

Daiwa's View

BOJ's next move is to be left to new governor

- BOJ unanimously decided to maintain status quo at Jan MPM

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BOJ unanimously decided to maintain status quo at Jan MPM

Enhancement of funds supplying operations announced; effects should be carefully watched

It will take a reasonable period of time for yield formation to take root

In current situation, it is difficult to conclude 2% price target will be met in a stable and sustainable manner

BOJ's next move likely to be left to new governor

Near-term challenge at BOJ is to rebuild dialog with market

BOJ's next move is to be left to new governor

Global attention has been on the BOJ since its surprising decision in December 2022. The market has increasingly speculated that there would be further widening of the trading band for the long-term yield or a removal of the guidance target. Against this backdrop, the BOJ held its first Monetary Policy Meeting (MPM) for 2023 on 17-18 January. The results were announced shortly after 11:40 a.m. (early for a meeting when the *Outlook for Economic Activity and Prices* report [*Outlook Report*] is released). As expected, the meeting unanimously decided to maintain the status quo. At this meeting, the BOJ announced that it would enhance Funds Supplying Operations against Pooled Collateral in order to check rising yields in a way that has no impact on supply/demand for JGBs. For the time being, the central bank is likely to carefully watch the effect of this move.

Regarding a question about the sustainability of the YCC at his regular press conference, Governor Haruhiko Kuroda replied that modifications were only made in December and it would take a reasonable period of time for yield formation under the new policy to take root. Then, based on price projections in the January *Outlook Report*, he emphasized the need to continue the YCC given the current situation in which it is difficult to conclude the 2% price target will be met in a stable and sustainable manner. I have the impression that the BOJ's FY23 price projection is lower than figures in advance media reports, and would like to see if this is addressed in the Box analysis in the *Outlook Report* to be released on the 19th. In addition, as the projection period will be extended to FY25 in the next April *Outlook Report*, there may be an expectation that price projections will be revised upward. Going forward, the BOJ needs to await confirmation of the key conditions involving fundamentals, specifically (1) an economic recovery to pre-coronavirus levels, (2) a positive output gap, and (3) the budding formation of a virtuous cycle of higher prices leading to higher wages in light of the annual spring labor-management wage negotiations.

Decision on the BOJ's next move is likely to be left to the new governor, at a time when a number of positive factors fall into line. According to a Reuters article dated 17th based on multiple government/ruling party sources, the government appears to be preparing to submit its proposal for nominees for the BOJ governor and deputy governors to the Diet on 10 February. Come February, the market's interest is likely to shift to the new governor's way of thinking, but speculations on additional policy revisions will persist. The near-term challenge for the BOJ is to rebuild its dialog with the market. Going forward, it will be important to maintain consistency among BOJ officials in carefully explaining the policy intention and the thought process.

FY22-24 Forecasts of Majority of Policy Board Members (y/y % chg)

	Real GDP	CPI (all items less fresh food)	(Ref) CPI (all items less fresh food and energy)
FY22	+1.9 ~ +2.0 [+1.9]	+3.0 ~ +3.0 [+3.0]	+2.1 ~ +2.1 [+2.1]
As of Oct	+1.8 ~ +2.1 [+2.0]	+2.8 ~ +2.9 [+2.9]	+1.8 ~ +1.9 [+1.8]
FY23	+1.5 ~ +1.9 [+1.7]	+1.6 ~ +1.8 <+1.6>	+1.7 ~ +1.9 [+1.8]
As of Oct	+1.5 ~ +2.0 <+1.9>	+1.5 ~ +1.8 [+1.6]	+1.5 ~ +1.8 [+1.6]
FY24	+0.9 ~ +1.3 [+1.1]	+1.8 ~ +1.9 [+1.8]	+1.5 ~ +1.8 [+1.6]
As of Oct	+1.3 ~ +1.6 [+1.5]	+1.5 ~ +1.9 [+1.6]	+1.5 ~ +1.8 [+1.6]

Source: BOJ; compiled by Daiwa Securities.

Notes: (1) Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

(2) The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

(3) Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

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