

Preview: BoJ Policy Decision Scheduled for Wednesday 31st July 2024 anytime after 03:30BST/22:30EDT

- BoJ will conclude its policy meeting on Wednesday where it will decide on rates and announce its taper plans.
- Decision on a rate hike is seen to be a close call although most economists are expecting no change in rates.
- BoJ is set to unveil its taper plans in which it will trim monthly bond purchases from the current JPY 6tn.
- The latest Outlook Report will also be released although the forecasts will take a back seat to the decision on rates and purchases.

OVERVIEW: The Bank of Japan will conclude its 2-day policy meeting on Wednesday where there are mixed views as a majority of economists in a recent survey expect the policy rate to be kept at 0.0%-0.1% and money markets were pricing around a 38% chance of a 15bps hike, while the BoJ is also set to announce its taper plans and will release the latest Outlook Report containing board members' median forecasts for Real GDP and Core CPI. In terms of expectations, a recent Reuters poll showed 76% of economists expect the BoJ to keep rates unchanged and 59% expect the BoJ to taper bond purchases to around JPY 5tn per month as a first step at the July meeting. Furthermore, economists are split over which month the BoJ will hike rates as 43% think October, 30% think September and only 24% think July.

BOJ ANNOUNCED IN JUNE IT WOULD DECIDE ON TAPERING PLANS IN THE JULY MEETING: As a reminder, the BoJ kept its short-term policy rate unchanged at 0.0%-0.1% in the June meeting which was widely expected with the decision made through a unanimous vote, although it caught markets off-guard by defying expectations for the central bank to announce an immediate tapering of its bond purchases and instead kicked the can down the road as it declared it is to trim purchases but will decide on a specific bond-buying reduction plan for the next 1-2 years at this month's meeting. In addition, BoJ Governor Ueda said during the post-meeting press conference that the reduction of JGB purchases will be a considerable volume and they will start a reduction of JGB purchases immediately after deciding at the July meeting, as well as noted that a July hike is naturally possible depending on the data. The central bank has since held a meeting with bond market participants to provide them with a chance to convey their views before it announces its tapering plans, and received various views from participants on the amount, pace and guidance for the JGB purchase reduction such as trimming purchases to around JPY 2tn-3tn and an opinion that a reduction in the amount of monthly purchases to about JPY 3tn would be a clear message that it is committed to a significant reduction, while some favoured a more forceful approach of trimming purchases to JPY 1tn-2tn and others urged a less aggressive taper to JPY 4tn or even to JPY 5tn before shifting to a larger reduction. However, it remains to be seen what the central bank will actually decide for its bond tapering plans as BoJ officials haven't provided any specific clues of the magnitude of its upcoming tapering and were reportedly more interested in hearing market views in the bond market meetings rather than forming discussions around specific options for bond purchase reductions.

RECENT SOURCE REPORTS SUGGESTED A CLOSE CALL REGARDING THE RATE HIKE DECISION A recent source report stated the BoJ is to weigh a rate hike at this meeting and will have a detailed plan to halve the bond buying in the coming years with purchases to be tapered gradually at a pace near market consensus. It was also noted that a rate hike decision is a close call with the consumption outlook key and was also described as a judgement call in terms of acting now or later in the years. A prior report also stated that the BoJ is said to see weak consumption complicating its rate decision with officials likely to wait until the last minute to finalise their decision after checking the latest data on markets and economic conditions with some officials wanting more time to see the data and other officials seeing risks the BoJ could miss the chance to lift rates, although sources added that the central bank doesn't intend to cause any major surprise.

MIXED DATA FAVOURS A PATIENT APPROACH: Recent data releases have been mixed including the quarterly Tankan Survey which showed Large Manufacturers' sentiment in Q2 improved to 13.0 vs. Exp. 12.0 (Prev. 11.0) and their outlook improved to 14.0 vs. Exp. 13.0 (Prev. 10.0), although Large Non-Manufacturers' sentiment slightly weakened to 33.0 vs. Exp. 33.0 (Prev. 34.0) and their outlook missed forecasts at 27.0 vs. Exp. 31.0 (Prev. 27.0), while Large All Industry Capex accelerated but fell short of estimates at 11.1% vs. Exp. 13.9% (Prev. 4.0%). Recent Tokyo CPI data for July, which serves as a leading indicator for nationwide price trends, was also varied as headline Tokyo headline CPI and Ex. Fresh Food CPI decelerated and printed softer-than-expected at 2.2% vs. Exp. 2.3% (Prev. 2.3%) and 1.5% vs. Exp. 1.6% (Prev. 1.8%), respectively, but the core reading accelerated as forecast to 2.2% vs. Exp. 2.2% (Prev. 2.1%). Furthermore, the latest Machinery Orders were mixed in May with a surprise contraction M/M and stronger-than-estimated Y/Y growth, while weak Household Spending which surprisingly contracted favours the central bank to remain patient before acting on rates.

ANNOUNCEMENT: There is no exact scheduled release time for the BoJ rate decision which can occur anytime after the start of the Tokyo lunch break which begins at 03:30BST/22:30EDT with participants to be focused on the decision on rates and how aggressive the BoJ's taper plans are such as the magnitude and pace of reduction from its current monthly purchases of JPY 6tn. The meeting will also include the latest Outlook Report although the board projections will take a back seat to the actual decision on rates and the BoJ's tapering plans.

Prior Outlook Report Forecasts:

Real GDP

- Fiscal 2024 median forecast at 0.8%.
- Fiscal 2025 median forecast at 1.0%
- Fiscal 2026 median forecast at 1.0%.

Core CPI

- Fiscal 2024 median forecast at 2.8%.
- Fiscal 2025 median forecast at 1.9%.
- Fiscal 2026 median forecast at 1.9%

