

Status Quo Likely the Way to Go – BOJ's June Meeting

Written by Katsutoshi Inadome, Senior Strategist

Probability of maintaining the status quo is high for this month's meeting

- The results of the Bank of Japan (BOJ) meeting are scheduled to be announced on the 16th of this month and are attracting attention from domestic and foreign investors. While many in the market expect the BOJ to maintain the status quo at this month's meeting, some expect a Yield Curve Control (YCC) revision. Based on an overview of market feedback and current indicators, we believe that the probability of maintaining the status quo at this month's meeting is high, with only a small chance of policy revisions.

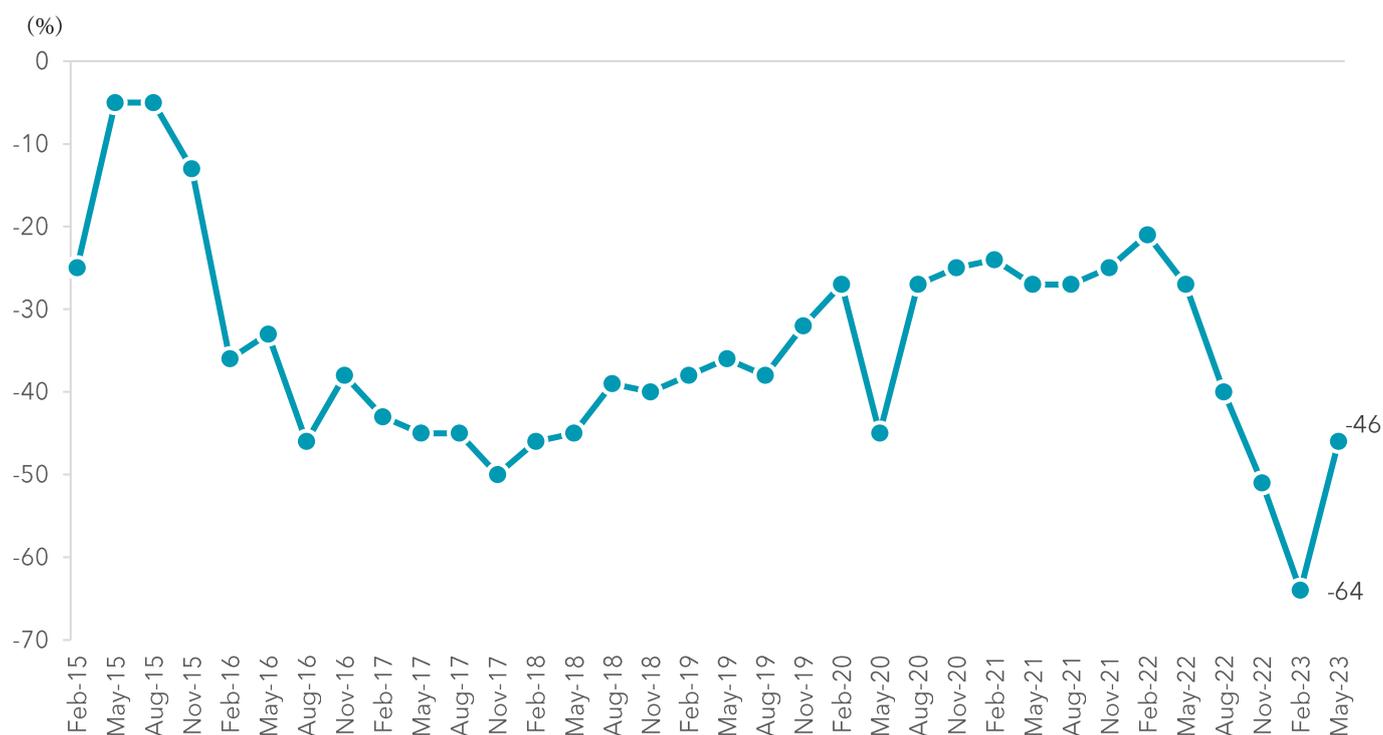
Most economists expect the status quo

- Let's see what the market has to say about the timing of a possible YCC revision. 44 out of 47 economists in the Bloomberg June Survey (survey period: 1st June to 7th June) released on 8th June expect the status to be maintained at the June meeting. 16 respondents, the largest group, expect the policy to be revised at the July meeting. About 60% of respondents (29) indicated that there would be a policy revision by the end of the year. In the QUICK Monthly Survey for May (survey period: 23rd-25th May), which is released slightly earlier on 29th May, the largest number of institutional investors (35) expected the policy revision by July 2023, followed by 17 respondents forecasting October 2023 and 15 for December 2023. About 80% of respondents (90 out of 112) indicated that a correction would occur before the end of the year. The next meeting in July will see the release of the Outlook Report, and with prices remaining high at the moment, many expect the BOJ to move to revise its policy then.

