

Bank of Japan - change of tune

Only a short while ago, the Bank of Japan (BoJ) was still hinting optimistically about a change in policy in 2019/2020. Now that prospect seems to have evaporated and Governor Kuroda is talking down policy change prospects - what has changed?



Source: istock

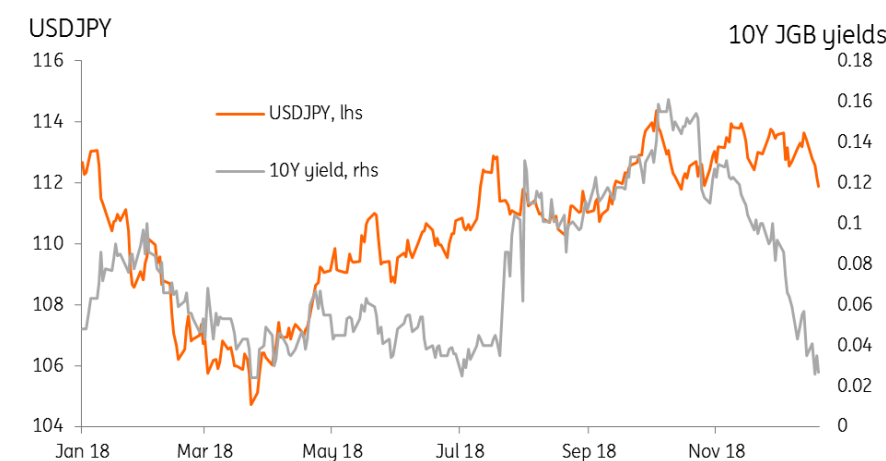
What has changed? Locally, not much

In compiling a list of what has changed to deliver this abrupt change of view from the BoJ, from the perspective of the Japanese domestic economy the answer is "not much". Sure, on paper, the third quarter looks a disaster, with an annualised 2.5% contraction. But bear in mind that Japan was hit by a genuine natural disaster, earth's most powerful storm of 2018 at the end of the third quarter, causing floods and massive infrastructure damage and, as a result, the domestic picture actually looks less worrying.

Natural disasters are of course awful. But from a GDP perspective, their negative impact tends to be fleeting, with the more medium-term effect of clear up and rebuilding / replacement rather positive. So in fact, the growth outlook for 4Q18 and the following few quarters is actually better than it was.

No, if we are to find an answer, we need to look elsewhere.

10Y JGB yields and USDJPY



10Y JGB yields and USDJPY

Look over here

If we want to understand why Governor Kuroda is not worried to see 10Y Japanese Government bond yields down to a fraction above zero after rising as high as 0.16% in October, we would do better to look elsewhere - namely the US and, as importantly, the Eurozone.

Whilst the Fed was tightening happily and the ECB was steadily moving towards normalization of its own monetary policy - most importantly the removal of its negative deposit rates, the BoJ could gradually allow policy to drift in a slightly less accommodating direction.

But with the Fed getting dovish overnight, global equity markets getting hammered, Eurozone growth looking very spotty, and the prospects for further movement from the ECB dimming, the cover for the BoJ's stealth taper has been blown up. The yen is appreciating against the USD and Kuroda is now trying to talk down normalization expectations to limit the currency fallout. We suspect he might have his work cut out, especially if the USD embarks on a generalized weakening next year - which we think it will.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.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 <http://www.ing.com>.