

Japan Data Brief: What you may have missed over the year-end holiday

After an unexpected contraction in 3Q23, the economy appears to have recovered modestly. Inflation slowed due to base effects while the monthly activity outcomes were a bit mixed. We don't expect an imminent Bank of Japan rate hike but it may still terminate the yield curve control programme in the first quarter as JGB market conditions remain supportive



Summary

The monthly activity data was mixed. Industrial production was softer than expected, but the rebound in retail sales was stronger than expected. As Japan's main growth engines are consumption and services, we expect 4Q 2023 GDP to rebound despite soft manufacturing activity. Inflation has also come down sharply, which should support the BoJ's dovish stance for now. We believe that the BoJ is preparing for its first rate hike in the second quarter when the government's stimulus will be supporting growth while another big jump in wage growth is achievable throughout the spring wage negotiation season. Meanwhile, the yield curve steepened from November when the BoJ decided to discontinue its daily fixed-rate purchase operations but the 10Y Japanese government bond (JGB) yields were below the 0.6% level at the end of last year.

We think the Bank of Japan is likely to terminate its yield curve control programme in January as market pressures should be off thanks to the global bond market rally and JGB yields have been below the BoJ's hinted proper 10Y level of 0.8%. Also, a new quarterly outlook report could justify the BoJ's policy changes by raising its inflation outlook for FY 2024 and 2025.

Industrial production declined but only marginally so

Industrial production fell -0.9% month-on-month seasonally adjusted in November (vs 1.3% in October, -1.6% market consensus), mainly led by the poor vehicle outcome (-1.7%). There were temporary shutdowns of factories due to shortages of some auto parts. Thus, we expect a rebound in December as production lines return to normal. We found a rebound in chip-producing equipment (7.2%) is likely to continue. Japan is not a major semiconductor production hub but is one of the major players in the chip-making equipment industry. Together with upbeat outcomes from South Korea's chip production and exports, we believe the global semiconductor cycle is on a recovery path.

Retail sales rebounded more than expected in November

Retail sales rose 1.0% MoM sa in November (vs -1.7% in October, 0.5% market consensus). The rebound was stronger than expected, but it couldn't fully offset the previous month's decline. But in a positive note, retail sales rebounded in most of the major categories, except food and beverages (-0.8%), signalling the consumption recovery was widespread.

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