Notes on Financial Markets Vol.139

Summary of opinion at September MPM

September 29, 2017

Introduction

Summary of opinion at the MPM – "flash" version of minutes – has attracted attention, because of a dissenting vote by a new member of the policy board. It turned out to be more interesting as it contained some new points of view on our economy and monetary policy.

Discussion on overseas economies

Before reviewing the discussion on domestic economy and prices, I will briefly cover the discussion from global perspectives.

One comment suggests that increasing trend of PPI in China could imply a change in global trend of dis-inflation. In fact, experts of Chinese economy suspect that it could reflect some improvements of excess capacity of some important materials.

While it would be an encouraging sign itself, aggregate demand in Chinese economy has been gradually decelerating. Moreover recent dynamics of global prices of commodities suggest that we may have abundant capacity of their supply from macro perspectives.

In light of the recent developments, it would be natural that a couple of comments refer to implications of geopolitical risk on financial markets. Both of the comments speculate that direction of reaction of the markets could suddenly change.

Readers may be aware that a common hypothesis of the reason for the appreciation of JPY even under our own geopolitical risks would be due to the feature of JPY as "funding" currency". Whenever the global players try to reduce risk exposures, they would "buy back" JPY on their liability side.

Fundamentally, change in the direction of JPY's reaction could occur either because such risk exposures have considerably "adjusted" or capital outflow by domestic investors have become considerably larger. It is of course uncertain whether they could become the case in the near future.

Discussion on domestic economy and prices

First three pieces of comments confirm the official view of the BOJ. They show confidence in gradual economic expansion supported by overseas economic growth, economic stimulus by the government and easing monetary policy.

Moreover, following comment expresses good prospects of business investment. It views that firms could utilize their abundant cash more, because its ratio to total assets would approach the appropriate level. While it is essential to mobilize these assets to business investment and employees' wages, as the next comment suggest, such optimal ratio could evolve owing to economic conditions and corporate sentiment.

Last comment on domestic economy expresses rather cautious view. According to the comment, household would save more because of the projected increase in burden. Firms also would be cautious, as capacity utilization and growth expectation have not increased enough. Focus of this comment implies that it is by a member of the policy board who voted against the current rate of policy target.

In terms of prices, all but two comments affirm the constructive view. A couple of them expect gradual increase in the rate of inflation on the back of improvement in output gap and a rise in long-term inflation expectations. Moreover, another comment speculates that even labor saving investment and streamlining of business process by firms could not absorb the upward pressure of input costs in the end.

Two other comments refer to the anecdotes; efforts for raising prices by labor intensive sectors such as drinking services and cases of increasing rents and prices of home delivery services.

Interestingly, following comment has a slightly different perspective. On the one hand, it admits that increase in labor participation and firms' efforts to raise productivity contain wages and prices. On the other hand, it claims that these developments are the signs of positive structural changes.

And the last comment is virtually the same as the line of discussion of a dissenting vote (as indicated by the footnote of the policy statement). It argues that possibility of the rate of change increasing toward 2% is low, because of an excess supply capacity in stock capital and labor market.

Monetary policy

First three comments, again, confirm the "official view". All of them claim that the BOJ should persistently pursue the current monetary easing under momentum of achieving the inflation target. Another comment expects enhancement of policy effect as potential growth rate improves.

And the sixth comment confirms the significance of maintaining the inflation target, by referring to the difficulties of grasping economic situation and labor condition with an accurate manner. We could suspect that it is by a new member of the policy board, based on the viewpoints.

Other comments cover the future course of the QQE. Naturally, two of them discuss possibility of monetary easing under the uncertainties of external environment. Moreover another comment suggests the monetary easing in order to achieve the inflation target in spite of potential downward pressure on economic activities by a next round of consumption tax hike.

And on the one hand, a comment underlines the importance of monitoring the function of financial intermediation when managing the QQE. On the other hand, a comment stresses the importance of dialogue with the markets when reaching the phase of shifting toward policy normalization.

These lines of discussion suggest that there may be a divergence of the views on a "next move". In light of the constructive views of economy and prices, a next move would be a step toward normalization (although its timing is highly uncertain). We noticed some comments, however, raising the case of further easing due to political or external event. Apparently the issue would be managing the NIRP, but there is no specific comment with this regard this time.

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