

The Bank of Japan, the last remaining “dove”

The Bank of Japan (BoJ) surprised the markets again at its monetary policy meeting this week. Beyond what is at stake for the Japanese economy and markets, the BoJ's decisions may have consequences on a global scale. They influence the investment choices of Japanese institutional investors who are among the main investors in the US and European public and corporate debt markets.

The Bank of Japan stands out from the central banks of the major developed economies by still maintaining a very accommodating monetary policy. Faced with a situation of deflation for many years, the BoJ had gone further than its peers in using "unconventional" tools to ensure permanently accommodating monetary conditions. Indeed, in addition to massive quantitative easing operations, it had put in place a specific "yield curve control" framework to determine both short-term and long-term interest rate levels. While Japanese inflation has not soared as in many countries, it has risen in the recent period. This increase prompted the BoJ to marginally revise its policy last December by raising the long term rate ceiling by 25 basis points to 0.50%. Following this decision, the markets adjusted, taking this decision as the beginning of a tightening cycle. The expected appointment of a new, more "restrictive" governor only accentuated these revisions of expectations.

A surprise pause in the adjustment of its interest rate policy. The BoJ met again this week and decided to keep its monetary policy unchanged (deposit rate at -0.1% and a ceiling for the 10-year rate at 0.50%). This decision clearly surprised the market players. The latter were expecting a further increase in the ceiling by almost 50bp and a revision of the yield curve control framework, due to several factors. Firstly, headline and core inflation finally exceeded the 2% target. Secondly, the maintenance of the ceiling on long rates requires the BoJ to buy substantial amounts of government debt, of which it already holds almost half, thus affecting liquidity and market functioning. Furthermore, the low interest rate and higher inflation environment is structurally penalizing the yen as other central banks are significantly tightening their policies.

We expect only a gradual revision of policy in the future. Despite these elements, the BoJ has unanimously decided to maintain its policy, believing that inflationary pressures are not of a sustainable nature. It even expects inflation to be below 2% for 2023 and 2024, as wage pressures remain contained and growth is sluggish. All in all, we believe that while the BoJ is likely to continue to adjust its monetary policy framework in the coming months to moderate its implications for the functioning of the government debt market and the profitability of the banking system, this exit should only be gradual. The BoJ should continue to use balance sheet operations to pursue its objective of reflecting the Japanese economy.

Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 20/01/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.



Markets anticipating an exit from rate control

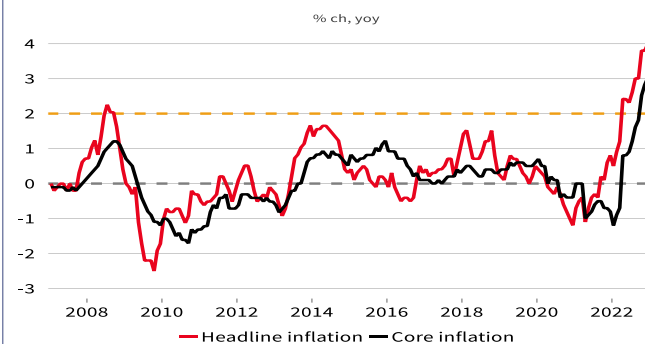
Japan: Interest Rates



Sources: SGPB, Macrobond, BOJ, Macrobond 20/01/2023

Japan finally out of deflation

Japan: Inflation without tax effects



Sources: SGPB, Macrobond, Japanese Statistics Bureau, Ministry of Internal Affairs & Communications 12/2022

OUR MACRO COMMENTS

Events of the week



Several national central bank governors and ECB board members have stated their willingness to continue monetary tightening in the coming months, with increases of 50bp. These statements come against a backdrop where markets are beginning to anticipate a reduction in the pace of rate hikes due to lower than expected inflationary pressures.



