

# Daiwa's View

## Expect more lively Dec meeting following Deputy BOJ Governor Himino's speech

- Himino's first speech since taking office viewed as relatively hawkish
- Forward OIS rose in response to speech; now expect more lively Dec meeting

FICC Research Dept

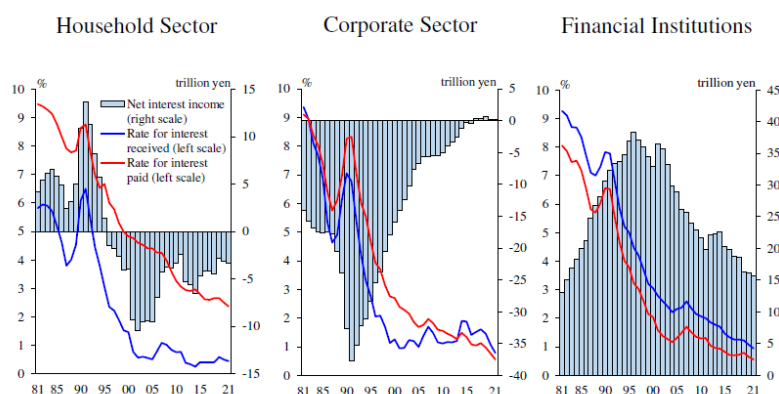
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On 6 December, Deputy BOJ Governor Ryozo Himino delivered his first speech since taking office. Following this speech, the short-term market reacted by moving up its anticipated timing for when the BOJ will end its negative interest rate policy. Apparently, market participants have started factoring in to some degree the possibility of a policy change at the Monetary Policy Meeting slated for 18-19 December.

The content of Himino's speech was regarded as relatively hawkish by the market. One part of his speech that had a particular impact on the market was his discussion on how an exit phase could influence the economy.

In his speech, Himino asked, "What then would happen if the virtuous cycle between wages and prices were to finally take hold, and, as a result, sustainable and stable achievement of the price stability target were to come in sight?" Starting from this part of his speech, he noted how rising interest rates would impact the household sector, the corporate sector, and financial institutions. For households, which account for the bulk of excess savings, he assessed that the positive impacts would be stronger. For companies, he assessed that the impact on the interest rate balance would be more limited than during the period of high borrowing. For financial institutions, he assessed that there would be short-term stresses. He also assessed that bank management would become more viable compared to an environment of persistently low interest rates. In general, his speech indicated that the impact of higher interest rates on the macroeconomy should be generally positive or neutral.

**Chart 1: Impact of the Past Interest Rate Changes on Net Interest Income**

Source: Excerpted from BOJ speech materials.

As for changes to firms' wage and pricing behavior, Himino made a positive assessment of the virtuous cycle of wages and prices, saying that positive trends are emerging (albeit with some differences among companies). Specifically, he said, "Firms' pricing policies become more diverse, facilitating firms' exploration of strategies of selling more attractive products and services at commensurate prices in addition to those of selling good products and services at low prices. This stage may provide firms with broader options for attaining higher productivity."

**Chart 2: Changes in Firms' Wage- and Price-Setting Behavior**

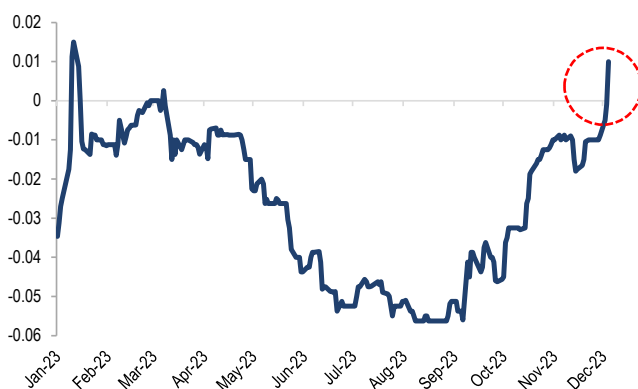
Stage 1	Firms reflect higher import prices in selling prices.
Stage 2	Firms reflect higher general price levels in wages.
Stage 3	Firms reflect higher labor costs in selling prices.
Stage 4	Firms' pricing policies become more diverse, facilitating firms to explore strategies of selling more attractive products and services at commensurate prices, not just good products and services at low prices.

Source: Excerpted from BOJ speech materials.

In making this speech, Himino apparently took into consideration the BOJ's "Broad-Perspective Review (of monetary policy) Workshop" held on 4 December. The hawkish content of the speech caused the short-term market to react by moving up its timing for when it expects the BOJ to end negative interest rates. Indeed, the three-month overnight index swap (OIS) rose while Himino was making his speech (Chart 3).

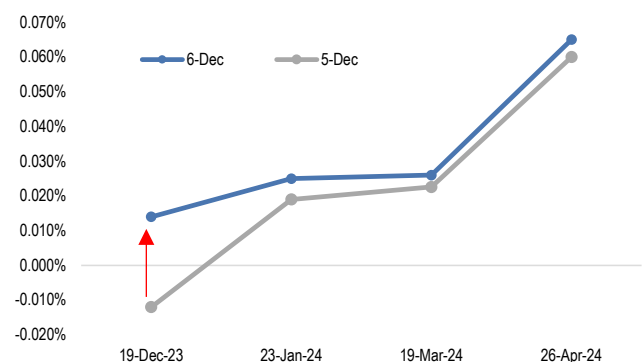
This can be seen as a change in how the market is factoring in its assumptions for the upcoming December meeting. Looking at the forward OIS as of each BOJ meeting, we can see that there are no significant changes in how the market is factoring in expectations for the January and April 2024 meetings, but there is a big change in how it is now factoring expectations for the meeting this month (Chart 4). Our current main scenario still assumes the BOJ will end negative interest rates at its April 2024 meeting. However, the market seems to be expecting some fireworks at the December meeting.

**Chart 3: 3-month JPY OIS**



Source: Bloomberg; compiled by Daiwa.

**Chart 4: Forward OIS Changes as of each BOJ Meeting**



Source: Bloomberg; compiled by Daiwa.

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