Bank of Japan officially commits to de-couple from the Fed

Published 2 August 2018

The Bank of Japan (BOJ) de-facto eased policy at their latest board meeting on 31 July 2018. They introduced "forward guidance" on top of their long-standing policy of QQE - quantitative and qualitative ease. Clearspeak: the board now spell out their commitment to allow a de-synchronization between US rates rising and Japanese rates staying anchored around zero. They even commit to a timeline - rates will stay anchored around zero at the very least until the effects of the consumption tax hike in October next year have fully played out. This suggest early-2020 as the earliest target date for actual rate hikes in Japan.

The official text of the board meeting says it all. It is titled "Strengthening the framework for continuous powerful monetary easing". It reads: "The bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including effects of the consumption tax hike scheduled to take place in October 2019."

Operationally, the BoJ committed to maintain its short-term policy rate target a minus 10 basis points and for the 10-year Japanese Government Bond (JGB) yield confirms the same target rate as before, "around zero". In fact, a footnote in the board text spells out that "in case of rapid increases in the yield, the Bank will purchase JGBs rapidly and appropriately." They also re-confirmed that added JGB purchases will come to around 80 trillion yen per year.

Meanwhile, the Boj's equity exchange-traded fund (ETF) buying program was also re-confirmed at an annual pace of 6 trillion yen, although the composition was changed away from the price weighted NIKKEI225 towards the market cap weighted TOPIX (the former was cut from 3 trillion to 1.5 trillion yen per annum, the latter raised from 2.7 trillion to 4 trillion yen, with the remaining 0.3 trillion going to the special caped and human capital ETFs as before). The change in portfolio composition can be seen as a modest positive for Japanese financials and due to their relatively higher weighting in the market cap weighted TOPIX.

Interestingly, the policy board has revised down its central tendency forecasts for both GDP growth and CPI inflation: board members now expect GDP growth to basically half from 1.5% in Fiscal Year 2018 to 0.8% in Fiscal Year 2019 and Fiscal Year 2020, while CPI inflation is forecast to stay below 2% in both Fiscal Year 2019 and Fiscal Year 2020.

All said, the BoJ board is sending a clear message to global markets: Japan is openly committed to de-couple from the US rate cycle. For markets, this creates a welcome new tension and opportunity: the BoJ is encouraging long-term investors to build-up global carry trade positions, i.e. funding in zero-rate Yen and investing in higher-yielding US fixed income. At the same time, shorter-term speculators are poised to test, from time to time, the BoJ's resolve. The new result, in our view, should be rising liquidity in both JGB and global markets, as well as a structural depreciation of the Yen against the dollar.

Related blogs

+ Japan GDP a clear signal for BOJ, while savings rate surges

+ More Bank of Japan board dissent to raise credibility -- De-syncing from the Fed cycle

Source: Bank of Japan, Strengthening the Framework for Continuous Powerful Monetary Easing, 31 July 2018.

Important Risks Related to this Article

Important Information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

For professional clients only. The information contained in this document is for your general information only and is neither an oer for sale nor a solicitation of an oer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

The application of regulations and tax laws can oen lead to a number of dierent interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and aer seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public oering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any ailiate, nor any of their respective oicers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.