Bank of Japan maintains ultra-low rates

The Bank of Japan has decided to keep its current monetary policy stance despite the rest of the world moving in the opposite direction, and despite growing concerns over a weak Japanese yen

Bank of Japan Governor Haruhiko Kuroda

Bank of Japan governor strengthens his defense of today's rate decision

Japan's central bank kept its ultra-low interest rates on hold, going against other policymakers around the world who have been hiking rates to tackle soaring inflation.

The Bank of Japan (BoJ) appears to have decided to strengthen its credibility in the market and try to tame the market's hopes for a policy adjustment. The BoJ's firm stance was once again revealed as it confirmed its focus on supporting the economy. However, this doesn't mean that the market will necessarily believe the central bank's future policy action. Despite Governor Haruhiko Kuroda's comments, we expect the market to continue to price in policy change potential as the current policy is not sustainable in the current global economic situation. The rate differential with other economies will keep widening, thus the markets' bet against the Japanese yen (JPY) is likely to strengthen for a while.

Interestingly, Bank of Japan's statement mentioned the need to pay attention to developments in the FX market, but Governor Kuroda downplayed this later on at the press conference and repeated his usual rhetoric about the currency: that a rapid yen weakness is negative and not desirable for the economy. He also reiterated that the BoJ is not considering a policy change, noting that the "yield curve control is not reaching a limit".

CPI will be key to watch

We think that any policy tweaks in the near term are not feasible yet, but the likelihood will increase later this year. The government's subsidy programmes for fuel and imported food can partially limit cost-push inflation pressure, while reopening and consumption stimulus packages can drive up prices for services and possibly for wages. May CPI results come out next week (market consensus: 2.5%, ING forecast 2.7%) and we will monitor them carefully for signs of demand-side pressures building up.

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