

Today's Topic **BOJ's Monetary Policy (November 2016)**

Unchanged: Likely to maintain current policy for the time being

Point 1 Monetary Policy was unchanged No surprise to the market

- BOJ decided to keep their monetary policy unchanged at Monetary Policy Meeting (MPM) on 1st November 2016. It has maintained monetary operation to keep short-term policy interest rate to around -0.1% and long-term 10-year JGB yields to remain around 0%. Also, maintained the purchase of JGBs at more or less the current pace, an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen. BOJ's decision to keep its monetary policy unchanged is in line with the market expectation.

"BOJ Policy Board majority forecasts in Outlook Report"

	Real GDP Growth Rate	Core CPI (Excl. fresh food)
FY2016 Est.	+0.8~+1.0 <+1.0>	-0.3~-0.1 <-0.1>
July 2016 forecast	+0.8~+1.0 <+1.0>	0.0~+0.3 <+0.1>
FY2017 Est.	+1.0~+1.5 <+1.3>	+0.6~+1.6 <+1.5>
July 2016 forecast	+1.0~+1.5 <+1.3>	+0.8~+1.8 <+1.7>
FY2018 Est.	+0.8~+1.0 <+0.9>	+0.9~+1.9 <+1.7>
July 2016 forecast	+0.8~+1.0 <+0.9>	+1.0~+2.0 <+1.9>

(Note 1) Majority forecasts represent range of forecasts by board members after discarding highest and lowest value.

(Note 2) Figures in parentheses <> are median forecasts.

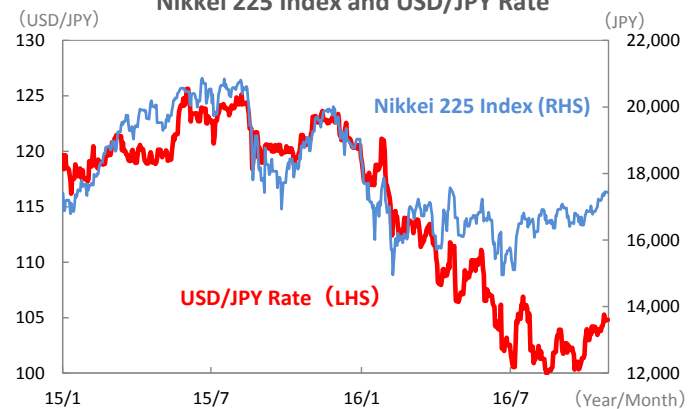
(Note 3) Both real GDP and the core CPI inflation rate are based on y-o-y comparison.

(Source) SMAM, based on publicly available data of BOJ.

Point 2 Timing of achieving price stability target was delayed Inflation forecast was revised downward

- On the same day, BOJ released October "Outlook for Economic Activity and Prices (Outlook Report)". GDP growth outlook was unchanged, however, Core CPI outlook was revised downward. Core CPI rates of FY2016, FY2017 and FY2018 were revised from +0.1%, +1.7% and +1.9% to -0.1%, +1.5% and +1.7% respectively.
- The timing of the year-on-year rate of change in the CPI reaching around 2 percent was delayed from "during FY2017" to "around FY2018". The timing is unlikely to be met during BOJ Governor Kuroda's tenure (till April 2018).

"Nikkei 225 Index and USD/JPY Rate"



(Note) Data period is from 5th January 2015 to 1st November 2016.

(Source) SMAM, based on Bloomberg L. P. data.

Future Outlook Monetary policy is likely to be kept unchanged for the time being

- Financial market's reaction to BOJ's decision to keep monetary policy unchanged was very much confined. All of financial markets stayed at around their previous day's closing price (as of 3 p.m. 1st November 2016) as; (i) USD/JPY rate moved at around latter half of 104, (ii) 10-year JGB yields traded at around -0.045% and (iii) Nikkei 225 index closed at around JPY 17,442.
- BOJ at its previous MPM (September 2016) changed its policy framework from "Quantity" to "Interest rate" and shifted towards so called "Long drawn-out battle" by extending monetary easing period longer. We therefore expect BOJ to maintain its monetary policy for a while. Also, it is likely that the market will not focus much on MPM for the time being.



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