

## Japan Watch

## BoJ review: Status quo

At its last monetary policy meeting (MPM) of the year, the Bank of Japan (BoJ) left all key policy targets unchanged, in line with our and consensus expectations. While few expected the BoJ to surprise with a policy change today, the focus was on whether the central bank would signal that it was leaning toward further normalization steps—including an exit from negative interest rate policy (NIRP)—in the near future. Our own base case for today's MPM was a “hawkish hold,” in which the central bank would drop such hints either through its policy statement or Governor Ueda's press conference (see [BoJ preview: Laying the groundwork for an exit from NIRP](#), 14 December 2023).

However, while Governor Ueda indicated gradual progress towards the 2% price stability target and retained the optionality for a policy change next month, neither the MPM statement nor the governor's press conference remarks suggest that the BoJ is moving significantly closer to declaring 2% inflation goal “in sight” very soon. We discuss the key points below.

## MPM statement

The December MPM statement was largely a continuation of October's. There were no changes to the BoJ's assessment of risks to the outlook, nor its forward guidance (see Exhibit 3). And the BoJ's outlook for the economy and prices was largely a carbon copy of the previous meeting's except for the removal of language acknowledging the impact of surging oil on import prices. Other than this, the changes largely reflected mark-to-marketing of recent data in the BoJ's current assessment of growth and inflation.

## Governor Ueda press conference

Given increased market speculation of near-term NIRP exit following deputy governor Himino's 6 December speech and Governor Ueda's 7 December Diet remarks ([BoJ Watch: Moving closer to the end of NIRP](#), 8 December 2023), questions at the press conference centered on the BoJ's assessment of the “distance” to sustained and stable 2% inflation. We note the following highlights:

- 1) Asked about the intention behind his recent Diet comment that the BoJ's handling of monetary policy will get “even more challenging from the year-end and through next year,” Ueda clearly pushed back against the idea that the “year-end” language was a nod to near-term policy moves. Instead, he explained that he was speaking generally about his resolve towards his job as he entered his second year as BoJ governor.
- 2) Asked about the BoJ's assessment of the distance to sustained and stable 2% inflation, Governor Ueda acknowledged that “the probability that underlying inflation would increase gradually towards the 2% price stability target...continued to rise little by little,” pointing to the upbeat results of the December Tankan and other data (see [BoJ Tankan \(Dec\): Further tailwinds for normalization](#), 13 December 2023). However, he was careful to stress lingering uncertainties that made it difficult for the BoJ to judge, at this stage, whether the “virtuous cycle between wages and prices will strengthen.”

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Economics  
Japan

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Specifically, he cited 1) feedback from the BoJ's latest "hearings" with corporates, that there were many companies that had not yet finalized their stance on next year's wage revisions, partly because of high uncertainties around the economic outlook; and 2) feedback, mainly from SMEs, that they are finding it difficult to pass on higher labor and overhead costs to selling prices.

3) Asked whether the BoJ would have sufficient data to make the judgment on sustained and stable 2% inflation by its next monetary policy meeting, on 22-23 January, Governor Ueda began by explaining the judgment would be based on new information that comes in between now and the next MPM. On this point, he flagged the upcoming BoJ branch managers' meeting (scheduled for 11 January) and pointed out that the central bank would be gathering information from various sources. This followed earlier comments that stressed the importance of anecdotal information gleaned from its hearings with corporates in evaluating the outlook for wage hikes and inflation.

Having said this, he also admitted that, "we will have some new data [before the Jan '24 MPM], but not a lot."

4) Finally, in discussing what kind of remaining datapoints and information the BoJ was seeking to be sufficiently confident in the achievement of its 2% price stability target, Governor Ueda repeated his post-Oct MPM press conference remarks in which he stressed not only wage hikes but their pass through to further price hikes (see [Japan Macro Watch: BoJ review: No red lines 31 October 2023](#)).

## Policy implications

Since September, we have viewed the most likely window for BoJ NIRP exit/YCC removal as January – April 2024, with the 22-23 January MPM our base case (see [BoJ Watch: Inching closer to normalization](#), 21 September 2023).

