SMAM Japan Insights (No.020)

22 July 2014
Masaru Hamasaki
Senior Strategist

BOJ Monetary Policy Meeting - Economic Assessments & Monetary Policy Unchanged

July BOJ Monetary Policy Meeting

The BOJ held its July Monetary Policy Meeting (hereafter MPM) on July 14 and 15. The policy was kept unchanged as the BOJ's assessments on components such as outlook for economy and prices did not change. Its current monetary policy is as follows.

1. Money Market Operations

   Adjust the money market through increasing monetary base by about JPY60 to 70 trillion a year.

2. Asset Purchasing Program

   ① JGBs:

   Increase the bank's holdings at annual pace of about JPY50 trillion and make their average year to maturity seven years or around.

   ② ETFs / J-REITs:

   Increase their amounts outstanding at annual pace of about JPY1trillion and JPY30billion, respectively.

   ③ CPs / Corporate Bonds:

   Maintain their outstanding amounts at about JPY2.2trillion and JPY3.2trillion, respectively.

BOJ Policy Board majority forecasts in Outlook Report

(% y-o-y)

	Real GDP	Core CPI (Excl. fresh food)	Excl. impact of consumption tax hike
FY2014 Est.	+0.6 - +1.3 (+1.0)	+3.2 - +3.5 (+3.3)	+1.2 - +1.5 (+1.3)
April 2014 forecast	+0.8 - +1.3 (+1.1)	+3.0 - +3.5 (+3.3)	+1.0 - +1.5 (+1.3)
FY2015 Est.	+1.2 - +1.6 (+1.5)	+1.9 - +2.8 (+2.6)	+1.2 - +2.1 (+1.9)
April 2014 forecast	+1.2 - +1.5 (+1.5)	+1.9 - +2.8 (+2.6)	+1.2 - +2.1 (+1.9)
FY2016 Est.	+1.0 - +1.5 (+1.3)	+2.0 - +3.0 (+2.8)	+1.3 - +2.3 (+2.1)
April 2014 forecast	+1.0 - +1.5 (+1.3)	+2.0 - +3.0 (+2.8)	+1.3 - +2.3 (+2.1)

(Note 1) Majority forecasts represent range of forecasts by board members after discarding highest and lowest value.
(Note 2) Figures in parenthesies are median forecasts.
(Note 3) Both real GDP and the core CPI inflation rate are based on y-o-y comparison
(Note 4) These forecasts factor in the proposed consumption tax hike to 10% in October 2015.
(Note 5) Impact of the consumption tax hike to push up core CPI inflation rate are estimated to be +2.0 ppt for FY2014, +0.7ppt for both FY2015 and FY2016, respectively
(Source) SMAM, based on data of BOJ, Cabinet Office and Ministry of Affairs & Internal Communications

Sumitomo Mitsui Asset Management
SMAM

At July MPM, the BOJ conducted an interim assessment of the Outlook for Economic Activity and Prices Report (Outlook Report) published on April 30. The BOJ announced the outlook of real GDP growth rate and the consumer price index (excluding fresh food, hereafter referred to as core CPI) based on their assessment conducted this time. The majority of the BOJ's committee members voted for not changing the forecasts of FY2015 and FY2016, while for FY2014, lower end of the real GDP growth rate's range was revised lower by 0.2 points y-o-y and that of core CPI was revised upward by 0.2 points y-o-y reflecting opinions of some committee members.

The BOJ sees risk factors which could influence its forecasts are mostly external factors such as economic trend of the emerging countries and resource-rich countries, future outlook of European debt crisis and the pace of the recovery of the US economy. The BOJ maintained core CPI to remain at around +1¼% level based on its view that the pullback of rush demand ahead of the consumption tax hike will gradually fade away.

Future Outlook & Focus

In the speech made by the BOJ governor Kuroda on June 23, he commented, "Specifically, through the summer, the year-on-year rate of increase in the CPI is expected to slow to around 1 percent". This comment was interpreted by the market participants as the governor Kuroda's intention to revise down his outlook on the prices. However, it is estimated that the possibility of the monetary easing is low before the release of the next "Outlook Report" in October, unless the core CPI becomes much lower than "around 1%" (ex. 0.7% or below) as the current outlook on prices deemed to have reflected his view.

I have assumed, with some expectation, that the additional monetary easing might take place before this autumn in order to achieve the targeted price with certainty, however, such assumption needs to be withdrawn as the possibility of core CPI to sharply decline has been lowered. Although, I assume the recovery of the Japanese economy after summer, unless hit by the detrimental external shock, there exists a substantial risk that the recovery pace of demand from the pullback of rush demand might be slower than was expected. The reason for the slower pace is a severer income environment compared to the previous tax hike case in 1997 as the real wages this time became less than those of the previous year. I still believe that there is a room for seeing the additional monetary easing in the event of much-slower-than-expected recovery of the Japanese economy even in the case that the increase of prices would stay within the expected range.

Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter "SMAM"), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM's judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indexes belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM's authorization, or from disclosing this material to a third party.

Registered Number: Kanto Regional Finance Bureau (KINSYO) No.399
Member of Japan Investment Advisers Association and the Investment Trusts Association, Japan

Sumitomo Mitsui Asset Management
SMAM