

Introduction

Probably Governor Kuroda did not expect the considerable negative reactions of our financial markets, especially on the stock front, to “supplementary measures” of the QQE today. Nevertheless, Mr. Kuroda appeared to be relaxed at the press conference and confirmed his constructive views on our economy and prices.

Set of measures

The BOJ announced six measures of the QQE today. Excluding the rollover of eligible period of Loan Support Program as a usual business in every December, four out of five have technical aspects.

First, the BOJ will extend the average remaining maturities of JGB purchases from “7 to 10 years” to “7 to 12 years”. While it could appear to be additional stimulus, our market participants are aware that the BOJ could face difficulties in maintaining the current pace of BOJ purchase when the issuance of short-term JGBs would be reduced and amount of redemption of JGBs held by the BOJ would be increased in FY2016.

Second, the BOJ will introduce the additional fund for ETF purchase with ¥300 billion. But as the BOJ announced today, they will start liquidating the stocks that were purchased in the past for the purpose of financial stability, and the expected amount of sales in FY2016 would be ¥300 billion.

Third, the BOJ will increase the maximum amount of REIT to be purchased from 5% to 10% of each issuance. Again the markets understand that the BOJ could face difficulties in purchasing REITs at the current pace due to the lack of eligible assets.

And the fourth, the BOJ will expand the set of eligible collateral to 1) foreign currency denominated loans and 2) housing loans portfolio through trust scheme. As its backgrounds, our financial institutions raised the voices of concerns about rapid reduction in eligible collateral largely due to large scale purchase of JGB by the BOJ.

Market reactions and BOJ's intension

Fundamental cause of the negative reactions by our markets was the miscommunication about its intension, in my view. Because the markets at first seemed to think this was an additional stimulus, they were disappointed at some features of the measures, which lacks any net increase in the size of liquidity provision.

As Governor Kuroda explained at the press conference, the BOJ did not intend that the set of measures is the enhancement of the QQE, but introduced them to support effective implementation of the QQE.

Moreover, some commentators mentioned that today's announcement appeared to imply the boundaries of the QQE in some aspects. They highlighted the technical reasons for a set of measures, especially in terms of the purchase of JGB and REITs (First and third points above).

Another source of confusion was some flavor of industrial policy. Specifically, eligible ETFs will be those composed of stocks issued by firms that are proactively making investment in physical and human capital. As the fifth measure, the BOJ added a category of borrowers with the same feature to the eligible set of borrowers for Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth.

Looking from the different perspectives, however, the BOJ may have introduced some measures with the intension to expand the room for flexibilities of the QQE. For example, with lengthening the average maturity of JGB purchase, the BOJ could increase the scale of QQE in collaboration with debt management policy by the government.

At the same time, the BOJ could face less opposition by financial institutions when and if they increase the scale of JGB purchase, because financial institutions would feel secure about the amount of eligible collateral as broader range of financial assets. Governor Kuroda explained today that outstanding amount of home loans is ¥130 trillion.

Moreover, relaxing the ceiling amount of REITs purchase as percentage of each issuance would apparently contribute to smooth operations by the BOJ when the BOJ would increase the absolute amount of REIT purchases.

All in all, at least some measures announced today could facilitate an additional stimulus by the BOJ in the future. If our markets would pay attention to this “positive” side of a set of measures, reactions could be corrected and become calmer.

Economic assessments and implications

It is needless to mention that economic prospects and its implications for the management of the QQE are more important both for the markets and the BOJ.

With this respect, Governor Kuroda maintained his bullish view. He showed confidence in continuous recovery of private consumption, and confirmed the constructive view on business investments by referring to most recent TANKAN survey. While he admitted that major sources of downside risks are still found in overseas economies, he pointed out some signs of stabilization of our external demands.

In comparison with economic activities, inflation has been sending mixed signals. Nevertheless, Governor Kuroda reiterated that improvement of underlying inflation is still under way, in such aspects as pricing power of firms, share of goods and services with rising prices, and long-term inflation expectations.

Readers may notice the inconsistencies between the BOJ's implicit intension of “supplementary” measures and the BOJ's confidence in economic recovery (which may decrease the need for additional stimulus). A possible factor to bridge this gap is the strength of the BOJ's commitment in achieving the inflation target in the latter half of FY 2016.

Although the BOJ postponed the expected time of achievement twice in the past, this practice again could affect the inflation expectations in the end. The BOJ may need to make a decision sometime in 2016, whether they would try to accelerate the inflation by an additional stimulus, or maintain “wait and see” stance for gradual improvement of inflation in light of its prospective side-effects on our economy.

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