

## MNI BOJ Preview - September 2021

**Meeting Date:** Tuesday 21 - Wednesday 22 September 2021

**Statement Release Time:** N/a

**Link To Statement:** [https://www.BoJ.or.jp/en/mopo/mpmsche\\_minu/index.htm/](https://www.BoJ.or.jp/en/mopo/mpmsche_minu/index.htm/)

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## Central Bank Watch - Bank of Japan

September 21, 2021

MNI Bank of Japan Data Watch List											
		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
<b>Inflation</b>											
Tokyo CPI	% y/y	-0.4	-0.9	↑	-0.3	↓					-0.58
Tokyo CPI - Ex Fresh Food	% y/y	0.0	-0.7	↑	-0.4	↑					1.62
PPI	% y/y	5.5	4.9	↑	-0.6	↑					0.88
Inflation Swap 5y5y	%	0.22	0.32	↓	0.28	↓					-1.42
<b>Economic Activity</b>											
Industrial Production	% m/m	-1.5	2.9	↓	3.1	↓					-0.32
Tertiary Industry Index	% m/m	-0.6	-0.7	↑	-1.0	↑					-0.24
Core Machinery Orders	% m/m	0.9	0.6	↑	-4.5	↑					0.08
Exports	% y/y	26.2	49.6	↓	-4.5	↑					-0.05
<b>Monetary Analysis</b>											
M2 Money Supply	% y/y	4.7	8.0	↓	9.6	↓					-0.55
Bank Lending	% y/y	0.6	2.8	↓	6.2	↓					-1.22
Loans Outstanding (Bus)	% y/y	-0.37	2.87	↓	7.24	↓					-1.18
Housing Starts	% y/y	9.9	7.1	↑	-3.1	↑					1.04
<b>Consumer / Labour Market</b>											
Retail Sales	% y/y	2.4	11.9	↓	-2.4	↑					0.48
Household Spending	% y/y	0.7	13.9	↓	-6.0	↑					-0.16
Unemployment Rate	%	2.8	2.8	→	2.9	↓					-0.48
Ave Monthly Cash Earnings	% y/y	1.0	1.4	↓	-1.3	↑					0.60
<b>Markets</b>											
Nikkei 225	Index	29961	28860	↑	28966	↑					1.06
Japanese 10-Year Yield	%	0.04	0.09	↓	0.16	↓					-1.09
Japan Yield Curve (2s-10s)	bps	17.1	21.3	↓	26.8	↓					-0.86
JPY TWI	Index	112.06	109.53	↑	113.56	↓					-0.14

Source: MNI, Bloomberg

## MNI POV (Point Of View): Move Along

The Bank of Japan is expected to leave its monetary policy settings unchanged come the end of its September meeting. The Bank will likely be comfortable with market gyrations when it comes to benchmark JGB yields, although benchmark 10-Year cash JGBs have failed to trade in several sessions in recent months.

Downside risks to the economy stemming from COVID, namely on the services, industrial production and export fronts, may create a slightly more negative tone when it comes to the BoJ's overarching economic message, with the questions surrounding the health of the Chinese economy also providing the potential for a sombre economic take. Still, the lack of fresh economic projections means that it should be a fairly bland affair on this front.

Looking ahead, the political dynamic in Japan isn't expected to impact the BoJ as we move through the tail end of '21, with the ruling LDP Party set to hold a leadership vote in the coming weeks, which will be followed up by a general election.

Note that most expect the existing pool of BoJ Deputy Governors to ultimately provide the successor to current Governor Kuroda when his term expires in April 2023, with Deputy Governor Amamiya being the favourite to succeed Kuroda at present. Most of the candidates in the running for LDP Party leadership have pointed to a general desire for policy continuity, but betting outsider Takaichi is the exception to that rule. She has outlined a want to expand the Bank's focus to a dual mandate, targeting full employment in addition to its current price stability goal (similar to the dual mandate in place at the U.S. Federal Reserve). That may mean that BoJ policy becomes somewhat more reflationary in the (seemingly unlikely) case of a Takaichi victory and any subsequent ascent to Prime Ministership, which would likely boost the chances of BoJ Deputy Governor Wakatabe when it comes to succeeding Kuroda.

