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FX

Global

FX Flash

Policy Shifts to Give JPY More Support

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BOJ Hikes by 15bps, Slash Bond Purchases, Lifts JPY

Against median economist estimates (according to Bloomberg), the BOJ hiked rates by 15bps to 0.25% from the previous upper bound of 0.10%. They also intend to reduce bond purchases gradually from the current 5.7tn yen in Jul 2024 to 2.9tn yen by Jan - Mar 2026. More immediately they intend to cut the monthly outright purchase to 5.4tn yen for Aug - Sep 2024 (see table 3). They will also be doing an interim assessment of the plan in Jun 2025 that will include discussion on a guideline for the JGB purchases from Apr 2026 onwards and also announce the results at the same meeting. Some of the other key salient points from today's meeting are as follows:

1. **Stronger forecasts:** The BOJ has chosen to raise some of its economic forecasts especially those related to fiscal 2025 and 2026. They did lower fiscal 2024 GDP and headline CPI forecasts. However, they still noted that risks to prices are skewed to the upside for fiscal 2024 and 2025 whilst economic activity is so for 2025 (see table 2). Ueda noted himself that Japan's economy is "likely to keep growing at a pace above its potential growth rate".

2. **Reiterated expectations of CPI at target:** They continue to expect CPI inflation to increase gradually, since it is projected that the output gap will improve and that in the second half projection period, CPI inflation is likely to be at a level that is generally consistent with the price stability target.

3. **Adjustments now done ahead:** Governor Ueda commented that regarding today's adjustment, he "thought best to adjust bit by bit early".

4. **Further rate hikes data-dependent:** Ueda also mentioned that there could be further rate hikes although he said additional moves this year would be data-dependent. He also mentioned they will have to consider the impact of the previous hikes in deciding on further action. **The statement did note that "if the outlook for economic activity and prices presented in July Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation".**

5. **JPY and inflation has mention:** Ueda continued to make references that a weak JPY can create upward pressure on prices. The releases did make mention, "recently, exchange rate developments are, compared to the past, more likely to affect prices".

6. **Possibility of moving beyond 0.5% for Interest Rates:** That figure has been touted as a terminal rate some in the market. Ueda in response has said that he was not particularly mindful of the 0.5% level, which had been seen by some as a peak rate in this cycle.

7. **Two Dissenters to the decision:** Nakamura Toyoaki and Noguchi Asahi were the only two members who objected to the hike who were notably also the same two that did so for the Mar 2024 move.

From today's meeting, we can draw a few inferences about the BOJ. We note that at this point they are now pre-emptive, which contrasts to their rather slow reaction function in the past when policy was really only moved after data had proven to sufficiently be comforting for them. Their decision to move this time is coming at a time when consumption is soft and real wage is still negative without clear signs just yet that inflation can continue to sustain within their expectations. If anything, the economy actually still appears rather fragile at this point. Given such conditions, we have reason to believe that the move could also have been due to the JPY weakness. After all, given the rapid appreciation in the JPY over the last month together with the Fed signalling cuts to come soon (a few hours after the BOJ meeting), a hike at this time can at least help the JPY to keep its gains (although it has seen additional strengthening after the decision). Failure to have undertaken a hike at yesterday's meeting could have resulted in the JPY paring back quite a substantial amount of its gains. The bond purchasing reduction we can say was in some sense quite disappointing as market expectation had been for a more immediate significant decrease of possibly even 1tn yen (the amount announced yesterday only being at 400bn yen).

Where do we go from here?

With the meeting now past though, the crucial question is where do we go from here. There are a few crucial points we still have to keep in mind. The first is that we are not inclined to believe that BOJ is going to rapidly hike from here and the next move may only come in Apr 2025 after the Shunto wage negotiation results then. The economy is still fragile and aggressive hikes would be challenging to undertake. Consequently, yield differentials with the US are going to remain rather wide even if it would be narrower than before. Therefore, it would be difficult to see how USDJPY can make stronger moves lower and hold much below the around current 150.00 levels by the end of 3Q 2024. We do not expect that it would head a lot higher from those levels too given JPY bears are likely to be more cautious after some rather strong actions from the BOJ over the month of Jul. As a note, the hike was not the only thing undertaken by the BOJ in Jul but there was also suspected intervention earlier, where they are reported to have spent to the amount of 5.53tn yen.

