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Daiwa's View

Start of new BOJ leadership led by Ueda: Impressions from inaugural press conference

- Ueda is taking the safe course, but not being rigid

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◆ Summary of press conference

The new BOJ leadership led by Kazuo Ueda began in earnest yesterday. Governor Ueda attended an inaugural press conference that started at around 19:15 yesterday, together with deputy governors Ryozo Himino and Shinichi Uchida. Before the press conference, the three top BOJ officials met Prime Minister Fumio Kishida at the prime minister's office. It was reported that some related cabinet members, including Finance Minister Shunichi Suzuki and Minister in Charge of Economic Revitalization Shigeyuki Goto, joined the meeting, which was held for just ten minutes. After the meeting, Governor Ueda told reporters that they agreed there was no need to immediately revise the existing joint statement (accord) between the government and BOJ.

In the inaugural press conference, Governor Ueda was asked about revisions to the framework of the yield curve control (YCC) policy. He expressed the view that he was not considering revisions to the policy framework for the time being, saying that the policy was a scheme for forming the yield curve thought to be the most appropriate for the economy, considering market functioning. He also stated that he thought it was appropriate to continue the policy given current economic, price, and financial conditions.

Asked what circumstances would allow the BOJ to head towards exiting the monetary easing policy, he implied policy revisions in the future, stating that the BOJ would (1) carefully and accurately grasp economic, price, and financial conditions, (2) discern whether underlying price trends and inflation would reach 2% in a stable and sustained manner, and (3) move towards normalization at an appropriate time if necessary. He also stated that, meanwhile, if it was difficult to do so, the BOJ would seek a more sustainable monetary policy framework, giving consideration to side effects, and would make proper judgments in this regard.

Furthermore, asked about the need for inspection and assessment in order to review current monetary policy, he stated that there were some issues regarding conducting an assessment in the long term. He stated that, with powerful monetary easing having continued for about twenty years, he thought that it would be good to implement inspection and assessment regarding the future path by comprehensively assessing things overall, and that he would like to discuss this with the policy board.

Regarding negative interest rates, he said that the negative interest rate policy was the basis of the current powerful monetary easing, and that he thought that it had side effects, and that its impact on earnings at financial institutions was strong. However, he stated that the policy included measures to mitigate the negative impact, and that, based on the judgment that the underlying inflation rate had not reached 2%, he thought continuing it was appropriate.

◆ Ueda is taking the safe course, but not being rigid (Tani)

I will leave the details of the press conference to our chief market economist Mari Iwashita. However, if I were to sum up yesterday's press conference, I would say that Governor Ueda is taking the safe course. As was the case in February, it was good news that we were able to confirm cooperation with the government. He emphasized a stance of maintaining the current framework for the time being, while discerning the situation and responding as needed. This pushed back against speculation, mainly prompted by overseas investors, that the YCC would be done away with in April. This was indicated by the fact that (1) the yen weakened further overnight (explained later in this report) and (2) an evening session of long-term JGB futures closed after rising by Y0.09 (meaning a drop in yield), running counter to rising US yields.

Meanwhile, the press conference was not exclusively oriented towards the stance of maintaining monetary easing. In addition to implying a policy assessment in the future, what demonstrated Governor Ueda's well-balanced approach in particular was an issue that he himself brought up around 55 minutes after the start of the press conference. Specifically, when asked about side effects that should be considered when maintaining large-scale easing (in addition to the existing issues of YCC vs. market functions and negative interest rates vs. earnings at financial institutions), he referred to a major correction to the market and economy in the case of a rapid shift towards normalization due to a delayed realization that the inflation target had been achieved (see remarks below). It was also characteristic of Governor Ueda that he himself brought up a warning about the risk of falling behind the curve. In addition to his approach of maintaining easing, he emphasized giving consideration to the risk of falling behind the curve due to taking a rigid stance on easing. This led us to feel that Governor Ueda was taking a balanced approach in his leadership.

BOJ Governor Kazuo Ueda (10 Apr 2023)
There is another matter that has not come up much today. If we were to suddenly notice that inflation was reaching 2% in a sustainable and stable manner, and if we needed to abruptly normalize policy, very large adjustments would be needed. Accordingly, the market and economy would be forced to deal with major corrections. We need to make appropriate decisions in advance in order to avoid such a situation, in so far as possible.

◆ Implications for forex rates (Tadaide)

The impression I got from the press conference was that it was generally uncontroversial, and included no commitments regarding future policy. With the BOJ indicating a stance of maintaining the current large-scale easing (such as YCC and negative interest rates), the yen weakened to the Y133 level against the dollar (this may reflect repurchases by some investors who assumed that some remarks implied there would be YCC revisions ahead of the Apr BOJ Monetary Policy Meeting [MPM]), with the rate rising to Y133.87 at one point due to increased purchasing of the dollar reflecting higher US yields.

The near-term focus of attention is still the timing of revisions to YCC (including its removal). Thus far, we have not seen remarks that would significantly change the policy direction. However, many people think that the BOJ would be unable to signal it even if it were going to make revisions to YCC. Accordingly, although the BOJ is emphasizing the appropriateness of continuing with YCC, few market participants take this at face value. According to the QUICK survey, some expect YCC revisions at the first MPM under the new leadership scheduled for 27-28 April, and more than half of respondents anticipate policy revisions by the June MPM. As it does not look like such views have changed following yesterday's press conference, the market seems likely to continue having YCC revisions on its mind for the time being.

Reflecting the recent bank shocks, the probability is increasing that the US economy will enter a recession in 2H 2023. If the global economy were to enter a recession led by the US, it would be difficult for the BOJ to implement policy revisions. Accordingly, if the BOJ's status-quo period lengthens, more market participants will assume there will be no policy revisions in the current cycle. This is likely to increase selling pressure on the yen. Meanwhile, it appears that YCC revisions have been mostly factored in by the market, and, therefore, it is unlikely that the yen would strengthen substantially due to revisions. Of more importance are trends in US monetary policy. We forecast that the USD/JPY rate will decline due to corrections in the strength of the dollar after US yields return to the neutral level over the medium/long term.

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