

FX Viewpoint Flash

Currencies
Global

JPY: The BoJ ends negative rates

- ◆ The BoJ raised its policy rate for the first time in 17 years...
- ◆ ...it also ended its yield curve control programme and purchases of ETFs and J-REITs
- ◆ The JPY weakened against the USD; but beyond the near-term reaction, the JPY is likely to recover in 2024

On 19 March, the **Bank of Japan (BoJ)** declared that its price stability goal is in **sight**. It announced an overhaul to its monetary policy framework that was pretty much **in line with what was discussed recently in local media** (e.g., *Nikkei*, 16 March 2024). Basically, the various acronyms – QQE (Quantitative and Qualitative Monetary Easing), YCC (Yield Curve Control), and NIRP (Negative Interest Rate Policy) – are no longer relevant.

The BoJ will now target the policy rate (i.e., uncollateralised overnight call rate) at **0-0.1%** (up a fraction from -0.1% to 0%), by remunerating a +0.1% interest rate on excess reserves. **It will cease asset purchases (ending the purchase of exchange-traded funds (ETFs) and Japanese real estate investment trusts (J-REITs))**, other than Japanese government bonds (JGBs) – which will still run at about JPY6trn per month for now – although we note that the outstanding amount of JGBs on its balance sheet has already stopped growing in January-February, because of bond maturities. **The rate hike went through in a 7-2 majority vote in the nine-member BoJ board, while the vote on JGB purchases was 8-1.** The decision on other asset purchases was unanimous.

The JPY weakened with the announcement. USD-JPY remained above the 150 level. Some may say this is a classic **'buy the rumour, sell the fact'** – which was also what happened the last time the BoJ raised rates in 2006-07. **But there was not much buying in the first place.** USD-JPY only fell by c2.5% between 1 March and 11 March and then started rebounding after US CPI on 12 March, which showed that inflation in the US has remained sticky (*Bloomberg*, 18 March 2024). **The hawkish repricing of the US Federal Reserve (Fed) is overshadowing the BoJ.** In our view, this is not entirely justified. The BoJ acted decisively at the March meeting. According to Bloomberg's survey of BoJ watchers published on 12 March, 58% expected no policy change at this meeting. And even when policy change happens, 30% still thought it would happen in sequence.

There are also important differences from the 2006-07 cycle this time round: (1) higher wage growth and more sustainable inflation; (2) a more undervalued JPY prompting Japan's Ministry of Finance (MoF) vigilance, leading to an improvement in Japan's balance of payments (BoP) via a contraction in imports and boost in services exports; and (3) a likely shorter waiting time to the Fed's rate cuts (back then, the Fed only started cutting 14 months after the first BoJ hike).

Beyond the near-term reaction, **the JPY is likely to recover in 2024**, after depreciating more than 25% over the past three years, in our view. The US-Japan yield differential is set to narrow this year, in addition to an improvement in Japan's balance of payments, among other factors, should provide support for the JPY.

The BoJ conducted a sweeping policy overhaul, ending the negative interest rate policy

The BoJ increased its policy rate for the first time in 17 years

The JPY weakened against the USD, amid the widely anticipated BoJ's decision

The key differences between the 2006-7 cycles and this time round could point to a stronger JPY

We still expect the JPY to recover in 2024

Disclosure appendix

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