In the coming quarters, we also expect the Fed to keep easing and this should be one of the primary factors to help drive the USDJPY pair downwards albeit it may rather gradual in nature. Overtime, the JPY funded carry trade is likely we see to become less attractive and more positions should get unwind as the global rates environment turns more favorable to the JPY. We think that it is also important to take into account that JPY short positioning in some sense is still rather stretch according to the CFTC net non-commercial JPY position despite recent squaring off of positions. Therefore, more positive JPY news can lead to more closing off of positions and guide the USDJPY for a stronger leg down.

We are also going to stay wary if the JPY can make a return as a safe haven over the coming year but at this point, we are not inclined to think it can do so just yet. As noted, rate differentials are likely still going to remain wide so investors may not necessarily be so comfortable just yet to put funds into JPY to balance out portfolio risks. Building up to US Presidential elections, we have also noticed that the USDJPY performance is very mixed. Between the months of Aug – Nov (election day), we notice in the last seven elections, the pair fell on four occasions but rose on three others. In the last three elections, the pair rose in two of them whilst itdropped in the other one. That drop was also fairly low compared to drops seen in other US elections.

Our new forecast has therefore been adjusted as per below. This contrasts to our previous expectation of the USDJPY seeing more weakness into 3Q 2024 before heading lower. The new levels are in comparison markedly lower given the major changes in circumstances.

Table 1: USDJPY Forecasts

Forecast	3Q 2024	4Q 2024	1Q 2025	2Q 2025
USDJPY	150.00 (165.00)	140.00 (160.00)	130.00 (152.00)	125.00 (150.00)

Table 2: BOJ Forecasts

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2024	+0.5 to +0.7 [+0.6]	+2.5 to +2.6 [+2.5]	+1.8 to +2.0 [+1.9]
Forecasts made in April 2024	+0.7 to +1.0 [+0.8]	+2.6 to +3.0 [+2.8]	+1.7 to +2.1 [+1.9]
Fiscal 2025	+0.9 to +1.1 [+1.0]	+2.0 to +2.3 [+2.1]	+1.8 to +2.0 [+1.9]
Forecasts made in April 2024	+0.8 to +1.1 [+1.0]	+1.7 to +2.1 [+1.9]	+1.8 to +2.0 [+1.9]
Fiscal 2026	+0.8 to +1.0 [+1.0]	+1.8 to +2.0 [+1.9]	+1.9 to +2.2 [+2.1]
Forecasts made in April 2024	+0.8 to +1.0 [+1.0]	+1.6 to +2.0 [+1.9]	+1.9 to +2.1 [+2.1]

Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

3. Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

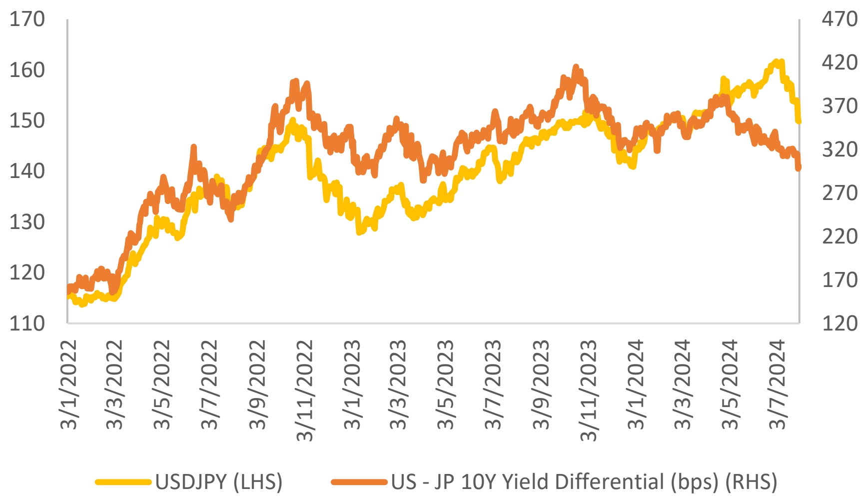
Source: Bank of Japan (BOJ), Maybank FX Research & Strategy

