

## Bank of Japan shocks markets with yield policy change

The Bank of Japan shocked markets by widening its target band for the 10Y JGB yield, lifting the upper ceiling to 0.5% from 0.25%. In consequence, the JPY jumped and the Nikkei index plunged. The financial market will try to find fair value for the time being



Bank of Japan  
Governor Haruhiko  
Kuroda

# 0.5%

Higher than expected

10Y JGB target band  
from 0.25%

# -0.1% BoJ policy balance rate

As expected

## "Today's move is not a rate hike," Kuroda said. The market responds, "Really?"

We had expected the Bank of Japan to adjust its yield curve control policy around the end of 2023, but it came much earlier than we thought. We can't help but wonder, why now? As the Federal Reserve and other major central banks began to tighten policy, the Japanese yen plunged, and inflation began to take off, the market started to anticipate the first step towards normalisation by the BoJ earlier this year. Could high inflation be the cause? Well, Governor Haruhiko Kuroda reiterated that cost-push inflation is not sustainable and inflation will slow down to 2% next year. At the press conference, Kuroda tried his best to minimise market expectations for further policy changes. He stressed repeatedly that today's move is not the first step towards an exit and a further widening of the yield band is not needed. We think today's decision has undermined the BoJ's credibility on future policy guidance. From the remarks made today, we are unable to answer our question, why now?.

Despite the denials, we think Governor Kuroda is trying to pave the way for policy normalisation before stepping down. A policy shift immediately after the leadership change is difficult and could miss the opportune time to end the decades-long ultra-low policy. He may be right that monetary policy should remain accommodative until a stable 2% inflation target is met and that the policy review is not needed in the short term. But, with today's tweak, his successor will have more flexibility to deploy monetary policy in the future.

We also expect that the BoJ will maintain its policy balance rate at -0.1% for a while and that the BoJ will take a wait-and-see approach until the next annual wage negotiation season (Shunto) in April/May. However, market participants will likely bet on further tightening, which will likely create market noise that the BoJ did not intend.

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