Governor Ueda chose his words careful at today's press conference and retained the optionality of moving in January. But overall, his stance struck us as cautious, and we think the latest BoJ communications reduces the likelihood of a January policy change while raising the risk that NIRP/YCC exit would be delayed until April.

In the near-term, we will keep an eye out for Governor Ueda's speech to business leaders (Keidanren) next week (25 Dec) as well as the Summary of Opinions for the December MPM (due 27 Dec) as we review our BoJ call (Exhibit 1; Exhibit 4).

- Izumi Devalier & Takayasu Kudo, Japan Economists

## Rates: would not price out NIRP removal in 2024

The BoJ kept all key policy settings unchanged. There was no clear hawkish message from the BoJ. We see the today's MPM as "Dovish hold". The yen rates market also interpreted the December MPM as dovish. The JGB yields across the curve decreased, and the JGB futures rose after the BoJ's announcement.

On the other hand, we think the yen rates market will not easily price out the NIRP removal in 2024. The yen rates market is expected to maintain its cautious stance on BoJ's further moves ie, the demand for JGBs is unlikely to increase in 2024.

In addition, the BoJ maintained its policy for expanding monetary base at the December MPM. Thus, we think a hurdle for the further reduction in BoJ's bond buying operations is high in the near term (for details, see [Japan Rates Watch: A reduction in Rinban operations is likely to focus on 5-10yr residual maturities 12 December 2023](#)), though weak demand for JGBs is likely to raise the JGB yields in a gradual manner. We expect the 10yr JGB yield to rise to 1.30% at end-2024, and we maintain our above-consensus forecast.

- Tomonobu Yamashita, Rates Strategist

## FX: BoJ risk to be priced out for now

The BoJ did not make any signal for NIRP removal at today's MPM. The market had positioned for a hawkish outcome and it was disappointed by no pivot, leading to USD/JPY's rally. As we have argued, even if the BoJ had removed NIRP at today's meeting, the impact on USD/JPY should be secondary to the Fed's move considering the limited scope for additional hikes. From this perspective, the dovish FOMC outcome last week was more significant and keeps us cautious on USD/JPY near-term. The market may want to sell USD/JPY's rally into 145, capping its upside for now. Longer-term, we believe structural capital outflow from Japan and the BoJ's still accommodative policy would keep JPY undervalued.

- Shusuke Yamada, FX/Rates Strategist

## Appendix

### Exhibit 1: Schedule of BoJ monetary policy meetings and key releases in 2023-2024

2023-2024

Date of MPM		Outlook Report	Summary of opinions	MPM Minutes
30 Oct (Mon)	31 Oct (Tue)	31 Oct (Tue)	9 Nov (Thu)	22 Dec (Fri)
18 Dec (Mon)	19 Dec (Tue)	-	27 Dec (Wed)	26 Jan '24 (Fri)
22 Jan (Mon)	23 Jan (Tue)	23 Jan (Tue)	31 Jan (Wed)	25 Mar (Mon)
18 Mar (Mon)	19 Mar (Tue)	-	28 Mar (Wed)	2 May (Thu)
25 Apr (Thu)	26 Apr (Fri)	26 Apr (Fri)	9 May (Thu)	19 Jun (Wed)
13 Jun (Thu)	14 Jun (Fri)	-	24 Jun (Mon)	5 Aug (Mon)
30 Jul (Tue)	31 Jul (Wed)	31 Jul (Wed)	8 Aug (Thu)	26 Sep (Thu)
19 Sep (Thu)	20 Sep (Fri)	-	1 Oct (Tue)	6 Nov (Wed)
30 Oct (Wed)	31 Oct (Thu)	31 Oct (Thu)	11 Nov (Mon)	24 Dec (Tue)
18 Dec (Wed)	19 Dec (Thu)	-	27 Dec (Fri)	TBD

Source: BofA Global Research, Bank of Japan

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### Exhibit 2: G3 central bank decision calendar

