

Introduction

It is only two weeks (due to the Golden Week in Japan) since the previous and pivotal MPMs on April 30. As a result, large part of the discussion at the press conference today covered the issues carried over from the previous one. Nevertheless, some new discussion on the recent market dynamics could have some implications.

Achievement of the inflation target

Several reporters asked the reason for the removal of the last sentence in the previous statement, which indicated the strong confidence in achieving the target sometime in FY 2015. While Governor Kuroda insisted that the BOJ maintains such confidence, this revision may raise the following issues.

First, strong emphasis on the confidence could have impacts on the markets. It would be all the more true when the chiefs of all the major central banks overseas started to express cautious outlook on their economies and monetary policy. In fact, these messages seem to play significant roles for depressing the long-term yields in major economies.

Moreover, uncertainties about the BOJ's policy strategy in FY 2016 could have growing impacts on our markets. Readers may like to remember that the BOJ announced their bullish inflation outlook for both FY 2015 and FY 2016. In response, at the previous conference, several reporters asked if this would imply the stable achievement of the target, which is the condition for exiting from the QQE.

Second, appeal of the successful achievement could have political troubles. Although the BOJ expects that we will have higher nominal wages (probably based on anecdotal evidences from their contacts and on econometric analysis), it is still uncertain whether the upward revision of wages would proliferate to broad-based economic sectors. If the improvement of real wages are limited, the opinion of general public toward the QQE could be unstable at best.

The latter point leads us to the discussion on aggregate supply of our economy.

Aggregate supply as policy issue

Some other press reporters asked if we could face a kind of "stagflation", if our potential growth rate is extremely low as estimated by the BOJ or the Cabinet Office, and if the BOJ successfully achieves the inflation target. This is a "derivative" of the discussion at the previous press conference.

Governor Kuroda reiterated that the BOJ is making utmost efforts for exiting from decades long deflation. Interestingly, though, Governor Kuroda also implied that significant improvement of potential growth rate is important from long-term perspectives. Furthermore, he mentioned that 1) promoting business investments, 2) encouraging women and elderly people to participate labor markets, and 3) increasing productivity through de-regulations would be the key areas for policy initiative.

Markets may understand that this is a sort of message for the government which has been struggling with the details as "Third arrow" of Abenomics. This could also highlight the confidence of the accomplishment of the mandate by the BOJ on the one hand, and lack of momentum of the discussion on the economic growth strategy from the viewpoints of the markets.

Even from the fundamental economic perspectives, excessive stress on supply-side constraint could become mis-leading. While the anecdotal evidences imply some growing shortages of economic resources in some non-manufacturing sectors, it might be too early to claim that this is an issue of aggregate supply. In addition, substantially low level of unemployment might still be a result of our specific feature of adjustment in labor market (quantity rather than price). While our demographic factors would be doubtlessly important, it could be a matter of longer-term economic growth.

The BOJ and the markets may need to share the enhanced understandings of aggregate supply dynamics: for example, whether labor inputs and capital formation (and innovation as well) could be enough when they would naturally be induced by the expansion of aggregate demand.

JGB markets

Another issue carried over from the press conference is the evaluation of JGB markets. Specifically, the discussion includes two major points.

First, a reporter expressed a concern about the low market liquidity. He seemed to think that we could observe high volatilities in JGB yields again like those an year ago. Governor Kuroda explained that the BOJ continues to conduct close monitor of the JGB markets. The BOJ also enhanced its scheme of securities lending.

Second and more importantly, a few reporters asked about the reasons and implications of the current low yields of JGB. Governor Kuroda not surprisingly emphasized that JGB yields are maintained at low levels due to its extremely large scale of JGB purchase. Furthermore, Governor Kuroda expressed the confidence in gradual but secure economic growth in overseas major economies. According to his comments, recent drop in yields of US Treasury notes would largely reflect the growing understanding of monetary policy strategy by the FRB.

All in all, Governor Kuroda expresses of his confidence in controlling long-term yields by the unconventional monetary policy. As it is implied in the discussion above, however, long-term yield could be affected by a number of factors other than monetary policy itself.

Conclusion

Until an year ago, many of us tended to expect that our economy would substantially improve if only we could exit from low inflation or small deflation. Ironically, though, we seem to have a slightly different set of challenges. As a result, monetary policy by the BOJ – especially in terms of the communication policy – could never become "boring", even if the achievement of the target might become surer than before.

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