

## BoJ tweaks its statement - this could be important

The Bank of Japan (BoJ) has removed any reference to reaching its 2% inflation target by some time around fiscal 2019 in its latest statement - this can be interpreted in a number of ways - read on to see which we prefer



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### Kuroda's linkage of the end of QQE to the inflation target is still haunting him

At a press conference a month or two back, Bank of Japan Governor Haruhiko Kuroda made a link between the end of Qualitative and Quantitative Easing (QQE) and the BoJ achieving its 2% inflation target sometime in 2019. Since then, markets have been wondering if the BoJ was quietly working towards an exit strategy based on this time horizon. Indeed, whilst inflation data were heading higher earlier this year, you could make a case for the BoJ gradually cutting back on its asset purchases, perhaps under cover of similar moves by the ECB to end its QQE purchases by mid-2019. The obvious advantage of such "stealth-unwinding" would be that it would moderate the currency impact on the Japanese yen.

But whilst the growth data for Japan remains pretty good, the same can't be said of the Eurozone, where 1Q18 delivered a notable soft patch on activity. Moreover, both economies have seen disappointing inflation data recently. So extrapolating from today's run of recent data to less accommodative monetary policy over any sort of reasonable time span is looking very tough for the ECB, and by extension, equally tough for the BoJ.

So did today's statement change that at all?

## What? No inflation target forecast?

With no change to policy and little change to the growth or inflation forecasts, the only thing for markets to focus on was the omission of the forecast that the inflation target (2.0%) would be met sometime around fiscal-year (FY) 2019.

There are a number of ways you can interpret this. Here are two:

1. The BoJ acknowledges the recent softness in inflation, persistent lack of inflation upturn and low probability of meeting its target on the previous timeframe. As a result, the BoJ has dropped it. This would also imply a much lower probability of an end to QQE by mid-2019.
2. The BoJ realises the low probability of meeting its 2% target - but also downgrades this as an intermediate target, as the rest of the economy looks in good shape - arguably, this could result in an earlier or unchanged exit strategy for QQE. 2% was always an unrealistic target and dropping the reference merely gets rid of something that was harming credibility.

The ensuing press conference has sought to downplay the significance of this statement change. With the basic message coming out that this was just a "forecast", and not a limit, and that monetary policy was not being determined on a calendar basis, but according to conditions. Together with a downgrading of the balance of risks to the inflation outlook, it looks to us as if there is more truth to scenario 1) than to scenario 2). If so, then we might also expect the JPY to run softer than we have been forecasting.

That said, there is still plenty of ambiguity over this decision, and ongoing problems for the BoJ in meeting its asset purchase targets or maintaining Japanese government bond yields at zero percent. So finding an exit strategy would not be a bad idea. Today's move may be the first in a very long series of changes designed to achieve that.

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