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BoJ's ultra loose monetary policy. Your questions & Our answers

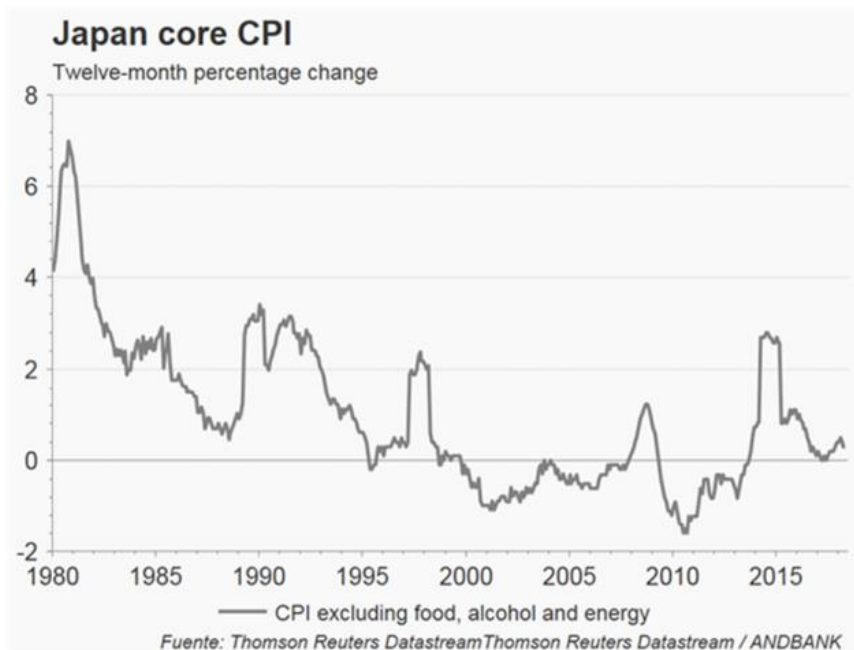
What should we expect from the BoJ's monetary policy from now on?

BOJ Deputy Governor Masayoshi Amamiya told yesterday that the BoJ is paying close attention to the side effects of its stimulus but dismissed the likelihood of an imminent change. More importantly, he said that "we see an exit strategy as very far off".

Why more easing for longer?

Amamiya underlined that the governing council currently does not see the costs of easing outweighing the benefits at this point. He echoed Governor Haruhiko Kuroda's earlier message that the policy board remains concerned about the unexpected low level in CPI, underlying that "the BoJ will deepen its discussions about the reasons for low inflation".

Just recall that April CPI slowed to 0.3% yoy in May –see the chart below–, from 0.6% in April and still well below the 2% target.



We also see with great concern how demographic factors will continue to push inflation downward (and with this, the BoJ will find itself in need of extending stimulus). Just see how the number of births resulted in a record-low of 946,060 in 2017 despite government subsidies and Prime Minister Shinzo Abe's work-style reforms. The number of births dropped by more than 30,000 for the first time in 12 years.

How we should read the last decision of the governing council?

The BOJ maintained (8-1 vote) the yield curve control policy as expected, leaving short term rates at minus 0.1% and long term rates at around 0%.

Board members voted unanimously to maintain other asset purchases.

What are the immediate consequences? And the most likely outcome?

The Nikkei reported that the BOJ has become a major shareholder in nearly 40% of listed companies as the central bank keeps buying stocks under its ultra loose monetary policy.

The Nikkei's estimate of the BOJ's effective ownership ratios showed that the Central Bank was one of the top 10 shareholders in 1,446 listed companies out of 3,735 at the end of March. This compares to 833 companies a year earlier.

While this may be favorable for the Japanese equity market in the short term, in the long term it is an element of weakness.

What do the international investors and rating agencies say?

Fitch expects BOJ monetary policy to remain extremely accommodative but for the pace of asset purchases to fall gradually to around ¥20T (\$180B) in 2020. Economists remain roughly divided over when the bank of Japan will begin unwinding its massive stimulus program, with one camp forecasting it will be sometime next year and others predicting tapering will not begin until 2020 or later.

All camps agreed inflation will linger well below the central bank's elusive 2% target for some time.