

Asia Morning Bites

Markets split on today's Bank of Japan rate decision. Reserve Bank of Australia also meeting



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Global Macro and Markets

- **Global Markets:** Considering all the hype today's BoJ meeting has received, the JGB market is remarkably calm. 2Y JGB yields have drifted lower since the weekend, despite a Nikkei article that seems to be taking a rate hike and end to YCC at today's meeting as a done deal. The yield on the 10Y JGB is 0.756%, close to its recent highs, but lower than Friday's close. US Treasury yields aren't doing too much. The 2Y UST is up 0.4 basis points and the 10Y yield is up just 1.8bp, at 4.324%. USDJPY is also very stable, trading sideways yesterday at about 149.15. In contrast, the EURUSD dropped sharply yesterday to 1.0872. Other G-10 currencies apart from the JPY also lost ground to the USD. Asian FX was generally weaker against the USD yesterday. The THB and IDR were the weakest of the pack. The CNY pushed up fractionally to 7.1984. US stocks gained on Monday. The S&P 500 rose 0.63% while the NASDAQ rose 0.82%. Chinese stocks also gained. The CSI 300 was up 0.94% and the Hang Seng rose 0.1%. The CSI 300 is now up 5% year-to-date.
- **G-7 Macro:** Monday was a pretty dull day for G-7 Macro. Japan released some disappointing core machine order figures. The Eurozone confirmed its preliminary February CPI numbers, and there were a couple of second-tier US releases that won't have moved the needle in financial markets. Today, the BoJ meeting is the key to watch (see below). Besides this, we

get US housing starts and permits data for February and Germany publishes the March ZEW survey. In other words, the BoJ has centre stage.

- **Japan:** Judging by the movements in Japanese financial markets, it seems that the market is paying more attention to the FOMC than to the BoJ. Regardless of whether the BoJ opts for a hawkish hold or a dovish hike, the focus of today's meeting should not be on the rate decision itself but on its forward guidance. If the BoJ signals really slow and cautious steps ahead, then the market is likely to be disappointed. There is a slim chance that the BoJ expresses a hawkish tone in its guidance, in which case, the market reaction could be quite substantial for the JPY and JGBs. We expect the yield curve control (YCC) and purchase of ETF/REITs to be scrapped today, but the JGB purchase programme to be maintained. We expect the BoJ to keep its policy rate unchanged today but change its forward guidance to outline its orderly exit from negative interest rates (NIRP) and policy normalization. After today's meeting, we should monitor the following:
 1. In the short term, it is important to see whether or not the strong wage growth of large companies spills over to SMEs. The results of the 2nd and 3rd rounds of wage negotiation will be announced on March 22nd and April 4th.
 2. From a more medium-term perspective, strong wage growth could lead to strong consumption and sustainable consumer prices. We may see the impact of the wage growth in the April/May earnings data. We also expect a big bonus payment before the Golden Week holiday.
 3. As for the inflation, it is important to watch not only wage growth, but also whether the government fuel subsidy programme will be renewed or not after May. Inflation staying above 2% by the end of the 2Q24 is key to watch.
- Depending on the outcomes of all these factors, the BoJ's future policy actions may change. For now, we expect just 10bp of hikes for the year, but by the end of the second quarter, we will have more data/information to judge whether the BoJ can deliver another rate hike in the 2nd half of the year.
- **Australia:** Somewhat eclipsed by what will be going on in Tokyo today, the Reserve Bank of Australia (RBA) is also holding a policy meeting today. At their last meeting, the final paragraph of their statement contained the words "... and a further increase in interest rates cannot be ruled out". Since then, we have had confirmation that GDP continues to slow, soft labour data and surprisingly soft inflation numbers. There is at least a chance that this tightening bias will be removed or softened at this meeting. Beyond this, we don't expect any major changes.

What to look out for: BoJ and RBA policy meetings

- RBA policy (19 March)
- BoJ policy (19 March)
- Japan industrial production (19 March)
- US building permits and housing starts (19 March)
- China loan prime rate (20 March)
- BI policy (20 March)
- US MBA mortgage applications (20 March)
- FOMC policy (21 March)
- Japan traded balance and Jibun PMI (21 March)
- Taiwan CBC policy (21 March)

- Australia unemployment (21 March)
- BoE policy (21 March)
- US initial jobless claims and existing home sales (21 March)
- South Korea PPI (22 March)
- Japan CPI inflation (22 March)

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