

Macro Note

Japan BOJ October 2019 MPM: Same Same But “Dovishly” Enhanced

Thursday, 31 October 2019

Alvin Liew

Senior Economist

Alvin.LiewTS@uobgroup.com

- The Bank of Japan (BOJ) kept its monetary policy stance and policy rate unchanged in the October Monetary Policy Meeting (MPM) decision today (31 Oct). However, it “dovishly” enhanced its forward guidance to suggest possible rate cuts in future policy meetings (without making any immediate changes).
- The BOJ’s **new forward guidance** states: “As for the policy rates, the Bank expects short- and long-term interest rates to **remain at their present or lower levels** as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability will be lost.”
- The BOJ’s projected GDP growth and CPI inflation estimates and the forecast ranges were broadly adjusted lower across the forecast period. The effects of the consumption tax hike are still assumed to be “flushed out” by fiscal 2021 with CPI inflation projected now at 1.5% in fiscal 2021 (from 1.6% previously), well below the 2% target.
- The “dovishly” enhanced forward guidance was perhaps to re-emphasize the BOJ’s commitment to achieving the price target and a signal that more easing measures could be coming (without actually doing easing in the immediate period). However, continued forward guidance without action will not cut it in the end, and **we believe that the BOJ will eventually need to act on easing monetary policy via deepening its negative policy call rate to -0.2% possibly in 1Q 2020 (from -0.1% presently).**

BOJ Keeps Policy Stance Unchanged, “Dovishly” Enhanced Forward Guidance

On 31 October 2019, the Bank of Japan (BOJ) kept its monetary policy stance and policy rate unchanged but it “dovishly” enhanced its forward guidance to suggest possible rate cuts in future policy meetings (without making any immediate changes).

The central bank’s **new forward guidance** states:

*“As for the policy rates, the Bank expects short- and long-term interest rates to **remain at their present or lower levels** as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability will be lost.”*

This replaces the previous statement, which stated that it “*intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020...*”

The latest monetary policy statement also repeated a sentence that was first included in the July MPM statement: “*In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.*”

And as with the recent string of MPM, the wording of the October statement was not a unanimous decision as BOJ policy board members Goshi Kataoka and Yutaka Harada dissented again. As for the BOJ’s decision to maintain Yield Curve Control (YCC) and other monetary policy measures

unchanged from its previous decision in September, it was again not a unanimous decision (7-2 vote) with the usual suspects dissenting for the 10th consecutive meeting.

In his post-MPM press conference, **BOJ Governor Kuroda** defended that Japan has a lot of room to deepen negative rates and has more room to do so compared to Europe. Kuroda also lamented that wages are not rising much despite the tightening labour market.

BOJ Downgrades GDP & CPI Forecasts Further

In its latest Outlook report (the bank's View), the BOJ remains upbeat about economic outlook for FY 2019 through **FY2021** as the *"economy is likely to continue on an expanding trend throughout the projection period...- despite being affected by the slowdown in overseas economies for the time being"* (i.e. blame is put on external factors but is seen as temporary) the same view that it put out in its previous April and July Outlook reports.

It also maintained that *"Domestic demand also is likely to follow an uptrend, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending, despite being affected by such factors as the scheduled consumption tax hike"* [Sales tax hike was raised to 10% on 01 Oct 2019]. Nevertheless, the BOJ's projected GDP growth rates were revised lower across the forecast period "due to delay in the timing of a pick-up in the growth pace of overseas economies" with the fiscal 2019 growth lowered to 0.5% (from 0.7% made in July 2019), the fiscal 2020 growth lowered to +0.7% (from +0.9% made in July 2019), and the fiscal 2021 fiscal growth revised lower to 1.0% (from 1.1%, made in July 2019).

The BOJ was again less optimistic about prices as it noted *"risks to prices are skewed to the downside, mainly due to the downside risks to economic activity and uncertainties over developments in medium- to long-term inflation expectations."* The BOJ's CPI inflation point estimates and the forecast ranges were also adjusted lower for the forecast period with the revisions starkest for fiscal 2019 (which is revised lower to 0.7% from 1.0% for ex-fresh food while CPI ex-consumption tax hike was lowered to 0.5% from 0.8%). The effects of the consumption tax hike are assumed to be "flushed out" by the subsequent year (fiscal 2021) with CPI inflation that excludes fresh food and CPI that excludes consumption tax hike, both to be at 1.5% in fiscal 2021, from 1.6% recorded in the July 2019 Outlook) and still well below the 2% target. See the BOJ's latest GDP and inflation forecast revisions in the table on last page.

BOJ Outlook – Can You Really Ease Some More?

G10 central banks, led by the US Federal Reserve, have already forged a path towards easier monetary policy, and there is persistent expectation that the BOJ will re-join the easing bandwagon soon. The increased emphasis of risks from overseas impacting Japan's economy further adds to the easing view while domestically, Japan is still far away from its 2% inflation target and the projected weaker growth & price environment and likelihood of downside price pressures in fiscal 2019-2021 add further impetus for BOJ to ease monetary policy.

