

## MNI BOJ Review - September 2020

**Meeting Date:** Wednesday September 16 - Thursday September 17 2020

**Link To Statement:** [https://www.boj.or.jp/en/announcements/release\\_2020/k200917a.pdf](https://www.boj.or.jp/en/announcements/release_2020/k200917a.pdf)

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### MNI POV (Point Of View): Playing A Straight Bat

All in all, there were no surprises at the latest Bank of Japan (BOJ) monetary policy decision as the BOJ played a straight bat, meeting broader expectations in all of the major areas of communicate.

The monetary policy settings and forward guidance were left unchanged, while the BOJ provided a slightly more upbeat view on the economy, albeit with a sense of caution evident, which is more than understandable given the current climate. This move was widely telegraphed and predicated on familiar themes.

Kataoka was the lone dissenter, as usual. His dissent was once again based on the idea that “it was desirable to further strengthen monetary easing by lowering short and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms’ and households’ interest burden....Given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.”

Governor Kuroda’s press conference provided little of any real substance:

- He reaffirmed the Bank’s ability to ease further if required, along with the need for ultra-loose policy settings.
- He once again played down speculation of any adjustments to the BoJ’s inflation target. In any case, such a move would lack credibility given the Bank’s issues re: promoting inflation.
- He pointed to the cohesive nature of the Bank’s relationship with the new Prime Minister and confirmed that he will fill fulfil his full term as Governor.
- He reaffirmed a desire for currencies to operate in a manner that is in line with fundamentals.

Looking ahead, relative real-yield dynamics between U.S. Treasuries and JGBs will come under scrutiny, as will the general trend in the USD/JPY currency pair. Of course, these matters are interlinked, and relative strength in the JPY against the USD may result in some verbal pushback from the Bank if the rate moves too far below the acceptable tolerance level for policymakers. Indeed, Kuroda noted that the Bank continues to closely watch developments on this front, with wider beliefs that the Bank would be uncomfortable with a sustained move through Y105 towards Y100 in the USD/JPY cross.

As we mentioned in the run up to the decision, the BOJ’s quarterly Tankan survey will be the next major economic release (scheduled for October 1), with the capital expenditure metric (and trend thereafter) set to come under heightened scrutiny.

It is safe to say that anything that represents a move towards policy normalisation remains some way off for the Bank of Japan. But, if we are being honest, the same could have been said before the COVID-19 outbreak.

## MNI REVIEW: BOJ On Hold; Upgrades Japan, Overseas Outlooks

By Hiroshi Inoue

TOKYO (MNI) - The Bank of Japan left monetary policy unchanged Thursday as it sees Japan's economy recovering moderately after the record contraction in the second quarter, with the short-term policy interest rate maintained at -0.1% and the long-term interest rate target at 'around zero percent'.

The BOJ retained its forward guidance for policy rates, saying it "will closely monitor the impact of the novel 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."

Policymakers continue to monitor the flow of liquidity to companies amid sluggish profits and sales, with a close eye on the availability bank lending.

### --UPS ECONOMIC ASSESSMENT

The BOJ upgrade its assessment on both the domestic and overseas economies as activity resumed at home and abroad.

"Japan's economy has started to pick up, with economic activity resuming gradually, although it has remained in a severe situation due to the impact of the novel Covid-19 at home and abroad," the policy statement said.

The previous view was "Japan's economy has been in an extremely severe situation with the impact of Covid-19 remaining at home and abroad, although economic activity has resumed gradually."

"Overseas economies also have started to pick up from a state of significant depression," the statement added. The near-term view was also upgraded, although the BOJ maintained its cautious outlook.

"Japan's economy, with economic activity resuming, is likely to follow an improving trend through the materialization of pent-up demand and supported by accommodative financial conditions and the government's economic measures," the BOJ said, although noting any pick-up would be moderate while Covid-19 prevailed..

The BOJ also upgraded its assessment of exports and industrial production as they rebounded after falling sharply in Q2.

The assessment of capital investment, however, was downgraded from the previous meeting. "Fixed investment has been on a declining trend," it said, with Inflation expectations also somewhat weaker.

### --UNCERTAINTIES

As for risks, the BOJ said, the virus and its impact on the global economy remained highly uncertain

"In addition, it is necessary to pay close attention to whether, while the impact of Covid-19 remains, firms' and households' medium- to long-term growth expectations will not decline substantially and the smooth functioning of financial intermediation will be ensured with financial stability being maintained," the statement said.

## MNI POLICY: BOJ Kuroda: To Cooperate With Govt; Act If Needed

By Hiroshi Inoue

TOKYO (MNI) - The Bank of Japan will continue to cooperate with the government following the change of prime minister, working to overcome the impact of the coronavirus pandemic, offering additional easy policy if needed, Governor Haruhiko Kuroda said on Thursday.

