BoJ maintains its ultra-low rate policy, pushing Yen to 145 and above

The Bank of Japan, as expected, left monetary policy unchanged, which prompted USD/JPY to pass the 145 handle vs the USD. Top FX official, Mr. Kanda, reiterated his warnings about FX interventions when needed, while Governor Kuroda did not significantly change his rhetoric on the currency.

-0.1% BoJ's policy rate

As expected

The BoJ's decision to stay pat was unanimous and forward guidance is flagging the downside risk

The Bank of Japan has made it clear that it will stick with its ultra low monetary policy until inflation stays at around 2% in a more sustained fashion. In addition, the BoJ decided to phase out its pandemic relief loan programme which were suppsed to terminate in September. Instead, part of the programme will extend until March next year. Taken together with today's results, the forward gudiance indicates downside risks for the economy and policy normalization is still far away. There are four policy meetings left until Governor Kuroda retires next April, and there is little possibility of policy change at these four meetings. Also, it is still too early to tell but it appears that it will take some time for the BoJ to make any policy changes even after Governor Kuroda steps down.

Government efforts to curb inflation continue mainly through fiscal support, not through FX intervention

With the weaker yen pushing import goods prices higher, the government is expected to mitigate negative shocks from the price increase through fiscal support. The industry ministry announced that the gasoline subsidy for oil distributors is set to rise to 36.7 yen (about USD0.25) per litre for the seven days from Thursday (vs 35.6 yen a week earlier). The temporary subsidy programme was introduced in January and has been extended several times since then. We expect the subsidy programmes for oil and food, and some cash transfer programmes targetting low-income households, to continue.

Shortly after the BoJ's rate decision meeting Japan's top fx official, Mr. Kanda, said that the government could conduct stealth interveion in the fx market when needed. The government has not stepped into the fx market yet. We think that FX market intervention is possible, but that this only aims to smoothe out volatile currency movement, not to change the course of currency depreciation. Market intervention is not an effective way to stablize prices or bring the JPY down below 145. With Governor Kuroda's comments that BoJ future guidance won't need to change for the long-term, this will likely put more pressure on the currency.

USD/JPY: Collision course for 150?

In response to unchanged BoJ policy and increasing doubts about the political feasibility of FX intervention, USD/JPY has traded close to 146. As above, Japanese authorities will struggle to reverse a powerful dollar bull trend with intervention. We also assume that the bar is exceptionally high for the Japanese to receive approval for FX intervention from the US Treasury. Washington will argue that if Japan wants a stronger yen it should hike rates.

This suggests that USD/JPY can continue to push towards 150 (our rates team sees US 10 year Treasury yields biased to 3.75%, if not 4.00%) and Japanese authorities increasingly hitting the wires with intervention threats. The next big event risk now may be the 12 October meeting of central bank governors and finance ministers in Washington. The Japanese will have to convince US authorities that the strong dollar is a problem, such that G20 FX language is altered. That is a tough task, with the Fed still seemingly welcoming dollar strength.

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