

# Daiwa's View

## Sep MPM: Dampens the idea that decisions have already been made

- A reminder that the BOJ manages policy untied to specific events, including *Shunto*

Fixed Income Research Section  
FICC Research Dept.

Strategist  
**Kazuya Sato**  
(81) 3 5555-8773  
kazuya.sato@daiwa.co.jp

Senior Strategist  
**Ryoma Kawahara**  
(81) 3 5555-8777  
ryoma.kawahara@daiwa.co.jp  
Daiwa Securities Co. Ltd.

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#### Sep MPM: Dampens the idea that decisions have already been made

As expected, the BOJ kept policy on hold at its policy meeting last Friday. For a comprehensive critique, see the 25 September report written by our chief market economist Mari Iwashita. Just as in 15 September report, "gap between BOJ Governor's statements and the market's interpretation, BOJ's thinking largely unchanged," there was virtually no change in the BOJ's thinking between its two policy meetings. JGB bond yields declined after the policy meeting results were announced, but then rose, led by the superlong sector. A key takeaway from this policy meeting (including media reports) is that the BOJ has served a reminder that it will manage policy without being tied to specific events. In this report, we discuss two topics covered in the press conference, wages and *rinban* operations, while also addressing the points made above.

#### ◆ Factors behind wage changes

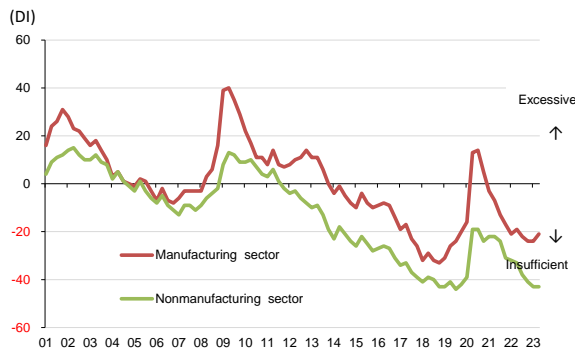
During the press conference Q&A, there were several questions regarding wages. BOJ Governor Kazuo Ueda answered that the sustainability of inflation was the most important factor affecting wage increases, and that in the spring wage negotiations (*Shunto*), it was first the large enterprises that raise wages, followed by other companies (SMEs). He also said that the factors affecting those wage increases are understood to a certain degree, and that the BOJ looks closely not only at the *Shunto* wage hikes but at the sustained changes in specific variables, and that it does so on an ongoing basis. His answers were interesting for the following two reasons.

First, they were a reminder that, as noted above, the BOJ's management of policy is not tied to specific events. In our report, we said that two pre-MPM media reports following the 9 September interview with the *Yomiuri Shimbun* expressed the view that the BOJ wants to disabuse the market of the notion that its decision to either maintain or change policy was predetermined depending on specific events and factors, but rather that its management of policy would be data dependent. Mr. Ueda's comments were in the same vein, pushing back against the notion that the BOJ has already decided to keep policy unchanged until *Shunto*. The BOJ's message may be that everything is on the table at each meeting, because it is taking a multifaceted approach to reviewing policy, and even *Shunto* (although certainly an important event) would not necessarily be a constraint on policy.

The second regards how the factors behind wage changes that Mr. Ueda says are "understood" differ depending on the size of the firm. Previous review series papers on wages published by the BOJ have touched upon differences in factors affecting wages depending on firm size.

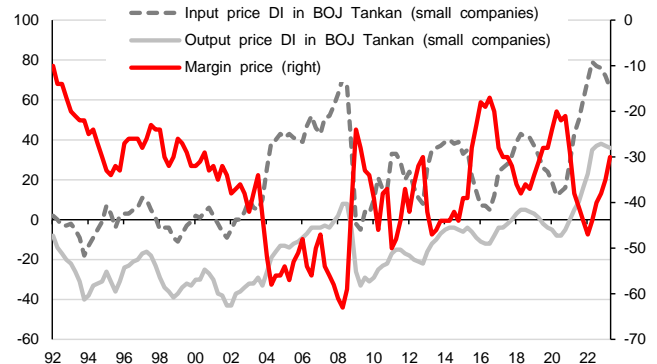
For example, [a 2016 review series paper](#) noted that in large enterprises, particularly among manufacturers, price changes (particularly the past rate of inflation in overall prices) have affected base salary increases negotiated between labor and management. Among SMEs, labor supply-demand and changes in margin price have large impacts. (Underlining added by the author.) An analysis of labor supply and demand and margin price in the same paper used the Tankan survey's employment DI and price DI as analytical variables<sup>1</sup> (see Chart below). Mr. Ueda also noted at the press conference that strong corporate earnings should have a positive impact on wages in 2024, although it is important to confirm the data when following wage trends.

Employment Conditions DIs in BOJ Tankan (small companies)



Source: BOJ; compiled by Daiwa Securities.

Price DIs in BOJ Tankan (small manufacturers), Margin Price



Source: BOJ; compiled by Daiwa Securities.  
 Note: Margin price calculated as "Output price DI – Input price DI."

#### ◆ *Rinban* operations and the commitment to overshoot

Concerning bond supply-demand, Mr. Ueda said the following regarding the BOJ's *rinban* operations. "It is true as you say that *rinban* operations have continued at a high level. We can only say that we will consider these from a long-term perspective." Later, he was asked separately, "Forward guidance regarding the commitment to overshoot is backward looking; does this relate to the timing for achieving the target in other forward-looking guidance?" His answer was that these policies come in a single package, and although it may be logical to eliminate only the base money targeting component because 2% inflation has been achieved for an extended period, what matters is whether we expect to achieve the broader inflation target.

As long as BOJ's current account balance is increasing because of purchasing operations, large-scale JGB purchases and plans to increase the monetary base are two sides of the same coin, making it difficult to argue that one or the other should be eliminated. Moving first to eliminate monetary base expansion from forward guidance would fuel expectations that the BOJ's other policies will be normalized. Until the BOJ makes a final decision to normalize, it will probably be constrained to some extent in its ability to modify forward guidance on expanding the monetary base or reduce substantially the amount of its *rinban* operations. That being said, given that expansion of the monetary base is only a guideline, this is not a major constraint. We think a path toward reducing the amount of purchasing operations has opened to some extent as a policy tool to restore market autonomy and affect exchange rates.

<sup>1</sup> A more recent BOJ research paper, "Summarizing arguments regarding wage trends in Japan" (2023, in Japanese), pointed out that increases in the expected growth rate contribute to sustained increases in nominal wages, especially at large firms.

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