Current bookmaking frontrunner, Taro Kono, is perhaps the most cognisant of the long-term risks of sustained ultra-loose policy settings at the Bank. This means that a victory for Kono may lead to an increased focus on the length of life when it comes to the Bank's current policy settings, given the fact that he has pointed to the need for clear communication surrounding the BoJ's exit strategy and the difficulties the Bank faces when it comes to meeting its current inflation goal under the current economic conditions in the past. Still, Kono is more than aware of the current economic hardships faced by the Bank, meaning there wouldn't be a kneejerk push from him on this front.

The political question obviously consists of many ifs and buts and is not something that the BoJ will want to address.

## MNI State Of Play: BoJ Policy Meeting To Mull Downside Risks

By Hiroshi Inoue

TOKYO (MNI) - Downside risks to exports and industrial production are expected to delay, but not derail the Bank of Japan's baseline recovery scenario as the board meets next week to review policy, MNI understands.

Bank officials expect the economy slowed in the third quarter as automobile makers cut production on supply disruptions for parts and semiconductors, see: [MNI INSIGHT: BoJ Watching Auto Part, Semiconductor Shortages](#).

The Sept. 21-22 meeting is expected to keep policy unchanged but will consider lowering the solid assessment on exports and production. Bank officials see more downward pressure on industrial production and exports than in August.

Bank officials now expect a return to pre-pandemic GDP levels in the first quarter of 2022, as earlier estimates of a V-shaped economic recovery in the fourth quarter are unlikely.

Private consumption, including pent-up demand is weak as vaccinated people refrain from going out amid the state of emergency and concerns over infections. Earlier this month, Bank of Japan Deputy Governor Masazumi Wakatabe said the pace of economic recovery has been delayed.

### REBOUND PROSPECT

Bank officials expect that solid private demand and the sharp drop of inventories in the past months will prompt manufacturers to increase their production.

There is also the prospect of an end-September end or easing in Covid-19 state of emergency lockdowns now in effect for in 19 out of Japan's 47 prefectures, and chances for price recovery, as Japan makes progress on overall vaccination numbers, even as other key economies in Asia lag such as Australia.

Further ahead, the BoJ will likely revise down the GDP and inflation rate forecast this fiscal year in the release of the quarterly Outlook Report at the Oct. 27-28 meeting.

## Sell-Side Views

**Goldman Sachs:** We expect the Bank to maintain the status quo across all monetary policy parameters.

- In terms of its economic assessment, while we expect the BoJ to maintain its view on current overall economic conditions, it could lower its assessment of consumption and production somewhat owing to a slow recovery in services spending, given the extended state of emergency and disrupted auto supply chain due to the spread of the Delta variant in Southeast Asian countries. We think the BoJ will maintain its outlook for a modest economic recovery to continue in light of a steadily rising vaccination rate and solid external demand.

**J.P.Morgan:** The meeting should not be eventful, as the BoJ will not publish an Outlook Report and we expect no change in the monetary policy.

- As Deputy Governor Wakatabe suggested in his speech on September 1, the timing the BoJ expects for a pent-up growth recovery likely will be delayed slightly due to the pandemic weighing on consumption and the supply-side bottleneck, but its overall view of the economic recovery toward next year is unlikely to be changed.
- The BoJ seems unlikely to change its present stance of continuing the current persistent easing. As Wakatabe said in his speech, even if the core CPI (ex. fresh food but incl. energy) is expected to rise in the short run reflecting the cost-push factor, the BoJ is unlikely to move because this would not be sustained without a persistent increase in domestic demand and because the BoJ has adopted an inflation overshooting commitment. Kuroda may clarify this point further at his press conference. We don't expect the BoJ to start this climate-change-related operation from this meeting.
- What the markets are paying more attention to is the influence of the next prime minister on the BoJ's policies, but Governor Kuroda seems unlikely to respond to these kinds of questions at the press conference.

**Societe Generale:** Given that the fifth wave of the coronavirus has begun to be contained, we expect that the BoJ will maintain its current main monetary policy (YCC and ETF purchases). In addition, it extended "the Special Program to Support Financing in Response to COVID-19", currently set to expire in September 2021, to the end of March 2022 at the June policy board meeting. Moreover, according to the Tankan survey, the financial positions of large and small enterprises have improved. Therefore, measures to support financing will also be maintained.