japan equities since Apr, 2023



Source: BofA Global Research, JPX

Note: As of Apr 21, 2023

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Exhibit 6: FY3/23 results and FY3/24 guidance

8.2% reported (20.2% in terms of mkt cap); FY3/24 OP guidance: domestic & defensive > exporters & cyclicals

Sector names	Cumulative 1Q-4Q (FY3/23 results)			FY3/24 guidance vs FY3/23 results		
	Cumulative Sales YoY%	Cumulative Operating profit YoY%	Recurring profit YoY%	Sales YoY%	Operating profit YoY%	Recurring profit YoY%
TOPIX	19.3	27.7	23.8	-0.1	14.8	11.1
Manufacturing industries	13.8	11.4	9.3	-1.9	10.8	7.5
Non-manufacturing industries	28.0	163.6	157.2	4.8	23.3	19.0
Financial industries	41.8	-37.4	-36.3	0.4	0.4	0.4
Foreign demand oriented	12.4	5.9	3.7	-2.8	7.2	3.6
Cyclical	21.2	29.2	27.7	0.8	1.2	0.2
Domestic demand oriented	27.2	1232.8	5074.0	10.2	21.0	17.8
Financials	33.9	-29.9	-29.3	12.1	4.9	3.5
Defensives	34.6	22.2	14.8	1.0	45.4	37.9

Source: BofA Global Research, Astra Manager

Note: *Companies from Tokyo Stock Exchange (TSE) 1st Section with their fiscal year ending in Mar 2023. As of Apr 27, 2023.

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Exhibit 7: Large-cap stocks with share buybacks since Apr 2023

Share buybacks could be supportive near term

TSE Code	Company name	Amt of share buybacks plan (bn JPY)	% buybacks to mkt cap	Announcement date	1D relative performance (%, vs. TOPIX)	5D relative performance (%, vs. TOPIX)
9531	TOKYO GAS CO LTD	113.0	9.3	2023/04/26	0.6	1.7
7276	KOITO MANUFACTURING CO LTD	35.0	4.2	2023/04/26	6.4	6.1
6702	FUJITSU LIMITED	150.0	4.0	2023/04/27	(2.0)	(2.0)
9948	ARCS CO LTD	5.0	3.5	2023/04/14	1.7	4.4
1803	SHIMIZU CORP	20.0	3.1	2023/04/26	(2.8)	(1.2)
8601	DAIWA SECURITIES GROUP INC	25.0	2.5	2023/04/27	1.9	1.9
4307	NOMURA RESEARCH INSTITUTE LT	50.0	2.5	2023/04/27	4.5	4.5
7516	KOHNAN SHOJI CO LTD	3.0	2.4	2023/04/11	3.7	8.6
3050	DCM HOLDINGS CO LTD	5.0	2.3	2023/04/11	7.3	19.8
8218	KOMERI CO LTD	2.7	1.6	2023/04/25	7.2	5.9
2379	DIP CORP	3.0	1.5	2023/04/26	(0.7)	(0.6)
6501	HITACHI LTD	100.0	1.4	2023/04/27	(3.3)	(3.3)
8604	NOMURA HOLDINGS INC	20.0	1.3	2023/04/26	(7.7)	(8.8)
6436	AMANO CORP	2.4	1.1	2023/04/26	(1.5)	(0.3)
9962	MISUMI GROUP INC	10.0	1.0	2023/04/27	3.2	3.2
6586	MAKITA CORP	10.0	0.9	2023/04/27	19.1	19.1
7309	SHIMANO INC	17.5	0.9	2023/04/25	(10.7)	(7.9)
3543	KOMEDA HOLDINGS CO LTD	1.0	0.8	2023/04/12	11.7	4.1
6326	KUBOTA CORP	20.0	0.8	2023/04/19	1.5	3.0
2801	KIKKOMAN CORP	10.0	0.6	2023/04/27	10.6	10.6
9202	ANA HOLDINGS INC	9.0	0.6	2023/04/27	1.3	1.3
9793	DAISEKI CO LTD	1.2	0.6	2023/04/24	3.0	3.9
6532	BAYCURRENT CONSULTING INC	3.0	0.4	2023/04/14	(0.6)	(10.9)
7545	NISHIMATSUYA CHAIN CO LTD	0.3	0.3	2023/04/05	3.5	(2.0)
7630	ICHIBANYA CO LTD	0.1	0.1	2023/04/05	5.1	5.7

Source: BofA Global Research, Astra Manager, Bloomberg

Note: Screened by 1) TOPIX companies that conduct share buybacks since Apr 2023; 2) MKT CAP above 100 bn JPY; 3) Ranked by % buybacks to mkt cap from highest to lowest. As of Apr 27, 2022.

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Appendix

Exhibit 8: Schedule of BoJ monetary policy meetings and key releases in 2023

2023

Date of MPM		Outlook Report	Summary of opinions	MPM Minutes
17 Jan (Tue)	18 Jan (Wed)	18 Jan (Wed)	26 Jan (Thu)	15 Mar (Wed)
9 Mar (Thu)	10 Mar (Fri)	-	20 Mar (Mon)	8 May (Mon)
27 Apr (Thu)	28 Apr (Fri)	28 Apr (Fri)	11 May (Thu)	21 Jun (Wed)
15 Jun (Thu)	16 Jun (Fri)	-	26 Jun (Mon)	2 Aug (Wed)
27 Jul (Thu)	28 Jul (Fri)	28 Jul (Fri)	7 Aug (Mon)	27 Sep (Wed)
21 Sep (Thu)	22 Sep (Fri)	-	2 Oct (Mon)	6 Nov (Mon)
30 Oct (Mon)	31 Oct (Tue)	31 Oct (Tue)	9 Nov (Thu)	22 Dec (Fri)
18 Dec (Mon)	19 Dec (Tue)	-	27 Dec (Wed)	TBA

