

21 March 2024

Key takeaways

- Bank of Japan's (BOJ) unconventional monetary policy has ended.
- While historically significant, the BOJ emphasised this will not be the start of an aggressive policy tightening cycle.
- Build a resilient portfolio with Core investments such as multi-asset strategies before capturing market opportunities with Tactical investments.

The end of an era of unconventional Bank of Japan (BOJ) policy

The 19 March 2024 policy meeting marked the end of the BOJ's unconventional monetary policy, citing that achieving the 2% inflation target sustainably is now in sight. While momentous, the BOJ made it clear that monetary policy would continue to remain accommodative, and this is not the start of an aggressive tightening cycle.

Key takeaways from the BOJ policy meeting

1. Bidding farewell to negative interest rates

- The BOJ ended negative interest rate policy (NIRP) after eight years, being the last central bank to end this experiment.
- In a 7-2 vote count, the BOJ raised its short-term policy rate to a range of 0% - 0.1% from the prior rate of -0.1%. Marking the return to a traditional approach of guiding the short-term policy rate as the main policy tool.
- The BOJ signalled that this is not the start of an aggressive tightening cycle, but Governor Ueda warned that further rate hikes may be required if inflation accelerates.

2. ETF and J-REITs purchase programme has been discontinued

- The BOJ announced it will end its purchase programme for exchange-traded funds (ETF) and Japanese real estate investment trusts (J-REITs), which was first launched in 2010 and led to the BOJ becoming the biggest single owner of Japanese stocks with JPY70 trillion of holdings.
- This removes a safety net for the Japanese stock market, but it is hard to justify a continuation of such asset purchases when domestic stocks hit a record high recently.
- What remains unanswered is whether the BOJ plans to sell their ETF and J-REIT holdings to shrink their balance sheet. Governor Ueda said he is always thinking of how to reduce the BOJ's balance sheet but provided no details.

3. Purchases of commercial paper (CP) and corporate bonds will gradually reduce

- The BOJ will gradually reduce purchases of commercial paper (CP) and corporate bonds, before discontinuing purchases entirely in around a year's time.

4. The end of yield curve control (YCC)

- The other unconventional policy tool of yield curve control (YCC) that started in 2016 has also been abolished, after two rounds of tweaks in July and October 2023.
- This means the BOJ will no longer set 1% as the reference rate for 10Y Japanese Government Bond (JGB) yields and will no longer strictly control JGB yield levels.

5. Government bond purchases will continue

- Despite the end of YCC, the BOJ will continue with JGB purchases at "broadly the same amount as before" but will take action to prevent a rapid rise in long-term bond yields.
- While Governor Ueda said the BOJ will consider reducing JGB purchases in the future, he offered no details.

What does this mean for Japan's financial markets?

- Japan's stock markets rose with the Nikkei 225 index regaining the 40,000 level while the Japanese Yen weakened as the BOJ stressed that policy would remain accommodative.
- As the BOJ pledged to maintain bond purchases at current levels, JGB yields fell.
- If the Japanese Yen weakens further, Japan's Ministry of Finance (MOF) may intervene verbally or through the markets.
- The Japanese bond market may not benefit in situations where offshore capital is converted back to domestic assets since Japan's interest rates remain far lower than other developed countries.
- Japan's stock market will depend on the Japanese Yen's movements, share buybacks and dividend payouts.

UOB house view

- The BOJ will likely keep policy settings unchanged in April, with focus on the updated inflation projections in the Outlook Report that may dictate future policy moves.
- BOJ rate hikes will be limited as the US Federal Reserve (Fed) and other central banks may potentially cut interest rates ahead. We only expect the BOJ to lift the short-term policy rate to 0.25% in 4Q 2024.

What you can do

- Core investments such as multi-asset strategies can lower portfolio volatility while capturing opportunities in different asset classes, sectors and regions.
- Consider bond funds and investment grade bonds that offer attractive yields and potential capital growth when other central banks start to cut interest rates later this year.
- If you are willing and able to take risk, and looking for opportunities in Japan's stock market, consider accumulating quality growth and dividend-paying stocks when they are cheaper while banks and life insurers may benefit from the BOJ's policy changes.
- Speak to a UOB Advisor to build a portfolio that meets your investment goals.



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