Table 3: BOJ Bond Purchase Reduction Programme

Date	Amount
Jul 2024 (amount purchased)	About 5.7tn yen
Aug - Sep 2024	About 5.3tn yen
Oct - Dec 2024	About 4.9tn yen
Jan - Mar 2024	About 4.5tn yen
Apr - Jun 2024	About 4.1tn yen
Jul - Sep 2024	About 3.7tn yen
Oct - Dec 2024	About 3.3tn yen
Jan - Mar 2026	About 2.9tn yen

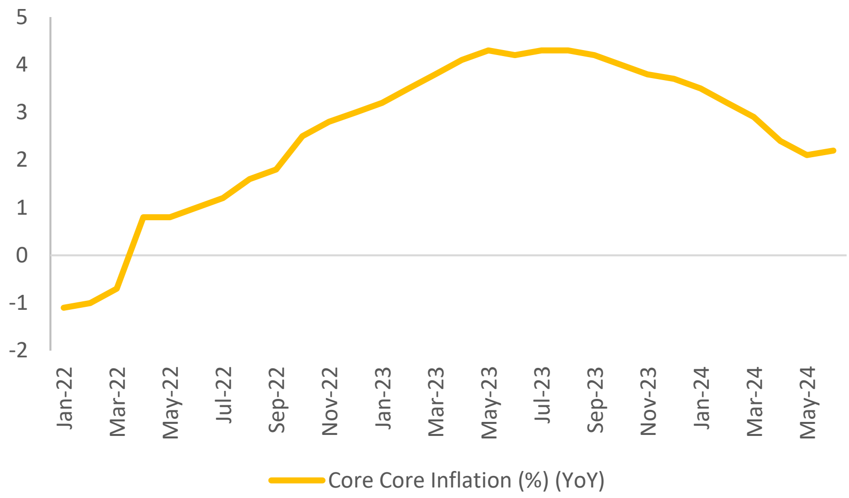
Source: Bank of Japan (BOJ), Maybank FX Research & Strategy

Chart 1: Narrowing Yield Differentials Would be More Supportive of the JPY



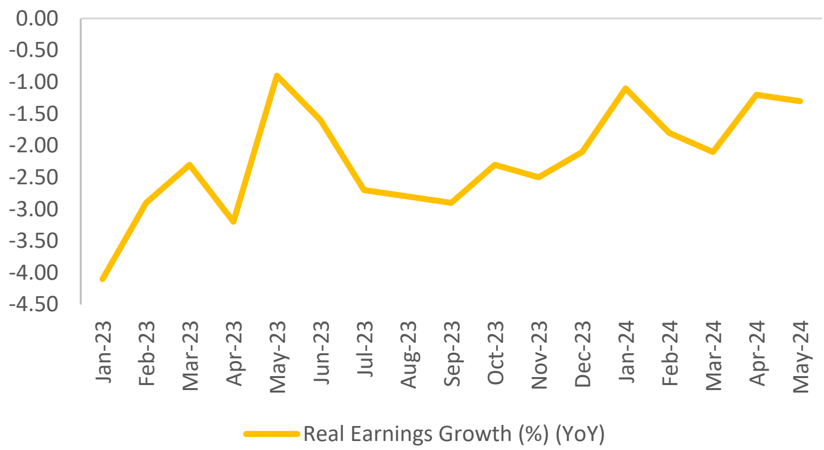
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Core Core Inflation has Been Softening Towards Targeting, Highlighting Uncertainty in Economic Data too



