

Flash note
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Categorical divergence. BoJ's Kuroda reaffirms easing stance

Monetary easing to persist

In the BOJ's semiannual report on monetary control, Governor Haruhiko Kuroda said Japan's economy is on its way to recovery from a downturn caused by COVID, though noted that the latest GDP data showed Japan's economy has still not fully recovered to pre-pandemic levels. He added that “the economy has recently been under downward pressure from an outflow of capital due to rising commodity prices”.

When it comes to inflation, he said: “Inflation has not demonstrated enough breadth to expect momentum in prices will continue sustainably”. He suggested that inflation needs to average 2% over the business cycle, a condition that he believes will not be met. “Even though core consumer inflation jumped 2.1% in April from a year earlier, it does not mean the BOJ's 2% inflation target has been achieved”. The year-on-year rate of change in the CPI has risen to around 2 percent, but according to Kuroda, this is mainly due to an increase in energy prices. A circumstance that could prove temporary.

In accordance, Kuroda added that “monetary tightening was not at all suitable”. **“Under these circumstances, the Bank will persistently continue with the current powerful monetary easing** centered on yield curve control (asset purchase program), aiming to firmly support Japan's economy.

Latest macro data

- April nominal average wages +1.7% y/y vs +2.0% in prior month. Real wages at -1.2% y/y
- April leading economic index rises to 102.9 vs 100.8 in prior month. Coincident index stable at 96.8 vs 96.8 in prior month

Japan in our discretionary portfolios

We have an exposure of around 4% for our aggressive discretionary portfolios, 3% for our balanced portfolios, 2% for moderate portfolios, and 1% for conservative portfolios, as we expect this market to show earnings growth of 4.2% for the next 12 months, while

we fix a conservative valuation multiple of 16x, which makes us envision an easily attainable fair value of 30,000 for the Nikkei (today it trades at 27,900).

With the explicit support of the BoJ, it becomes one of the markets with the highest visibility in order to reach the target value set by our investment team. This, and the global vocation of our management in discretionary mandates, makes it justifiable to maintain this exposure.