

Kuroda tried to end the speculation that 10yr rate may rise soon

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Managing Director
Chief Economist

Takuji Okubo

+81.3.6894.9462

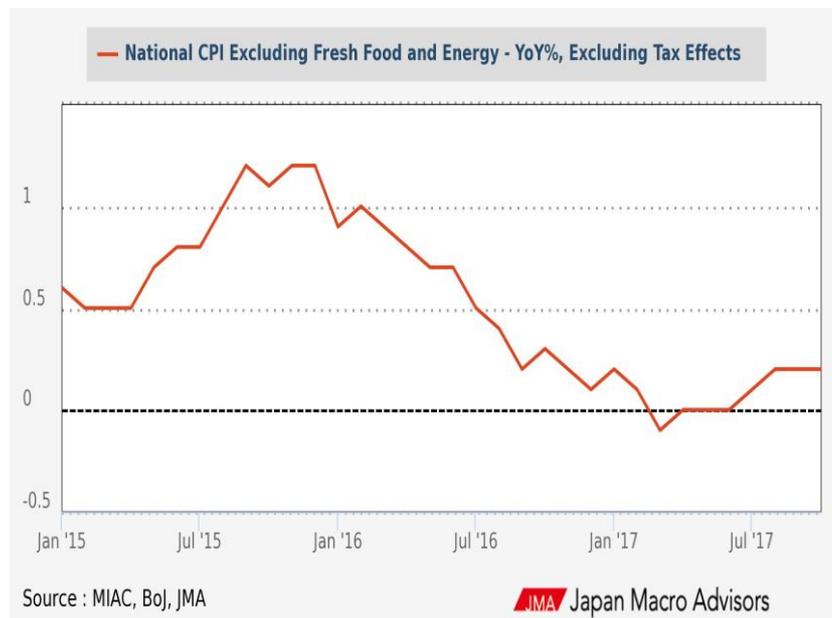
takuji.okubo@japanmacroadvisors.com

Executive
Summary

BoJ kept its policy unchanged when it concluded its last policy meeting on December 21. In the press conference following the decision, BoJ Governor Kuroda tried to put an end to the speculation that the BoJ may raise its 10-year interest rate target as soon as in 2018. In our view, while we should not rule out such a possibility, it is highly unlikely. We think the BoJ will keep its current policy unchanged until it becomes reasonably sure that its inflation goal is already reached and that is unlikely to happen in 2018.

In the press conference he gave on December 21, BoJ Governor Kuroda tried to put an end to the speculation that the BoJ may soon raise its 10-year interest rate target. In his answer to the press, he explained that the 2% inflation target is "the" guiding light on the BoJ's decision on its policies and policies will not change just because the economy is doing better. As there is hardly any inflation yet in Japan, it should follow it is quite unlikely that the BoJ would raise its policy rate anytime soon.

There is hardly any inflation yet in Japan

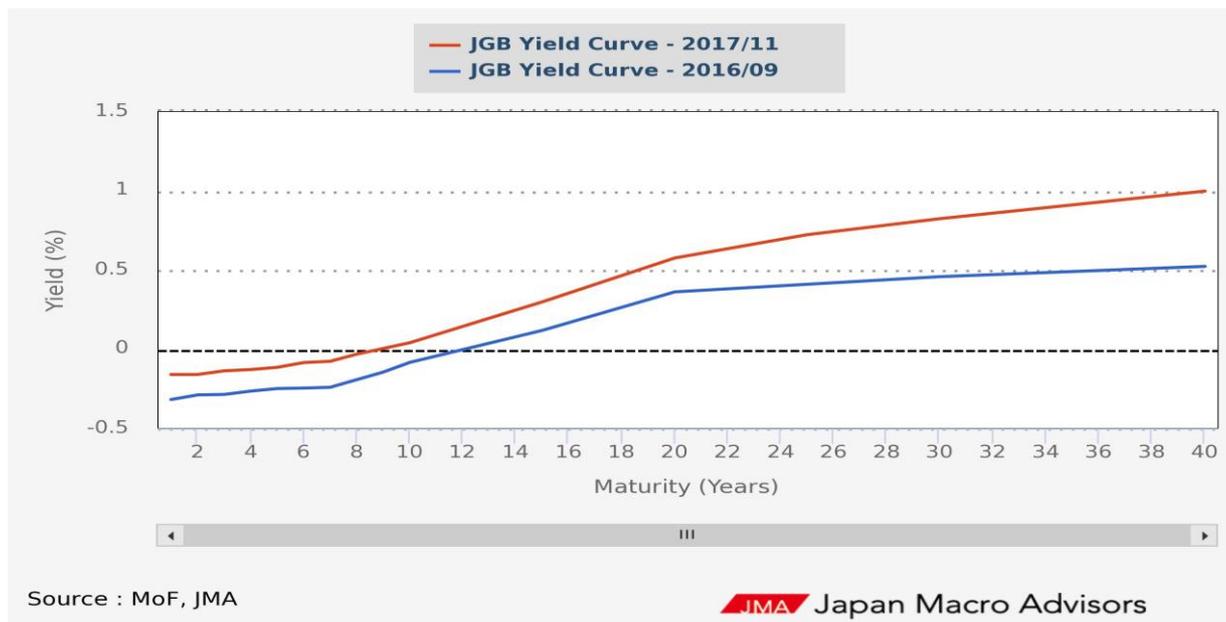


According to a Bloomberg survey conducted in early December, economists forecast the core CPI inflation to rise only to 1% in 2019. The BoJ pledged in September 2016 that it will allow inflation to “overshoot” 2% to ensure that its inflation target is being achieved in a stable manner. Starting to raise 10-year target when the actual inflation is still well below 2% is also inconsistent with the “overshoot” commitment.

In our view, the BoJ also needs to be concerned not to trigger a bond market crash when it allows rates to rise. The BoJ will need to be prepared to purchase massive amounts of bonds in an effort to contain the likely turbulence following such a decision. The BoJ will eventually need to take this step if it hopes to return long-term interest rates to be determined by the market again, but it is a step to be taken when the BoJ is reasonably certain that inflation target has been achieved.

Aside from this key question, there was not much new news in Governor Kuroda's press conference. When asked on his view on Bitcoin, he described the recent ascent in its price as abnormal and it is up to the Financial Service Agency to regulate it appropriately. When asked about whether the current level of stock prices is excessively high, he answered he does not think so. When asked about the effectiveness of the Yield Curve Control (YCC) policy, he answered that the BoJ proved that the yield curve can be controlled and said that the longer end of the yield curve was too flat when the BoJ introduced YCC policy in September 2016. His comment may imply that the level we saw in September 2016 may act as a "floor" if the yield curve enters a flattening phase in the future.

According to Governor Kuroda, yield curve was too flat in September 2016



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