Bank of Japan keeps policy unchanged and sticks to dovish stance

The Bank of Japan unanimously decided to keep its policy settings unchanged, but the result was a bit disappointing given that there wasn't any clear sign of a shift in policy stance either from its statement or from Governor Ueda's comments

Kazuo Ueda, governor of the Bank of Japan

-0.1

As expected

BoJ's policy balance rate

0.0% for 10Yr yield target

Sustainable inflation targeting is not yet in sight

The BoJ's statement maintained most of the wording from before and kept its forward guidance unchanged. Firmer-than-expected inflation is not yet enough for the BoJ to tilt its policy stance. In the statement, the BoJ expects inflation to decelerate and said core inflation has been around +3% because of pass-through price increases. At the press conference, Ueda said, "if inflation, accompanied by the wages goal is in sight, then the BoJ will mull an end to the YCC and a rate shift". Taken together, the BoJ still thinks that higher-than-expected inflation is transitory and driven more by cost-push factors.

Yet inflation has been consistently beating the BoJ's expectation

In our view, recent inflation data showed inflation to be more stable and stickier than expected and also showed signs of increasing both demand-side and supply-side pressures. The headline consumer price data for August rose 3.2% year-on-year (vs 3.3% in July, 3.0% market consensus) while core inflation excluding fresh food and energy stayed at 4.3% for a second month. Private service prices such as entertainment have risen notably for more than a couple of months, with increases in foreign tourism adding upside pressure. In addition, pipeline prices such as producer prices and import prices rose mostly due to higher commodity prices.

BoJ outlook

We still think that the BoJ will likely bring about another policy change in October and make a first rate hike attempt in the second quarter of next year. In our view, consumer prices will likely stay above the BoJ's projection and clearer signs of demand-side pressure will emerge over the next couple of months, allowing the BoJ to at least change its YCC policy. In terms of a rate hike, the BoJ will likely wait until there are signs that solid wage growth has been sustained, and thus it will likely come in the second quarter of next year.

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