

## The Bank of Japan maintains its policy rate settings and JGB purchases

The Bank of Japan has disappointed the market again with a vague announcement to reduce its purchases by an unspecified amount at an unspecified point in time. The market will have to wait until the July meeting to hear more



The Bank of Japan,  
Tokyo

**0.1%** Target range (Upper Bound)

As expected

### Lack of detail on JGB purchase plans

As widely expected, the Bank of Japan kept its policy rates unchanged between 0% to 0.1%. But against market expectations, the central bank decided to announce its JGB purchase programme in detail at the July meeting.

Reading through the statement, it is unclear how the BoJ will decide on the size of the purchases, as it notes that it will seek input and views from market participants. It sounds as though things are still undecided, aside from the choice to make an announcement in July. BoJ Governor Kazuo Ueda's comments at the press briefing were also rather vague. While Ueda mentioned that the reduction should be substantial, he also stressed that the process should be flexible and there is no certainty about how long the reduction will last.

Based on Ueda's comments, it is unlikely that the BoJ will immediately taper at its July meeting. Instead, it is likely to take a phased approach, starting with a small reduction (less than one trillion yen) from the end of 2024 and then gradually increasing it over 6-12 months.

## **We expect a rate hike in July as inflation is likely to accelerate**

Ueda was, however, more explicit about rate hikes in our view. He confirmed that the BoJ will adjust policy rates if inflation accelerates as expected, and that a July rate hike is possible depending on data conditions. While this is a somewhat principled answer, between now and the 31 July meeting we have the May and June CPI readings and the July Tokyo CPI. In our view, these will come in above 3% or close to it from the current 2.5%, therefore fulfilling the conditions for a July rate hike.

With wage growth expected to be solid from May onwards, there is also a good chance that demand driven inflation will pick up, which is what the BoJ needs to see. We expect inflation, wage, and consumption conditions to drive a rate hike in July.

## **Yen softens, some eye 160 again**

USD/JPY has traded higher after the BoJ failed to offer much support to the yen today. It seems many in the market are now looking for USD/JPY to push onto 160 and test whether policymakers in Tokyo are prepared to intervene again.

We are not so sure that USD/JPY needs to move substantially higher. The first reason is that US yields are dropping and may well drop further as US price data gives the Federal Reserve more confidence to cut rates in September. Yesterday's soft US May PPI data could point to a core US PCE price as low as 0.1% month-on-month when it is released on 28 June. This should keep US yields on the soft side particularly at the short end of the curve.

The second reason is that global FX volatility levels are rising on French political risk and some high-profile declines in some of the world's favourite carry trade target currencies such as the Mexican peso. Higher volatility should discourage fresh carry trade strategies and limit the yen's downside.

With regards to FX intervention, we very much doubt Japanese policymakers are expecting FX sales alone to put a lid on USD/JPY. However, what it may well tell us as it did during the successful intervention campaign in September/October 2022 is that Tokyo believes US rates are about to turn lower. We have some sympathy with that view and favour USD/JPY moving back below 155 over coming months.

Chris Turner

## Author

### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@ing.com)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).