

## The Bank of Japan's communication conundrum

Despite dramatically reducing the amount of bonds it buys, the BoJ has kept its promise to buy JPY80 trillion of JGBs



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Despite some contrarian chatter beforehand, few will have been surprised at the latest BoJ statement. JGB yields were still targeted for zero percent. Short term rates on policy rate balances held at the Bank would remain -0.1%, and the JGB (Japanese Government Bond) purchase indication remained at an annual rate of about JPY80tr.

**80** BoJ pace of JGB purchases  
(JPY trillion)

The statement maintained its view on the domestic economy, which was “turning toward moderate expansion”. Overseas growth was also referred to as “moderate”, though the caveat in the April outlook about some weakness in emerging markets was removed.

Despite the lack of notable changes, the reality underlying the statement is that the BoJ has substantially reduced the pace of its asset purchases since the introduction of its yield curve targeting QQE policy introduced in September 2016.

Since then, JGB's have risen by approximately JPY30tr, only half what they should have risen by had the BoJ been purchasing them at the same rate as previously.

## Is this stealth tapering?

Well if the BoJ finds it can keep 10Y JGB's pinned down close to 0% at a JPY40tr annual pace, then arguably not. And its statement does provide wiggle room, referring to the pace of purchase as "about" JPY80tr. More accurate would be to drop the reference to the pace of asset purchase altogether. Though doing this would be sure to send shockwaves through the JGB market. Little wonder that they are apparently pondering their communication strategy.

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