Below Beijing's target of 5.5% but above market expectations, China's GDP growth is 3% in 2022. This slowdown in growth mainly reflects the tightening of health restrictions for much of 2022 and the housing market crisis. In addition, for the first time since 1961 and the Great Famine, China has seen its population decline by nearly a million, which could impact long-term growth

Figures of the week



- Retail Sales (MoM, December)
- PPI (MoM, December)



- GDP (YoY, Q4)
- Retail Sales (YoY, December)



- Unemployment Rate (November)
- Inflation Rate (YoY, December)



- ZEW Economic Sentiment Index (January)



- Inflation Rate (YoY, December)

	Actual		Forecast	Previous
	-1.1%	↓	-0.8%	-1%
	-0.5%	↓	-0.1%	0.2%
	2.9%	↓	1.8%	3.9%
	-1.8%	↑	-8.6%	-5.9%
	3.7%		3.7%	3.7%
	10.5%	↓	10.6%	10.7%
	16.9	↑	-15	-23.3
	4%	↑	4%	3.8%

Sources : Macrobond, 20 January 2023

The week ahead

Tuesday



GfK Consumer Confidence (February)



S&P Global Manufacturing and Services PMI Flash (January)



S&P Global Manufacturing and Services PMI Flash (January)



S&P Global Manufacturing and Services PMI Flash (January)

Wednesday



Ifo Business Climate (January)

Thursday



Durable Goods Orders (December), GDP (Q4)

Friday



PCE Price Index (December)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	1,90	1,90	0,66	1,91	-0,58
USD SOFR O/N	4,30	4,30	3,04	4,30	0,05
JPY TONAR O/N	-0,01	-0,03	-0,06	-0,02	-0,03
GBP SONIA O/N	3,43	3,43	2,18	3,43	0,20
CHF O/N	0,80	0,80	0,68	0,80	-0,71

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,42	2,66	2,92	2,98	0,33
10Y Bund	1,96	2,18	2,34	2,44	-0,04
10Y BTP	3,71	4,04	4,73	4,55	1,34
10Y JGB	0,50	0,50	0,24	0,41	0,12
10Y Bonos	2,93	3,19	3,49	3,51	0,69
10Y Swiss	1,08	1,32	1,31	1,57	0,06
10Y Gilt	3,29	3,39	3,87	3,66	1,31
10Y USTnote	3,37	3,54	4,14	3,88	1,83

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	2,79	3,01	3,39	3,12	0,47
EUR Corporate Baa	4,04	4,35	4,92	4,65	0,82
GBP Corporate Baa	4,21	4,29	4,95	4,59	1,76
USD Corporate Aaa	4,16	4,31	5,02	4,62	2,47
USD Corporate Baa	5,14	5,35	6,36	5,70	2,96
USD EM aggregate	6,98	7,25	8,57	7,52	4,78

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	84,54	2,0%	-8,6%	-1,6%	-3,6%
Or, USD/oz	1 904	1,5%	16,9%	4,3%	3,5%
Copper, USD/metric ton	9 425	4,8%	28,0%	12,2%	-3,7%
Platinum, USD/oz	1 045	-4,7%	17,2%	-1,9%	5,4%
Palladium, USD/oz	1 752	-2,0%	-12,7%	-2,0%	-7,4%
Silver, USD/oz	24,19	1,3%	31,2%	1,0%	1,7%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,08	0,9%	10,9%	1,5%	-4,5%
EUR/CHF	0,99	-1,2%	0,6%	0,3%	-4,9%
USD/GBP	0,81	-2,2%	-9,2%	-2,8%	10,0%
USD/JPY	128,36	-3,2%	-14,3%	-1,9%	12,3%
USD/BRL	5,10	-2,1%	-3,5%	-4,5%	-6,9%
USD/CNY	6,74	-0,4%	-6,7%	-2,2%	6,3%
USD/RUB	68,81	0,0%	11,1%	-5,7%	-10,0%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 090	-0,3%	13,4%	2,8%	-6,6%
Eurostoxx 50	4 174	1,8%	20,3%	8,3%	-2,2%
Dax 40	15 182	1,6%	19,2%	7,9%	-4,0%
CAC 40	7 083	2,3%	17,3%	7,4%	-1,2%
FTSE 100	7 831	1,4%	13,1%	5,1%	3,2%
SMI	11 367	1,1%	8,4%	5,9%	-9,3%
SP500	3 929	-1,0%	6,3%	2,3%	-13,3%
TOPIX	1 935	1,8%	1,6%	2,3%	0,8%
iBovespa	112 228	-0,3%	-3,5%	5,5%	3,9%
Hang Seng	21 678	1,1%	31,3%	9,6%	-10,2%
Sensex 30	61 046	1,6%	3,3%	-0,2%	1,6%
CSI 300	4 130	3,0%	9,4%	6,7%	-13,6%

Source: Bloomberg, on 18 January 2023.

-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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