



PREVIEW: BoJ Policy Decision Scheduled Friday 22nd September 2023 Anytime After 03:30BST/22:30EDT

- **BoJ is expected to keep rates at -0.10% and maintain a flexible approach on QQE with YCC.**
- **BoJ switched to a more flexible approach to implementing YCC at the last meeting in July.**
- **Rhetoric suggests no near-term policy tweaks although prospects for an exit early next year recently emerged after Governor Ueda's comments.**

OVERVIEW: The BoJ is likely to refrain from any policy changes when it concludes its two-day policy meeting on Friday with the central bank expected to keep the Bank Rate at -0.10% and maintain the current parameters of its QQE with YCC, while a recent Reuters poll showed all 26 economists surveyed expect that the BoJ will not unwind easy policy at this meeting.

BOJ SHIFTED TO A MORE FLEXIBLE APPROACH TO IMPLEMENTING YCC IN JULY: As a reminder, the BoJ surprised and confused markets at the last meeting in July where it left its rate unchanged and kept QQE with Yield Curve Control to target 10yr JGBs at 0% with a +/-50bps range, but shifted to a more flexible approach on implementing YCC whereby its fixed rate operations for 10yr JGBs will now be conducted at 1.0% (prev. 50bps) and it also slightly widened the range of its purchase amounts. The announcement resulted in a tumultuous reaction in the Japanese currency although the JPY ultimately weakened after the dust settled as the tweak was less hawkish than what a Nikkei report had suggested ahead of the announcement, while officials have made it clear that the decision was a pre-emptive step at continuing monetary easing without disruptions and that the July decision was not part of any exit from ultra-loose policy. This shift by the central bank to a more flexible approach on YCC makes immediate adjustments unlikely with most economists anticipating the central bank to stick with the current policy throughout the rest of the year.

BOJ RHETORIC SUGGESTS NO NEAR TERM POLICY TWEAKS, ALTHOUGH COMMENTS FROM GOVERNOR UEDA RECENTLY OPENED UP THE PROSPECTS FOR A SOONER EXIT: BoJ officials have continually reiterated that it is appropriate to maintain easy monetary policy for the time being and although some officials have sounded more hawkish on inflation, they have acknowledged that they are still not at a stage where they can say Japan has stably and sustainably achieved the price target. Nonetheless, the scenario of an exit from negative interest rates early next year had recently emerged due to recent comments from BoJ Governor Ueda who stated that they cannot rule out that they might have sufficient data by year-end to determine whether they can end negative rates and that his focus is on a quiet exit, while he also stated they will end negative rates if they judge that achieving the price target becomes possible but will keep ultra-easy policy for now. This brought forward the market pricing for the timing of the BoJ's exit from negative interest rates to January from September next year although a source report had since noted that the BoJ was said to see a discrepancy between Governor Ueda's comments and how traders interpreted them.

ANNOUNCEMENT: There is no exact scheduled time for the BoJ announcement which can occur anytime from the start of the Tokyo lunch break at 03.30BST/22:30EDT. As the central bank is widely anticipated to refrain from policy tweaks, attention will turn to the language to see if Governor Ueda builds on the recent hawkish rhetoric which would likely be seen as further laying the groundwork for a future exit from ultra-easy policy and spur a hawkish reaction. Conversely, the absence of any hawkish follow-up from Governor Ueda could further pressure the currency closer towards the 150.00 level vs. the USD which some see as the threshold for FX intervention.

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