The "dovishly enhanced forward guidance" was perhaps to re-emphasize the BOJ's commitment to achieving the price target and a signal that more easing measures could be coming (without actually doing easing in the immediate period). That said, the markets did not seem to view the latest forward guidance as important with the yen little changed post-BOJ statement release. Indeed, ahead of today's decision, there were already news reports speculating that the Japanese central bank will refrain from further easing measures and instead deploy forward guidance as the "messenger" for BOJ's easing stance.

However, continued forward guidance without action will not cut it in the end, and **we believe that the BOJ will eventually need to act on easing monetary policy via deepening its negative policy call rate to -0.2% possibly in 1Q 2020 (from -0.1% presently).**

The next MPM will be on 18/19 December 2019 but it will not be accompanied by an updated Outlook report for Economic Activity and Prices. Please click on the following links to access the [30/31 October 2019 BOJ MPM statement](#) and the [BOJ October 2019 Outlook Report \(The Bank's View\)](#).

Forecasts of the Majority of the BOJ Policy Board Members, October 2019

Variable (Range)	Variable (Range)			Variable (Median, point est)		
	FY 2019	FY 2020	FY 2021	FY 2019	FY 2020	FY 2021
Change in real GDP	0.6 - 0.7 (↓)	0.6 - 0.9 (↓)	0.9 - 1.2 (-)	0.6 (↓)	0.7 (↓)	1.0 (↓)
July 2019 review	0.6 - 0.9 (↓)	0.8 - 1.0 (↓)	0.9 - 1.2 (-)	0.7 (↓)	0.9 (-)	1.1 (↓)
April 2019 review	0.7 - 0.9 (↓)	0.8 - 1.1 (↑)	0.9 - 1.2	0.8 (↓)	0.9 (↓)	1.2
Jan 2019 review	0.7 - 1.0 (↑)	0.7 - 1.0 (↑)		0.9 (↑)	1.0 (↑)	
October 2018 review	0.8 - 0.9 (↑)	0.6 - 0.9 (-)		0.8 (-)	0.8 (-)	
CPI inflation (ex fresh food)	0.6 - 0.8 (↓)	0.8 - 1.2 (↓)	1.2 - 1.7 (↓)	0.7 (↓)	1.1 (↓)	1.5 (↓)
July 2019 review	0.8 - 1.1 (↓)	1.1 - 1.4 (↓)	1.3 - 1.7 (↓)	1.0 (↓)	1.3 (↓)	1.6 (-)
April 2019 review	0.9 - 1.2 (↓)	1.2 - 1.5 (↓)	1.4 - 1.7	1.1 (-)	1.4 (↓)	1.6
Jan 2019 review	1.0 - 1.3 (↓)	1.3 - 1.5 (↓)		1.1 (↓)	1.5 (↓)	
October 2018 review	1.5 - 1.7 (↓)	1.5 - 1.7 (↓)		1.6 (↓)	1.6 (↓)	
CPI (ex consumption tax hike)	0.4 - 0.6 (↓)	0.7 - 1.1 (↓)	1.2 - 1.7 (↓)	0.5 (↓)	1.0 (↓)	1.5 (↓)
July 2019 review	0.6 - 0.9 (↓)	1.0 - 1.3 (↓)	1.3 - 1.7 (↓)	0.8 (↓)	1.2 (↓)	1.6 (-)
April 2019 review	0.7 - 1.0 (↓)	1.1 - 1.4 (↓)	1.4 - 1.7	0.9 (-)	1.3 (↓)	1.6
Jan 2019 review	0.8 - 1.1 (↓)	1.2 - 1.4 (↓)		0.9 (↓)	1.4 (↓)	
October 2018 review	1.3 - 1.5 (↓)	1.4 - 1.6 (-)		1.4 (↓)	1.5 (↓)	
Source: Bank of Japan						

Source: Bank Of Japan, UOB Global Economics & Markets Research (As of 31 October 2019)

Disclaimer

This publication is strictly for informational purposes only and shall not be transmitted, disclosed, copied or relied upon by any person for whatever purpose, and is also not intended for distribution to, or use by, any person in any country where such distribution or use would be contrary to its laws or regulations. This publication is not an offer, recommendation, solicitation or advice to buy or sell any investment product/securities/instruments. Nothing in this publication constitutes accounting, legal, regulatory, tax, financial or other advice. Please consult your own professional advisors about the suitability of any investment product/securities/ instruments for your investment objectives, financial situation and particular needs.

The information contained in this publication is based on certain assumptions and analysis of publicly available information and reflects prevailing conditions as of the date of the publication. Any opinions, projections and other forward-looking statements regarding future events or performance of, including but not limited to, countries, markets or companies are not necessarily indicative of, and may differ from actual events or results. The views expressed within this publication are solely those of the author's and are independent of the actual trading positions of United Overseas Bank Limited, its subsidiaries, affiliates, directors, officers and employees ("UOB Group"). Views expressed reflect the author's judgment as at the date of this publication and are subject to change.

UOB Group may have positions or other interests in, and may effect transactions in the securities/instruments mentioned in the publication. UOB Group may have also issued other reports, publications or documents expressing views which are different from those stated in this publication. Although every reasonable care has been taken to ensure the accuracy, completeness and objectivity of the information contained in this publication, UOB Group makes no representation or warranty, whether express or implied, as to its accuracy, completeness and objectivity and accept no responsibility or liability relating to any losses or damages howsoever suffered by any person arising from any reliance on the views expressed or information in this publication.