"If needed, we without hesitation will conduct additional easy policy" Kuroda told a press briefing following the latest policy decision, without elaborating on how and when the BOJ would act. The governor noted that financial markets remain nervous, although tension has lessened somewhat.

Japan's longest-serving chief cabinet secretary, Yoshihide Suga, was elected as prime minister on Wednesday and is widely expected to continue with the economic policies of former PM Shinzo Abe's administration.

### --TO FULFILL TERM

Following speculation that he may have resigned when Abe stepped down, Kuroda confirmed Thursday he would see out the full term of his mandate that ends in April 2023.

When asked about longer-end Japanese government bond yields, Kuroda said that he sees current yield curve as appropriate and repeated BOJ purchases of JGBs aren't aimed at supporting government financing. As for 2% price target, he said, "I don't see the need of changing the 2% price," although the bank hasn't hit its goal.

The Fed's decision of allowing an inflation rate above 2% is the similar to that of the BOJ as the BOJ has pledged to increase monetary base until inflation rate stays above 2% in a stable manner, known as an "overshooting commitment."

Kuroda said the BOJ can lower the policy interest rates further if needed under yield curve control policy as the BOJ, like the Fed, aims to achieve its 2% price target 'on average'.

The governor added that foreign exchange rates should move stably, reflecting economic fundamentals and the BOJ continues to closely watch developments, including the impact on economy and prices.

Earlier in the day, the BOJ left monetary policy unchanged as it sees Japan's economy recovering moderately after the record contraction in the second quarter, with the short-term policy interest rate maintained at -0.1% and the long-term interest rate target at 'around zero percent'. The BOJ retained its forward guidance for policy rates, saying it "will closely monitor the impact of the novel 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."

## Analysts' Key Comments

### Goldman Sachs:

On September 16-17, the BOJ held a Monetary Policy Meeting (MPM), and, as was widely expected, it maintained the status quo in all key monetary policy areas, including short- and long-term policy rates, JGB and risk asset purchase guidelines, and the special program for supporting the financing of companies.

- At the same time, the BOJ raised its assessment of current overall economic conditions to "Japan's economy has started to pick up," from "Japan's economy has been in an extremely severe situation." By category, it lowered its capex assessment, but raised its assessment for exports, production, and private consumption. On the other hand, the BOJ kept its outlook, stating "Japan's economy, with economic activity resuming, is likely to follow an improving trend through the materialization of pent-up demand and supported by accommodative financial conditions and the government's economic measures."
- The BOJ continued to identify three key risk factors: (1) COVID-19 developments, and the uncertain impact on domestic and overseas economies; (2) long-term growth expectations for both corporates and households; and (3) stability of the financial system.
- Of note, new Prime Minister Suga has emphasized the importance of maintaining a close relationship with the BOJ, as was the case under the Abe administration, and of promoting additional easing measures if deemed necessary to sustain employment and keep companies afloat. In particular, he has identified forex stability as a key area of his crisis management, and as a result, the possibility of the new administration encouraging the BOJ to decide additional easing measures, if the yen were to appreciate sharply, warrants attention to some degree, in our view.

### J.P.Morgan:

The BoJ stayed on hold as expected. The BoJ raised its view on current economic conditions by saying that Japan's economy has started to pick up with economic activity resuming gradually, with reference to improvements in exports and industrial production, but did not change its cautious outlook of the moderate economic recovery. Its views on CPI growth (negative for the time being, turning to positive and increasing gradually) did not change either. All of this is in line with our expectations.

- Based on the change in the Fed's policy framework and the change in Japan's politics, there were a lot of questions for Kuroda at the press conference. We felt Kuroda repeatedly tried to emphasize the dovish stance of the BoJ to the markets and media, and to highlight the unchanged relationship with the government even under the new prime minister.
- We still expect that eventually the BoJ will have to change the current forward guidance to outcome-based because it is now linked only to COVID-19, but the more Kuroda stresses this point, the more we may have to dial back the probability of the BoJ adopting such forward guidance.

### Societe Generale:

Governor Kuroda and other BoJ policy board members are maintaining the view enough policy action has been taken for the time being and remained on hold at the September policy meeting.

- PM Abe's resignation kindled fears that the BoJ's policy direction could change under the new prime minister. However, considering that all members of the policy board are supportive of the current easing framework, the hurdle to change the central bank's policy direction remains high.
- Furthermore, PM Suga, the new prime minister, has indicated that he will continue to strive for the 2% inflation target under the policy mix approach.
- That said, global central banks have become increasingly dovish. Furthermore, COVID-19 has delayed the timing of inflation picking up again. As a result, we expect the BoJ's timing until it moves with its next policy action has lengthened. We now expect the first policy change, raising the 10y JGB target, to happen in 2023 (delayed from 2022) and the negative interest rate policy to continue into 2024 (delayed from 2023). As a result, we now believe policy normalisation will not occur during Governor Kuroda's tenure.