2024

2024												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
BoJ	23		19	26		14	31		20	31		19
	(Tue)		(Tue)	(Fri)		(Fri)	(Wed)		(Fri)	(Thu)		(Thu)
Fed		01	21		02	13		01	19		08	19
		(Thu)	(Thu)		(Thu)	(Thu)		(Thu)	(Thu)		(Fri)	(Thu)
		[T+1]	[T+1]		[T+1]	[T+1]		[T+1]	[T+1]		[T+1]	[T+1]
ECB	25		07	11		06	18		12	17		12
	(Thu)		(Thu)	(Thu)		(Thu)	(Thu)		(Thu)	(Thu)		(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 3: Summary of BoJ monetary policy statement (December 2023)**

Key changes from October'23 MPM in red

19 December MPM	
<b>Overall assessment of Japan's economy</b>	Has recovered moderately
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 <b>been on a moderate increasing trend</b> <del>increased moderately</del>
Private consumption	Has <b>continued to increase moderately</b> <del>increased steadily at a moderate pace</del> , despite being affected by price rises
Housing investment	Has been relatively weak
Public investment	Has <b>been more or less flat</b> <del>increased moderately</del>
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
Financial conditions	Have been accommodative
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 <b>at around 3</b> <del>in the range of 2.5-3.0</del> percent recently owing to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices.
Inflation expectations	have risen moderately
<b>Outlook for the Japanese economy</b>	Japan's economy is likely to continue recovering moderately, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from a slowdown in the pace of recovery in overseas economies. Thereafter, as a virtuous cycle from income to spending gradually intensifies, Japan's economy is projected to continue growing at a pace above its potential growth rate. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to be above 2% through fiscal 2024, due to factors such as the remaining effects of the pass-through to consumer prices of cost increases led by the past rise in import prices <del>and the effects of the recent rise in crude oil prices</del> . Thereafter, the rate of increase in the CPI is projected to decelerate owing to dissipation of these effects. Meanwhile, underlying CPI inflation is likely to increase gradually toward achieving the price stability target, as the output gap turns positive and as medium- to long-term inflation expectations and wage growth rise.
<b>Risks to the outlook</b>	Concerning risks to the outlook, there remain extremely high uncertainties for Japan's economy, including developments in overseas economic activity and prices; developments in commodity prices, and domestic firms' wage- and price-setting behavior. 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. 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.
<b>Conduct of monetary policy</b>	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
Overshoot commitment	
Future conduct of monetary policy and forward guidance for rates	For the time being, the Bank will not hesitate to take additional easing measures if necessary,

Source: Bank of Japan, BofA Global Research

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

25 Dec Ueda speech and 27 Dec release of 19 Dec MPM Summary of Opinions to be closely watched in the very near term

Date	Key events
Dec 4	1st Workshop re: BoJ Broad-Perspective Review
Dec 6	Speech by Deputy Governor Ryozi Himino (Oita)
Dec 7	Governor Ueda Semiannual Report on Currency & Monetary (Upper House)
Dec 13	BoJ Tankan (4Q)
Dec 14	Start of blackout period for 18-19 Dec MPM
<b>Dec 18-19</b>	<b>BoJ MPM</b>
Dec 25	Governor Ueda speech at the meeting of Councillors of Keidanren (Tokyo)
Dec 27	Summary of Opinions of the 18-19 Dec MPM
<b>2024</b> January	Start of Regular Diet Session
Jan 11	Regional Economic Report & Quarterly meeting of BoJ Branch Managers
Late January	Keidan to release "Report of the Special Committee on Management and Labor Policy", reflecting big business' recommended negotiating stance
<b>Jan 22-23</b>	<b>BoJ MPM (outlook report)</b>
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)
<b>Mar 18-19</b>	<b>BoJ MPM</b>
Mid-Mar	Rengo announces results of FY24 Shunto preliminary respond
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
<b>Apr 25-26</b>	<b>BoJ MPM (outlook report)</b>
Around May	2nd Workshop re: BoJ Broad-Perspective Review
Mid-May	1Q CY24 GDP (1st estimate)
Late May / early Jun	2024 BoJ-IMES Conference
Early Jun	1Q CY24 GDP (revised)
<b>Jun 13-14</b>	<b>BoJ MPM</b>
<b>Jul 30-31</b>	<b>BoJ MPM (outlook report)</b>
Aug	Results of spring wage increases in major private companies (MHLW)
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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