

Introduction

The MPM of the BOJ today maintained their constructive view on the outlook of economy, while they made another round of downgrade of the outlook of inflation. Larger part of discussion at the press conference today, however, was devoted to the strategy of managing the QQE.

Outlook of economy and inflation

Before reviewing the discussion on the policy strategy, I will cover the revised outlook.

Their new outlook of real GDP growth rate announced today is +1.9%→+1.4%→+0.7% for FY2017 to FY2019. In comparison with the previous outlook (as of July 2017), they are mostly unchanged except for minimal upward revision for FY2017 (+1.8% previously).

Their summary text implied a modestly more constructive views on our economy, largely based on the positive outlook of overseas economy. With the description of risk factors remain unchanged, the MPM mentioned that the upside and downside risks have now become balanced.

Their outlook of CPI inflation rate, however, was revised downward for near-term perspectives. New outlook is +0.8%→+1.4%→+1.8% for FY2017 to FY2019, in comparison with +1.1%→+1.5%→+1.8% as of July 2017.

Governor Kuroda's account as well as the summary text of outlook insisted that major reason for such downward revision was idiosyncratic and temporary. Nevertheless, the same text suggested that the MPM may pay more attention to structural aspects of inflation dynamics.

In fact, the text pointed out the possibility that the prices of goods and services with difficulties in differentiation could further prevent higher rate of inflation under tougher completion due to changes in delivery technology and deregulations. All in all, majority of the members of the policy board admitted the balance of risks of inflation remained tilted downward.

At the press conference, a few reporters raised the issue of wage growth in the context of inflation. Governor Kuroda explained that there has been a considerable divergence between full-time and part-time (or unofficial) labor markets. Very tight labor conditions have pushed up the nominal wages in the latter, but have limited impacts in the former.

In spite of such structural factors, Governor Kuroda confirmed the view that further tightening of labor market both due to cyclical and demographic factors would bring about higher rate of wage growth in the end, especially under the favorable condition of corporate profits.

Strategy of management of the QQE

Larger number of reporters at the press conference today raised this interesting topic with the focus on the ETF purchase and the target rate of the yield curve control (YCC).

In terms of the ETF purchase, several reporters asked about the possibility and potential conditions for reducing its size. Readers may like to note that our stock market have performed well in line with the US stock market. Reporters suggested that the BOJ might reduce its size, if the risk premium in our stock markets has become normalized. Moreover, there has been a view in the market that the BOJ might have silently started "tapering" of the ETF purchase.

In reply to the questions, Governor Kuroda denied any intension to reduce the actual amount of purchase of the ETF for the time being. He also pointed out that absolute amount of net purchase is decided at the MPM, in contrast to the case of JGB purchase which is endogenous variable under the framework of the YCC.

Moreover, Governor Kuroda insisted any modification or recalibration should be conducted in the context of pursuing the inflation target, while assessment of risk premium would be one of the elements for the case of the ETF purchase.

Regarding the target rate of the YCC, discussion was somewhat more complicated. One reporter asked whether the BOJ would modify the target rate, before we have achieved the 2% inflation target.

Readers may like to note that there has been a view in the market that the BOJ should exit from the negative interest rate policy (NIRP) as its balance of costs and benefits may have changed. Along this line of thought, the BOJ should raise the target rate of 10Y JGB yield at the same time as they exit from the NIRP, in order to avoid further flattening of the JGB yield curve.

In reply to the question, Governor Kuroda denied again such idea. He emphasized that the absolute goal of the QQE is to achieve 2% inflation target, and reaffirmed the strategy that any modification of the YCC should be conducted in this context. Governor Kuroda admitted that it would take time to achieve the target, and this is why the BOJ should maintain the current conducts of monetary policy.

Interestingly, the footnotes of policy statement today explained that Mr. Kataoka (a member of the policy board) voted against the current modality of the YCC, arguing that the JGB purchase should be conducted to keep 15Y JGB yield below 0.2%. Its intension could be further flattening of the yield curve, because 15Y JGB yield has been crawling around 0.3% (according to the MOF).

Nevertheless, we should wait for the MPM minutes or any speech by Mr. Kataoka for further details of his proposal. Unfortunately, none of the reporters asked Governor Kuroda about the discussion on his idea.

Desirable quality of a head of central bank

As the term of Governor of the BOJ ends in April next year, prospects of next governor has attracted attention. As a reply to the question about desirable quality of a head of central bank in general, Governor Kuroda raised three elements; ability to judge state of affairs, ability to analyze economy, global perspective and human network. While it would be hard to require them on a single person, it could effectively be satisfied by a team of Governor and Deputy Governors.

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