Source: BofA Global Research, Bank of Japan

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Exhibit 9: G3 central bank decision calendar
2023

	2023											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
BoJ	18 (Wed)		10 (Fri)	28 (Fri)		16 (Fri)	28 (Fri)		22 (Fri)	31 (Tue)		19 (Tue)
Fed		01 (Wed) [T+1]	22 (Wed) [T+1]		03 (Wed) [T+1]	14 (Wed) [T+1]	26 (Wed) [T+1]		20 (Wed) [T+1]		01 (Wed) [T+1]	13 (Wed) [T+1]
ECB		02 (Thu)	16 (Thu)	05 (Wed)		15 (Thu)	27 (Thu)		14 (Thu)	26 (Thu)		14 (Thu)

Source: BofA Global Research, Bloomberg Note: Blue shaded dates represent decisions associated with Summary of Economic Projections (SEP) for the FOMC, Staff projections for the ECB, and Outlook Report for the BoJ.

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Exhibit 10: Calendar of BoJ-related events through July 2023 (all times JST)
We expect the new BoJ leadership to delvier adjustments to YCC by July 2023

Date	Event
28 Apr	**Apr Tokyo preliminary CPI**
28 Apr	**BoJ April MPM & Outlook Report (first under new BoJ leadership)**
29-5 May	**Golden Week Holidays (Apr 29 & May 3-5 are public holidays)**
4 May	**May FOMC decision (3 May local time)**
8 May	BoJ Mar MPM Minutes
9-May	Mar Labor cash earnings (wages)
11 May	BoJ Apr MPM Summary of Opinions
19 May	Apr Nationwide CPI
19-21 May	**G7 Summit (Hiroshima - PM Kishida's hometown)**
26 May	**May Tokyo preliminary CPI**
06 Jun	Apr Labor cash earnings (wages)
15 Jun	**Jun FOMC decision (14 Jun local time)**
16 Jun	**BoJ Jun MPM**
21 Jun	**Scheduled end of Diet Session (possibility early snap elections called around then)**
23 Jun	May Nationwide CPI
26 Jun	BoJ Jun MPM Summary of Opinions
30 Jun	**Jun Tokyo preliminary CPI**
03 Jul	**July BoJ Tankan**
07 Jul	May Labor cash earnings (wages)
21 Jul	Jun Nationwide CPI
27 Jul	**Jul FOMC decision (26 Jul local time)**
28 Jul	**Jul Tokyo preliminary CPI**
28 Jul	**BoJ Jul MPM**
02 Aug	BoJ Jun MPM Minutes
07 Aug	BoJ Jul MPM Summary of Opinions
08 Aug	Jun Labor cash earnings (wages)

Source: BofA Global Research, Bloomberg, BoJ, FOMC

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Exhibit 11: Summary of BoJ monetary policy statement (April 2023)
Key changes from March '23 MPM in red

	28 April MPM
Overall assessment of Japan's economy	Has picked up ~~as the resumption of economic activity has progressed while public health has been protected from COVID-19,~~ despite being affected by factors such as high commodity prices
Exports	Have been affected by the developments in overseas and more or less flat, supported by a waning of the effects of supply-side constraints
Business investment	Has increased moderately
Private consumption	Has increased moderately, despite being affected by COVID-19
Housing investment	Has been relatively weak
Public investment	Has been more or less flat

Exhibit 11: Summary of BoJ monetary policy statement (April 2023)

Key changes from March '23 MPM in red

	28 April MPM
Industrial production	Have been affected by the developments in overseas and more or less flat, supported by a waning of the effects of supply-side constraints
Labor market	Has improved moderately on the whole
Financial conditions	Have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments
Consumer prices	Year-on-year rate of increase in the CPI (all items less fresh food) is slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it has been at around 3 percent ~~4 percent~~ recently owing to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. ~~due to rises in prices of such items as energy, food, and durable goods~~
Inflation expectations	have been more or less unchanged recently after rising ~~have risen~~
Outlook for the Japanese economy	Japan's economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies. Thereafter, Japan's economy is projected to continue growing, at a pace above its potential growth rate as a virtuous cycle from income to spending intensifies gradually. That said, the pace of growth is highly likely to decelerate gradually toward the end of the projection period.
Consumer prices	The year-on-year rate of increase in the CPI (all items less fresh food) is likely to decelerate toward the middle of fiscal 2023 due to ~~the effects of pushing down energy prices from the government's economic measures and to~~ a waning of the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. Thereafter, the rate of increase is projected to accelerate again moderately, albeit with fluctuations ~~a waning of the effects of the economic measures pushing down energy prices toward the middle of fiscal 2023~~, as the output gap improves and as medium- to long-term inflation expectations and in wage growth rise, accompanied by changes in factors such as firms' price- and wage-setting behaviour.
Risks to the outlook	Concerning risks to the outlook, there remain extremely high uncertainties for Japan's economy, including the following: developments in overseas economic activity and prices; developments in the situation surrounding Ukraine and in commodity prices; ~~and the course of COVID-19 at home and abroad and its impact.~~ In this situation, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.
Conduct of monetary policy	With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases. The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.
Overshoot commitment	It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner
Future conduct of monetary policy and forward guidance for rates	For the time being, the Bank ~~will closely monitor the impact of COVID-19 and~~ will not hesitate to take additional easing measures if necessary, ~~and also it expects short- and long-term policy interest rates to remain at their present or lower levels~~.

Source: Bank of Japan, BofA Global Research

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