



PREVIEW: BoJ Policy Decision scheduled for Wednesday 18th January 2023 anytime after 02:30GMT /21:30EST

- The BoJ is expected to refrain from policy changes, although there is increasing speculation for a hawkish surprise
- The decision to widen the yield tolerance band last month failed to achieve the desired effects as yields continued to breach the target ceiling.
- Participants will also get to digest the latest Outlook Report and some suggested that upward revisions to Core CPI projections for future fiscal years to 2.0% could potentially be seen as paving the way for policy normalisation.

OVERVIEW: The Bank of Japan is expected to refrain from conducting any policy adjustments at this week's meeting with the central bank likely to maintain its negative rate at -0.10% and stick to its QQE with Yield Curve Control policy to flexibly target 10yr JGB yields at 0%, although there is increasing speculation for a hawkish surprise following the central bank's unexpected tweak last month and after a recent press report noted that the central bank will review the side effects of its massive monetary easing at the upcoming policy meeting.

SURPRISE TWEAK AT THE LAST MEETING: The BoJ threw markets a curve ball last month in which it unexpectedly tweaked its yield curve control by widening the tolerance band to allow 10yr JGB yields to move between -0.50% and 0.50% from a previous 25bps+/- deviation from the target but also increased the amount of outright JGB purchases with the adjustment intended to "improve market functioning and encourage a smoother formation of the entire yield curve while maintaining accommodative financial conditions". BoJ Governor Kuroda noted that the decision was not an exit of YCC nor was it a change in policy and that it is appropriate to continue easing policy. Kuroda also said that there is no need to further expand the allowance band and there is no intention to hike rates or tighten policy, while sources also recently stated that the BoJ sees little need to rush major yield adjustments.

INCREASING EXPECTATIONS FOR A FUTURE POLICY SHIFT: Despite the BoJ's efforts to smoothen the functioning of the bond market whilst maintaining its ultra-loose policy, yields have continued to climb and have breached the new target ceiling which has prompted the central bank to conduct several unscheduled bond market purchases. This has also spurred speculation of a future policy adjustment with a recent Reuters poll showing 13 out of 30 economists expect the BoJ to unwind its ultra-loose easing this year, while a Bloomberg survey also showed BoJ watchers have begun calling for a sooner-than-anticipated policy shift by the central bank with 38% of analysts looking for a policy adjustment in either April or June, shortly after the appointment of a new Governor.

OUTLOOK REPORT: Participants will also get to digest the Outlook Report containing the latest projections by board members and sources have suggested the BoJ is considering lifting its inflation forecasts whereby revisions would include raising the core consumer inflation outlook for fiscal 2022 to the 3% level from the October projection of 2.9%, while sources added that the BoJ would also raise forecasts for the following two years close to its 2% target from previous forecasts of 1.6% which some suggested could pave the way for future policy normalisation.

ANNOUNCEMENT & POTENTIAL MARKET REACTION: There is no exact scheduled release time for the announcement which can be anytime after the start of the Tokyo lunch break at 02:30GMT/21:30EDT. The focus will centre on whether there are any policy tweaks such as a further widening of the BoJ's tolerance band which would likely spur a hawkish reaction, lift 10yr JGB yields and boost the yen, while the opposite can be expected should the central bank refrain from adjustments to its ultra-easy policy settings. **Bank of America have also outlined the potential market reaction to several scenarios in which no change in policy and measures to contain yields will likely keep the 10yr JGB yield at 50bps**, lift USD/JPY to between 132-133 and spur a rebound in the TOPIX to the 1900 level, **while it expects a widening of the upper ceiling by 25bps to boost the 10yr yield to 75bps**, USD/JPY to be flat/slightly up at between 128-130 and the TOPIX to dip to between 1,850-1,875 with lifers and banks to slightly outperform. Furthermore, **BofA sees the removal of YCC to lift the 10yr yield to 70bps**, USD/JPY to decline to between 125-128 and the TOPIX to fall to 1,800-1,850 with lifers and banks to outperform, **while it predicts the abandonment of both YCC and NIRP to lift the 10yr yield to 100bps**, USD/JPY to drop to between 120-125 and the TOPIX to slump to 1,750-1,800 with outperformance in defensives under this most hawkish scenario.



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