

## Japan: Will the BoJ ever hike?

Despite some slightly better news coming from the economy, recent Bank of Japan commentary suggests that policymakers are in no rush to make any changes to its stimulus package. After the move to negative interest rates just over a year ago raised a chorus of questions concerning the longevity of the BoJ's ultra-loose policy, the switch to yield curve control has been relatively successful in isolating Japan from the post-Trump rise in global yields.



### What could make the Bank of Japan change direction?

With that in mind, we ask: what could make the Bank of Japan change direction?

Well there's really two angles here, and the first starts with the Yen. Whether intentionally or not, the Bank of Japan's control of long-term bond yields has been a major driver of recent currency moves (Figure 14). Should we get another significant move higher in global (especially US) yields, then the Yen would weaken further. That might start to raise concerns about living costs (mainly food); recall in the earlier stages of QE, officials became worried about falling real incomes as USD/JPY flirted with 125.

As a rough rule of thumb, US yields would need to increase above 2.7-2.8% for JPY to get closer to those levels. But even then, we think the BoJ would still be cautious about lifting its target for long-term rates.

## Ever-dwindling availability of government bonds

[Find out what we think the Yen will do this year](#)

The second, and more pressing, issue is the ever-dwindling availability of government bonds for the BoJ to buy. At the end of 2016, the Bank held just shy of 40% of total Japanese government bonds. As the BoJ seeks to control yields, the quantity of purchases should be more variable. But despite the shift to YCC, the Bank still commits to increase government bond holdings by “around ¥80 trillion” pa.

## Expect the BoJ to relax

[Read more about BoJ](#)

That's created a slight headache for the BoJ when it releases its purchase plan each month. In February for example, it slightly reduced bond buying plans, prompting yields to spike. Given that the BoJ is keen to avoid looking like it is tapering purchases other than for purely technical reasons, we'd expect the BoJ to relax their current quantity targets over coming months. There have been some suggestions that the BoJ could at some point switch to a wide monthly purchase target range to offer more flexibility.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.