

Introduction

The BOJ released its summary of opinions at the most recent MPM at the end of January. In addition to their assessment of economic developments, their discussion on the management of the yield curve control (YCC) have some implications.

Economic assessments

Views of the members of the policy board on the domestic economy seem to converge, according to this summary of opinions. This is also consistent with the comments made by Governor Kuroda at the press conference just after the MPM.

Several sentences in the summary claim that the economic recovery has strengthened since the 2H of last year, due to a pick-up in exports, an upturn in private consumption, and an increase in business investment. As their backgrounds, these sentences suggest improvement in overseas economies, economic stimulus measures, improvement in labor and income conditions, and better business sentiment.

In contrast, several other sentences note the remaining uncertainties of overseas economies. It is also interesting to find that many of them point out the political factors both in the US and the Europe as potential major drivers.

Views of the members of the policy board seem to show little divergence with regard to inflation as well. They welcomed the gradual improvement of inflation, largely thanks to disappearance of downward pressures of commodity prices as well as tightening aggregate demand/supply gap.

Nonetheless, several sentences imply that the members remain less confident about rapid improvements of inflation ahead. One important culprit, in their view, is adaptive formation of inflation expectation among ourselves, which would lead to laggard improvement of underlying inflation.

Monetary policy

Such cautious outlook of inflation as reviewed above results in cautious views of monetary policy. Among all, there seems to be a consensus that the BOJ need to maintain this extremely strong monetary stimulus in light of the remaining distance to 2% inflation target. From the different perspectives, a sentence reiterates the official view that the QQE has made substantial effects on our economy and prices so far.

One important implication is their stance toward the management of the YCC. A few sentences claim that the BOJ should maintain the current target yield of 10Y JGB at 0%, even if there would be an upward pressure on long-term interest rates generated in overseas markets.

In other words, the members of the policy board appear to think that only viable reason for upward adjustment of the target yield would be a domestic fundamental factor. It is namely an upward pressure of long-term interest rates due to substantial improvement of inflation outlook. This line of thoughts is indeed consistent with the recent efforts by the BOJ trying to defend the current target yield.

In light of this efforts, it would further be interesting to read some sentences in the summary about the market operations by the financial market departments of the BOJ. They put stress on the importance of flexible conducts of the market operations, and that of giving some discretions to the Market Operation Desk for such important purpose.

Unfortunately, however, dialogue between the BOJ and the markets would not work well at least at the following points.

First some market participants seem to think that the BOJ would accommodate the upward pressure on long-term interest rates due to whatever reasons, by way of raising its 10Y JGB target yield. Second, many of the markets seem to suspect that the BOJ may have some policy intensions when they alter the specifications of any market operations.

As discussed above, the summary of opinion this time clearly deny the plausibility of both of the argument. Nevertheless, in light of the hysteresis of market operations by the BOJ, the markets may have good reasons for suspecting any intensions behind respective conducts of market operations. Furthermore, the YCC may contain the fundamental challenge of estimating the optimal yield curve and sharing it with the market at least for the moment.

Another interesting point of discussion included in the summary is persistent diversification of the views among the MPM members on the significance of "quantity" in the QQE. In fact, there is a sentence that argue the BOJ should set the flow of asset purchase as the operating target. At the same time, there is another sentence that requests the BOJ to reduce the amount of asset purchase in order to steepen the shape of the JGB yield curve, which would be more beneficial to financial intermediation.

While the divergence in the views itself is nothing new, their lines of discussion seem to have evolved along with some challenges of management of the YCC as discussed above. Among all, tough challenge of the communication with the markets could lead the modification of the YCC in the end, potentially taking into considerations of quantitative aspects.

Challenge of the summary

From the technical viewpoint, summary of opinion itself may have a point of challenge. Readers may remember that the summary covered January MPM when they conducted the quarterly revision of economic/inflation outlook. Nevertheless, length of the summary is the same as those covering ordinary MPMs.

While the BOJ would claim that the text of the outlook contain the major points of discussion by the members of the policy board, summary of opinion could cover such discussion more extensively, probably introducing its longer version for the MPMs revising its outlook.

We could of course wait for the minutes, but earlier information of potential divergence in the views among the MPM members would still be significance especially when we are gradually approaching toward the inflation target.

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