Each indicator lacks impetus for the BOJ to move

- To make a decision to change the policy, BOJ is paying attention to whether the bond market is functioning and sustainable wage increase. In the May Bond Market Survey released on 1st June, the DI for the degree of functionality of the bond market rose from the previous February survey (-64, the lowest ever) to -46, as was expected by the market. The Bank of Japan is not overly concerned about a decline in the bond market's functionality, as the market has not raised speculation of the YCC revision due to the improvement in the DI.

Figure1: Bond Market Functioning Diffusion Index (DI)

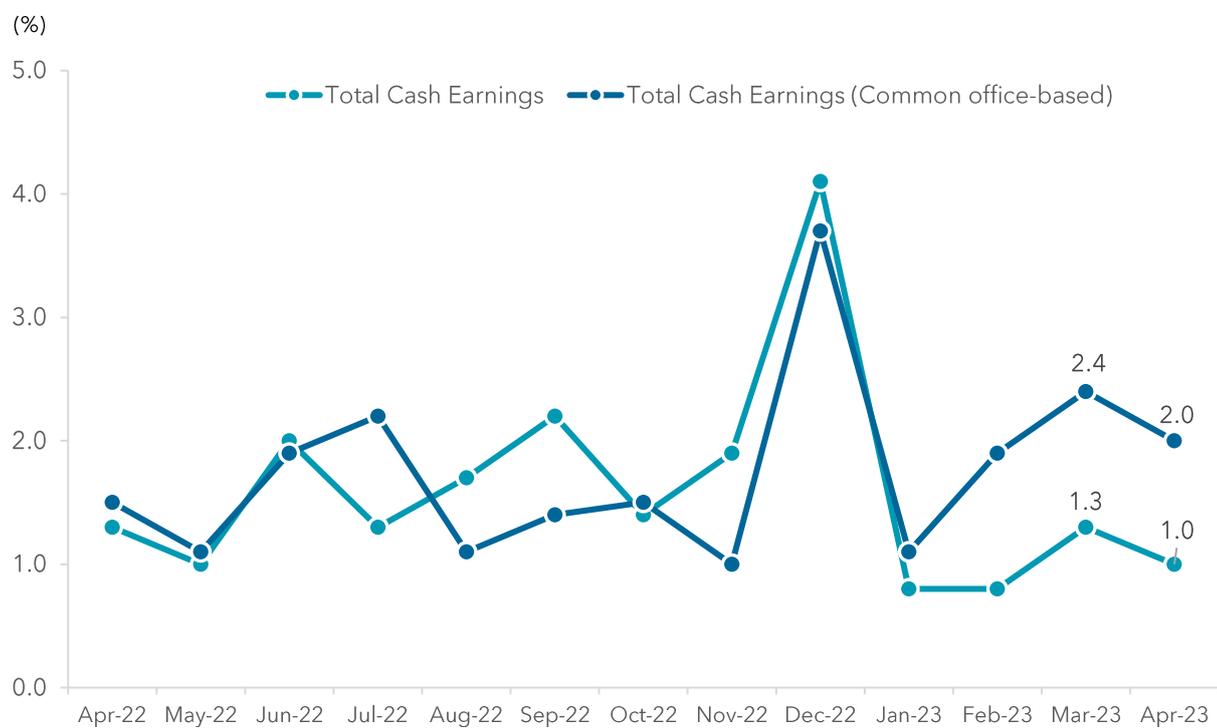


Note: Bank of Japan requests the market participants to answer questions about whether the bond market is functioning. Diffusion Index of answers to high minus low shows above %points.

Source: Bond Market Survey, Bank of Japan, SuMi TRUST AM (as of 1st June 2023)

The MHLW (Ministry of Health, Labour and Welfare) released the Provisional Report of Monthly Labour Survey (April) on June 6, showing that total cash earnings were up 1.0% y/y, weaker than the market consensus (Bloomberg-based) of +1.8% y/y. On a common office-base, which excludes the effect of sample reshuffling, total cash earnings were up 2.0% y/y, slower than in March (+2.4% y/y) (See Figure 2). According to a survey by the MHLW, only about 40% of all companies will reflect wage increases in their April payrolls, and the results of the annual spring labour union negotiations are expected to be reflected in wages in a phased manner going forward. Each indicator is seen as lacking in strength enough to elicit action from the BOJ at its June meeting. Based on the above, the probability of maintaining the status quo at this month's meeting is high, with only a small chance of policy revisions. We will continue to monitor developments at the BOJ closely.

Figure2: Total Cash Earnings, %



Source: MHLW (Ministry of Health, Labour and Welfare), Provisional Report of Monthly Labour Survey, SuMiTRUST AM (as of 6th June, 2023)

About Writer



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After completing a master's degree in economics, Katsutoshi joined a domestic securities company in 2004, and in 2023 joined Sumitomo Mitsui Trust Asset Management, where he has been in his current position since February 2023.

After joining a securities company, he has consistently worked as a bond strategist for nearly 20 years. He has been engaged in research and analysis of the Japanese and global bond market and macroeconomics, writing reports and making presentations to clients. In his current role, he oversees macroeconomic and financial market analysis.

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