



PREVIEW: BoJ Policy Decision is due on Friday 28th July 2023 Anytime from 03:30BST/22:30EDT

- The BoJ is expected to keep policy settings unchanged
- There has been plenty of speculation and recent Nikkei report noted the BoJ is to discuss tweaking its YCC policy to let long-term interest rates rise beyond its cap of 0.5% by a certain degree in what would be a shift towards a more flexible policy approach
- Rhetoric from the central bank continues to suggest a lack of urgency to tweak policy
- Attention will also be on the BoJ's Outlook Report and potential upgrade to its inflation view

OVERVIEW: The Bank of Japan will conclude its 2-day policy meeting on Friday and likely keep policy settings unchanged with rates to be kept at -0.1% and yield curve control maintained to flexibly target 10yr yields at 0% within a +/- 50bps target band as a recent poll showed that 77% of economists surveyed by Reuters anticipate no unwinding of ultra-easy policy this month and economists are evenly split on whether the BoJ will begin phasing out stimulus this year. However, a recent Japanese press report noted the central bank is likely to discuss tweaking YCC whereby it would likely maintain the cap but is considering allowing long-term interest rates to rise beyond the cap to a certain degree under a more flexible approach. The central bank will also release its latest Outlook Report which contains Board members' median forecasts for Real GDP and Core CPI, while press reports have noted expectations that the BoJ could raise the inflation forecast above the 2% target level and even to as high as 2.5% for FY23, which if confirmed, could be seen to pave the way for future policy normalisation.

SPECULATION RIFE HEADING INTO THE MEETING WITH SOME CALLS FOR A TWEAK IN YIELD CURVE

CONTROL: There has been increased speculation about a potential tweak in policy by the BoJ with some expecting an adjustment to yield curve control this month such as by potentially raising the 10yr yield ceiling to 1.0%. Conversely, source reports have pushed back against this in which they noted that the central bank is leaning towards keeping the yield curve control policy unchanged and sees little need to act on YCC now. However, not all are convinced with Goldman Sachs maintaining its view for a tweak in YCC but noting uncertainty is high and MUFG also continue to expect a tweak albeit with diminishing conviction, while Nikkei just recently reported that the BoJ will discuss tweaking its YCC policy at the policy board meeting on Friday to let long-term interest rates rise beyond its cap of 0.5% by a certain degree in what would be a shift towards a more flexible policy approach. Furthermore, the report stated that the central bank is likely to keep current the cap while taking a flexible approach and that under the more flexible policy being considered, the BoJ would permit gradual increases above the 0.5% threshold, but still clamp down on any sudden spikes.

RHETORIC FROM THE CENTRAL SUGGESTS A LACK OF URGENCY TO TWEAK POLICY: The rhetoric from the central bank continues to suggest a lack of urgency to tweak policy as Governor Ueda recently stated there is still some distance to go before sustainably achieving the 2% inflation target and the Bank has been patiently maintaining easy policy, while he added that unless the assumption on the need to sustainably achieve the 2% target changes, the narrative on monetary policy will not change. Ueda previously stated that responding to an inflation undershoot after a premature rate hike is more difficult than responding to an overshoot and that they have not changed policy because Japanese inflation is not considered sustainable now. Other officials have also suggested a preference to keep policy steady with Deputy Governor Himino stating that they must guide policy flexibly and the best approach is to maintain an ultra-easy stance, while Deputy Governor Uchida said they will maintain YCC from a perspective of sustaining easy monetary conditions and there's still a long way to go before deciding to hike rates.

MIXED DATA RELEASES FAVOUR A PATIENT APPROACH: The recent data releases have been mixed which favours a patient approach as Household Spending and Machinery Orders have contracted, while the BoJ quarterly Tankan survey mostly topped estimates and showed Japanese large manufacturers' sentiment improving for the first time in seven quarters. Furthermore, the latest inflation data showed a slight acceleration and remained above the 2% price target, but is not expected to trigger a shift in policy given the central bank's current view that inflation will slow in the middle of the current fiscal year.

ANNOUNCEMENT: There is no exact scheduled time for the BoJ announcement which can be anytime after the start of the Tokyo lunch break from 03:30BST/22:30EDT onwards. Attention will initially be on whether there is any tweak to YCC policy, with any surprise hawkish adjustment likely to spook risk sentiment and boost the Japanese currency, while focus will then turn to the language and the central bank's projections as a continued dovish tone and below-target CPI forecasts will likely spur risk appetite and pressure the Yen.



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