

No change at April's Bank of Japan meeting

We do not expect the Bank of Japan (BoJ) to introduce policy changes at its April meeting, but recent macroeconomic conditions mean the BoJ has paved the way for policy normalisation as early as June



Bank of Japan governor
Kazuo Ueda

The Bank of Japan will hold policy action at next meeting

We expect the Bank of Japan to hold its policy action at its April meeting, as it is just too early for the incoming governor Kazuo Ueda to make policy adjustments and there is no indication at this point that policy normalisation is urgent. At his confirmation hearings in parliament, Ueda also said that he would prioritise communication with financial markets and clarifying his rationale for policy decisions. We believe that he will lay out his views on the current macro perspective and the BoJ's current policy status in April. If pushed, he could hint at the possibility of coordinating forward guidance at the next meeting but we don't think he will comment on the yield curve policy (YCC) itself, because he believes that any implication on YCC change could diminish the expected policy effect.

Given recent data results and labour market conditions, we believe that the BoJ could change its forward guidance and adjust its YCC policy as early as June. We do not expect another YCC adjustment of the upper limit widening as it did last December, but it will try to anchor the shorter-

term tenor 5Y Japanese government bond (JGB) at 0.0% and set the bandwidth tighter than the current +/- 0.5%. Ten-year JGBs already run below 0.5% and recent global financial market uncertainties will likely support the 10Y JGB to stay below the current limit for the time being, thus shortening the YCC would be more effective to move towards policy normalisation. We still expect that the first rate hike will come only in 2024.

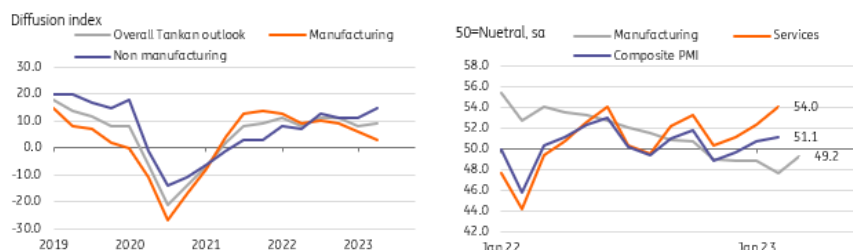
Macro conditions signal Japan's recovery

Based on various data releases, we believe that the Japanese economy is on track for recovery. Although recent positive service sector data contrasted with sluggish manufacturing activity, the service sector makes up a larger share of the economy, so overall growth conditions will remain positive.

Industrial production and retail sales data improved between the fourth quarter of last year and the first quarter of 2023, and forward-looking PMI and Tankan survey data provide a positive outlook for the current quarter. Both surveys foresee that the service sector will outperform manufacturing, which is a reasonable view as global demand conditions are expected to deteriorate, while Japan is expected to enjoy the reopening boost from both domestic and overseas travellers.

For inflation, Tokyo CPI, a leading indicator of nationwide inflation, continued to slow in March thanks to the government's energy subsidy programme. But, inflationary pressures seem to be expanding as other prices excluding utilities gradually rise. We believe that the second-round effect of previous high energy prices still remains while the reopening of the economy is partially adding to demand-side pressures. As the BoJ looks for demand-driven inflation, this is a good sign that inflation will stay at a sustained level.

Services will lead Japan's recovery



Source: CEIC

Wage growth is expected to beat the BoJ's expectations this year

The labour union's biggest wage increase in decades has recently sparked market speculation about the BoJ's policy normalisation. According to the news media, key labour unions and their employers have tentatively agreed to raise overall wages by 3.8%, the largest gain since 1993, with a 2.33% increase in the base wage. In addition, several large companies have announced plans for a higher-than-usual pay increase. However, SMEs won't be able to keep up with this trend, so the final wage growth should be lower than current estimates. But, so far, the results have been higher than the 3% sustained wage growth suggested by the BoJ, which could support the central bank's policy normalisation in the coming months.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@ing.com

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 www.ing.com.