



Preview: BoJ Policy Decision Scheduled for Tuesday 19th March 2024 Anytime from 02:30GMT/22:30EDT

- Money markets are pricing a near-coinflip on whether the BoJ exits negative rates.
- Reuters survey showed over 60% of economists expect the BoJ to wait until April before lifting rates and abandoning YCC.
- Slew of hawkish source reports and firm wage hikes has spurred increased expectations for a sooner move at this meeting.
- Participants will also be eyeing the decision on other measures including ETF purchases and any clues on the path of future policy.

OVERVIEW: The BoJ will announce the outcome of its crucial two-day policy meeting on Tuesday in which participants will be eyeing whether the central bank exits its negative interest rate policy as money markets are pricing a near coin flip between the central bank maintaining its rate at the current level of -0.10% or if it hikes this by 10bps to 0%. Furthermore, a recent Reuters poll showed that 35% of economists expect the BoJ to end negative rates in March and 62% think April, while participants will also await the central bank's decision regarding its QQE with YCC and if there are any adjustments to its other measures such as ETF purchases with 31% of economists expecting the BoJ to end YCC in March and 62% think April.

SOURCE REPORTS FUELLED INCREASED SPECULATION FOR NORMALISATION: There has been plenty of speculation for the central bank to act following numerous hawkish source reports leading up to the meeting with the BoJ mulling a March hike although it was said to be too close to call as officials were split between March or April and a final decision is to be taken after the first wage talks tally. Other source reports also noted that the BoJ is said to review Yield Curve Control and will likely ditch its 10-year bond yield target upon pulling short-term rates out of negative territory with the central bank to consider a new quantitative monetary policy framework and is mulling buying nearly JPY 6tn of JGBs under a new policy framework. Furthermore, a separate report noted the BoJ will likely offer numerical guidance on how much in government bonds it will buy upon ending NIRP and YCC to avoid causing market disruptions with the central bank likely to roughly maintain the current pace of bond buying and forgo sharp cuts in the amount for the time being.

BOJ RHETORIC SUGGESTS DATA DEPENDENCE AND MORE CONFIDENCE IN ACHIEVING THE PRICE GOAL: There has also been a wave of more hawkish-leaning central bank rhetoric including from BoJ Governor Ueda who stated after the last meeting that the likelihood of achieving 2% inflation is rising gradually and BoJ confidence has grown in the achievement of the price target, while he also previously commented that it is fully possible to seek an exit from stimulus while striving to achieve the 2% target. However, his more recent comments were less hawkish as he noted that they see weakness in the consumption of non-durable goods and need to see if a virtuous cycle is underway, as well as stressed data dependency in reaching an appropriate monetary policy decision. Furthermore, Ueda noted they are focusing on whether a positive wage-inflation cycle is kicking off in judging whether a sustained and stable achievement of the price target is coming into sight but outlined several potential normalisation-related scenarios whereby he stated it is possible to control short-term rates at an appropriate level by paying interest on reserves parked with the BoJ and if inflation accelerates and warrants monetary tightening, it is possible to do so by raising rates without scaling back the BoJ's bond holdings. Other officials have also provided a more hawkish tone as Board Member Takata stated he would call for a gear shift in policy and that the achievement of the price target is coming into sight although he had not made up his mind when asked about whether to end negative interest rates in March or April. Board Member Nakagawa also stated that prospects of sustainably achieving the 2% inflation target are gradually heightening and it will take until autumn and beyond if they were to wait until smaller firms' wage negotiation outcome, while she added they don't necessarily need to wait for all small and mid-sized firms' wage talks results in deciding when to end negative rates.

STRONG WAGE INCREASES SUPPORT THE CASE FOR SOONER NORMALISATION: The recent announcement by the Japanese Trade Union Confederation or RENGO of an initial tally for a rise of 5.28% in wages, which is above estimates and the largest pay increase in over three decades, is seen to be the deciding factor and to have heightened the chances that the BoJ will end its negative interest rate policy. Furthermore, a report in Nikkei noted the BoJ sees a chance to normalise policy now that inflation appears set to remain at 2% or higher after big corporations and labour unions agreed on substantial wage hikes and a report in Kyodo stated the BoJ will raise the short-term rate to the 0% -0.1% range, while Jiji also reported that the BoJ is making final arrangements to end negative rates at this meeting.

ANNOUNCEMENT: As usual, there is no exact scheduled time for the announcement which can be anytime from the start of the Tokyo lunch break which begins at 02:30GMT/22:30EDT. Aside from the decision on interest rates and yield



curve control, participants will also be eyeing the central bank's intentions regarding other measures including its ETF buying as the BoJ had previously stated it would be natural to end such purchases if the achievement of the 2% price target can be foreseen.

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