

Introduction

The BOJ decided to maintain its policy rate in September MPM, with two dissent votes for 25bp rate hike. Governor Ueda confirmed that the economy has been on track of the outlook with uncertainties about the impacts of the US tariffs. The BOJ also unexpectedly decided to launch disposal operations of ETF and J-REIT in a very gradual manner.

Assessment of economy

Policy statement confirmed the cautiously constructive view, with reference to swings of exports and production, gradual increase in investment and resilient consumption. It also referred to some weakness of profits in manufacturing sector.

Governor Ueda expected slowdown of economic activities, but recovery afterwards both due to evolutions of overseas economies. He also cited the impacts of overseas trade policies on financial markets, economy and prices as the main factor of risk.

During the Q&A session, reporters raised the impacts of the US tariffs. Governor Ueda admitted that recent exports to the US decelerated, and corporate profits of manufacturing sector decreased. Nevertheless, he explained that the exports may reflect the previous front-loading activities, and overall level of profit remains high.

Regarding the timing of the impacts, Governor Ueda suggested the view on the US that the spillover to consumer prices has not realized in full-fledged manner, despite rises in import prices. He also added that the timing of the impact remained uncertain, while the impacts would surely emerge.

Looking forward, Governor Ueda confirmed that risks remained tilted downside. He also confirmed the idea that the policy decision should be based on the outlook consistent with the incoming data.

Assessment of prices

Policy statement explained that core CPI inflation rate remained in higher 2% range due to transfer of wage costs to prices and rise in food prices including rice.

It also confirmed the constructive view of underlying inflation. Although the impacts of food prices would diminish and economic growth rate decelerate for the time being, underlying inflation would re-accelerate both due to labor shortages under economic recovery and improvement of long-term expectation of inflation.

During the Q&A session, Governor Ueda expressed the view that CPI inflation rate in August remained on track of the outlook. Nevertheless, he suggested the cautiousness about the risks in both directions; instability of inflation expectation due to persistently high inflation and negative impacts on consumption due to continuous rise in food prices.

Management of policy rate

The BOJ decided to maintain its policy rate unchanged. However, two members of the MPM proposed to raise it by 25bp. According to the policy statement, Mr. Takata argued that underlying inflation has achieved 2% target. Mr. Tamura claimed that a step toward neutral rate is necessary when upside risk of inflation grows.

Looking forward, Governor Ueda confirmed the idea that the BOJ would adjust the magnitude of monetary easing in light of low real policy rate. He also mentioned that the uncertainties associated with the US tariff remained.

During the Q&A session, many press reporters asked about the implications of dissent votes. Governor Ueda confirmed the view that underlying inflation has not achieved the target, while it approached toward 2%. He also referred to both upside risk of inflation and downside risk of economy.

Moreover, Governor Ueda confirmed the idea that the BOJ would raise policy rate when it could have confidence in its outlook. He also explained that he would like to have more data under high uncertainties about the economy.

Disposal of ETF/J-REIT

The BOJ decided to launch disposal operations of ETF (330bil yen/year on original prices) and J-REIT (5bil yen/year on original prices). According to the BOJ's estimation, each of them would be 0.05% of market turnover. The BOJ could also earn capital gains by 290bil yen/year from ETF and 5.5bil yen/year from J-REIT under current condition.

Policy statement mentioned that the decision was according to the guidelines; 1) consideration of market conditions and fair prices of disposal, 2) suppression of losses from disposal, 3) limitation of market impacts.

Governor Ueda explained that the decision was unanimous. He also mentioned that the pace of disposal was decided according to the practices of disposal of stocks completed in July (purchase from banks in financial crisis period). Moreover, he added that the BOJ could either adjust or suspend the operations in light of market conditions.

During the Q&A session, many press reporters asked about the backgrounds of the decision and the management of operations.

Governor Ueda explained that the BOJ analyzed the lessons from the disposal of stocks since July, but denied that the BOJ took account of specific level of stock prices. He also explained that the BOJ discussed the balance of risks between market impacts and side-effects of ETF holdings.

Regarding the management, he admitted that it would take over 100 years to complete the disposal under very cautious pace, while he intended to achieve the goal by the successors. Moreover, he added that he would not expect to resume the purchase operation during the period.

In reply to the criticism about its communication policy, Governor Ueda admitted that it was difficult to send messages in forward looking manner.

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