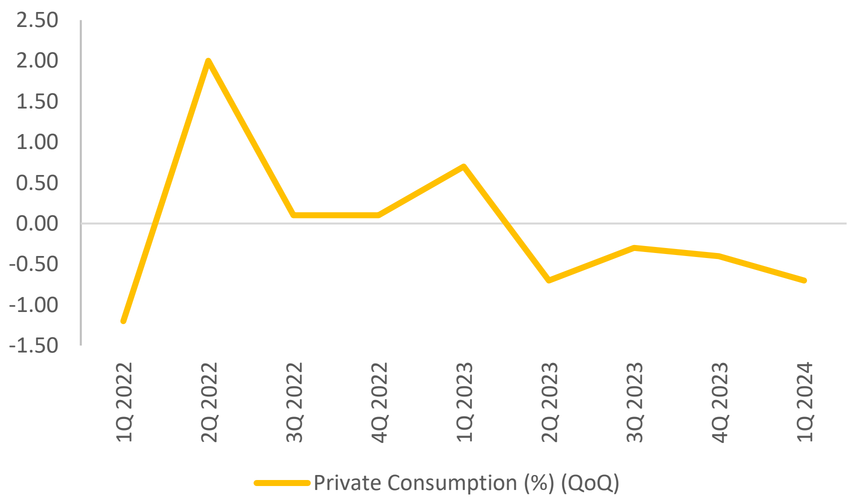
Source: MacroBond, Maybank FX Research & Strategy

Chart 3: Real Wage Growth has Stayed Negative



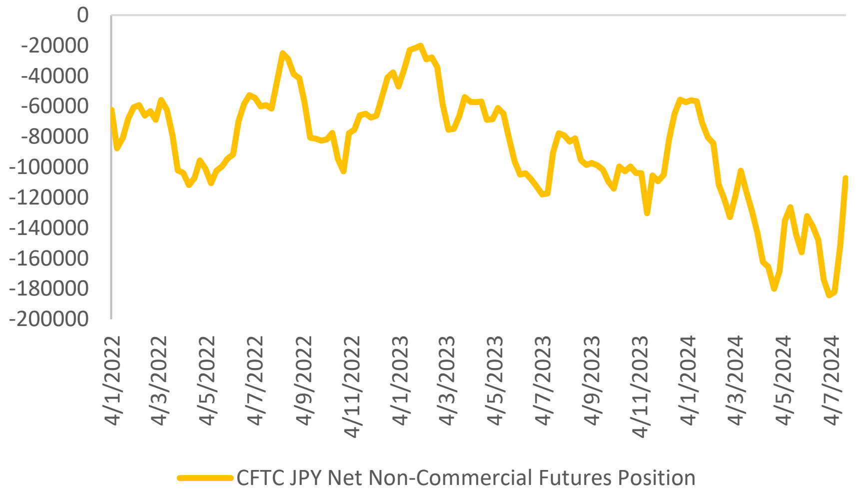
Source: MacroBond, Maybank FX Research & Strategy

Chart 4: Consumption Meanwhile has Also Been Weak



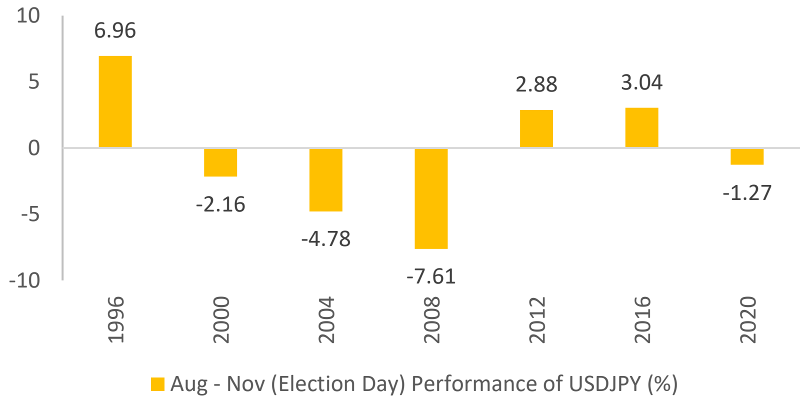
Source: MacroBond, Maybank FX Research & Strategy

Chart 5: JPY Short Positioning is Still Stretch After Some Recent Squaring Off of Positions, Allowing for More JPY Strengthening if News Remains Favorable



Source: Bloomberg, Maybank FX Research & Strategy

Chart 6: JPY Performance has been Mixed Historically Building Up to US Presidential Elections But it has Underperform in Two of the Last Three



Source: Bloomberg, Maybank FX Research & Strategy

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