

Flash note 14/02/2022

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BoJ's Kuroda vs FED's Powell. Someone is going to be very wrong!!

Recent announcements from the BOJ:

- In an interview published Thursday 10th February, Governor Kuroda reiterated they are not debating policy normalization because "he sees the probability of a major increase in inflation as extremely low,"
- Kuroda sees a shift towards policy normalization or tightening as "impossible."
- He also suggested that easing would need to remain "a little" beyond the end of his term in April 2023.
- Again, QE:
 - The BOJ announced a fixed-rate JGB purchase operation on 10th February after the benchmark 10-year yield climbed to an intraday high of 0.225%, close to the 0.25% upper bound of the tolerance range around the official 0% target for the 10 year yield.
 - The operation offers to buy an unlimited amount of three 10-year issues (#363, #364, #365) at yield that corresponds to 0.25% in #365. There were no offers, thus the yield declined to 0,20% after the announcement.
 - This is the first such operation since July 2018, and the story suggests that the BOJ looks poised to conduct repeated operations in response to rising yields.

Recent announcements from the FED:

- The Federal Reserve provided the clearest hint yet that it could start raising interest rates as soon as March: "The Committee expects it will soon be appropriate to raise the target range for the federal funds rate,"
- End of QE: Fed Chairman Jerome Powell said asset purchases also are likely to halt in March
- The start of Tapering: The FED released a paper outlining principles to start "significantly reducing" the bond holdings on its balance sheet without indicating a specific time frame

Well. There are only two ways to justify such distancing in the implementation of monetary policies:

1. Japan and US live on different planets, with absolutely distant conditions.
2. Both countries live on the same planet but have starkly opposite views of what is happening. Both take a path of monetary policy in accordance with their vision, but clearly one is (very) wrong, and is going to make a serious mistake, with unpredictable consequences.

Now, it's time to bet.

For me, the concept of "Fed mistake" begins to resonate in my mind.