



# Preview: BoJ Policy Decision Scheduled for Thursday 28th April after 03:30BST/22:30EDT

- The Bank of Japan is expected to keep policy settings unchanged when it concludes its two-day policy meeting on Thursday with the central bank expected to keep rates at -0.1% and maintain its yield curve control to flexibly target 10yr JGB yields at 0%
- BoJ remains dovish despite policy normalisation abroad and a rising yield environment, while JPY weakness spurs concern
- Outlook Report forecasts are likely to be adjusted amid effects from the Ukraine war and there are outside calls for a tweak in the targeted yield tolerance band with Capital Economics expecting a potential widening to +/-50bps from the current +/-25bps

**OVERVIEW:** BoJ is expected to keep policy settings unchanged with the central bank likely to maintain rates at -0.10% and its QQE with yield curve control to flexibly target 10yr JGB yields at 0.0%, while it will release its latest Outlook Report in which a cut in growth forecasts and higher inflation estimates are anticipated due to effects from the Ukraine war and China's COVID outbreak.

**RECENT JPY WEAKNESS AND HIGHER YIELDS:** Focus will also be on the statement given the recent developments including the rapid JPY depreciation that saw USD/JPY briefly climb to the 129.00 handle and its highest in around 20 years. The central bank also have to contend with the rising yield environment which prompted it to intervene through special operations for an unlimited amount of JGBs at a fixed rate of 0.25% after 10yr JGB yields reached the top of its target range.

**BOJ HAS MAINTAINED A DOVISH TONE:** The BoJ remains dovish in the face of the policy normalisation by other major central banks across the world as Governor Kuroda reiterated that it is too early to debate an exit from stimulus policy and that the BoJ will maintain ultra-loose policy to stably achieve its 2% price target with the central bank prepared to ease further without hesitation if needed. Governor Kuroda also stated last week that Japan's economy is not so vulnerable as to need more easing and noted that the BoJ must keep 'aggressive' easing even as the Yen drops, which further supports the view for no changes to its policy in the near term.

**MIXED DATA FAVOURS A PAUSE:** The data releases have been varied and support a pause by the BoJ as headline CPI for March printed inline with expectations at 1.2% and with Core CPI at 0.8% which were the fastest paces of increases since October 2018 and January 2020, respectively. Tankan data was mixed in which the headline Large Manufacturing Index topped estimates, although sentiment among Large Manufacturers and Non-Manufacturers worsened for the first time in 7 quarters.

**ANNOUNCEMENT:** The announcement is set for Thursday anytime from the start of the Tokyo lunch break which begins at 03:30BST/22:30EDT, although no major fireworks are expected unless the BoJ provides markets with a curve ball which seems highly unlikely given its dovish reiterations. Nonetheless, any suggestion of major concern regarding the recent JPY weakness could underpin the currency, whereas hints of a more aggressive approach to contain yields by the central bank would likely further weaken the JPY and support JGBs. There is also an outside view that if the BoJ were to make an adjustment, it would be through the tolerance band which Capital Economics expects to be widened to +/-50bps as soon as this meeting which if it does materialise, would allow yields to move higher and could ease some of the recent pressure for the local currency. Conversely, changes to the Outlook Report forecasts won't be much of a surprise as prior reports noted that the BoJ is likely to reduce its economic growth estimates and could raise inflation forecasts for FY22 to 1.5% from 1.1%.

## Previous Outlook Report

### Real GDP

- Fiscal 2021 median forecast at 2.8%.
- Fiscal 2022 median forecast at 3.8%.
- Fiscal 2023 median forecast at 1.1%.

### Core CPI



- Fiscal 2021 median forecast at 0.0%.
- Fiscal 2022 median forecast at 1.1%.
- Fiscal 2023 median forecast at 1.1%.

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