

Chart of the Day

Overnight, the Bank of Japan surprised the market with an adjustment to its yield curve control (YCC) policy to address illiquidity in the Japanese Government Bond (JGB) market. Specifically, the **BoJ doubled the tolerance band on its 10 year yield target from 25 bps to 50 bps** and announced a roughly **20% increase in the size of its JGB purchases** (to JPY 9 tn / month from JPY 7.3 tn). While the BoJ did not officially hike rates, the market is interpreting this as a **hawkish policy shift from the BOJ**, one of the only major global central banks to not meaningfully tighten policy in 2022.

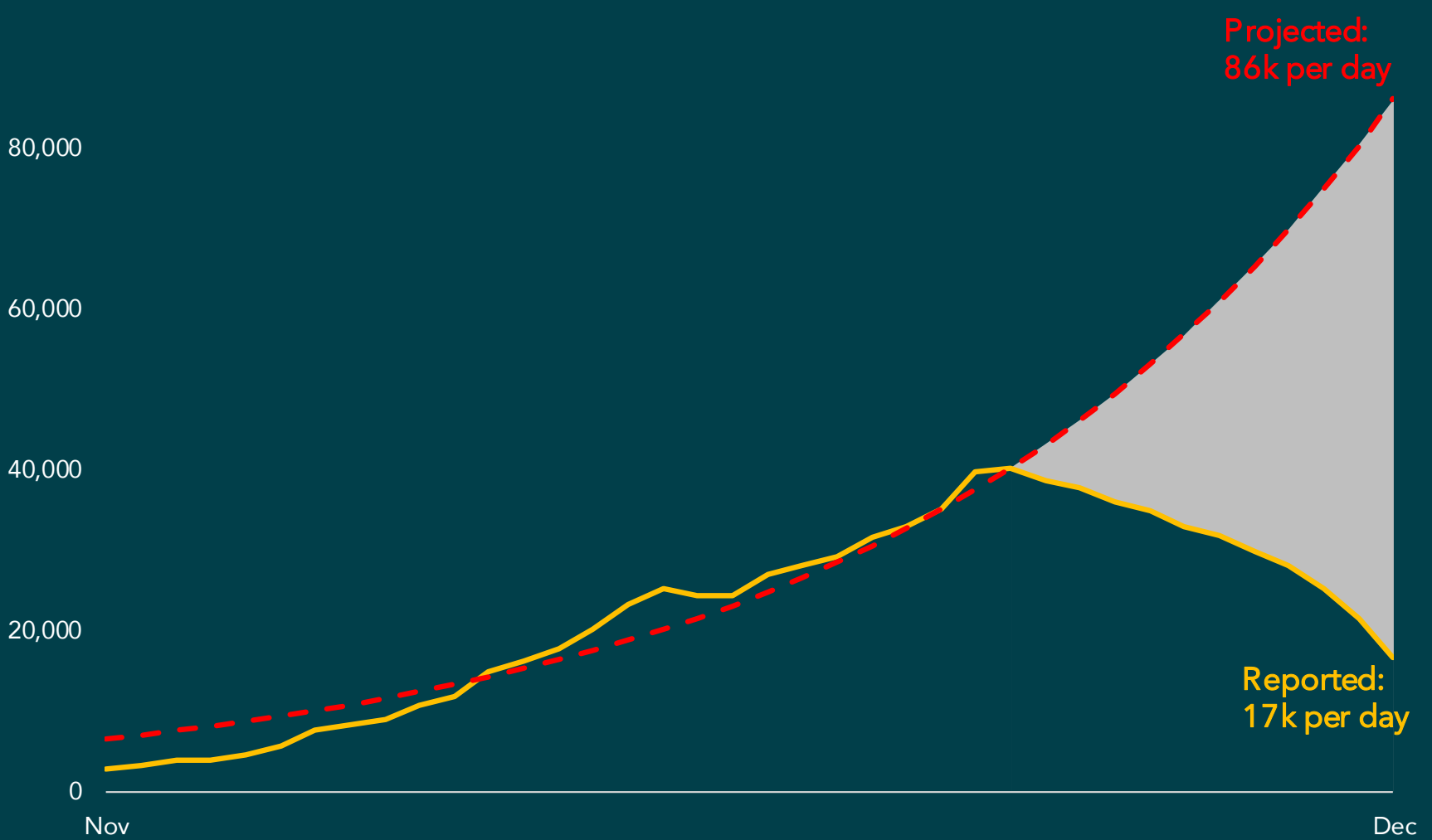
Following the announcement, Japanese 10 yr yields increased 15 bps (largest increase since 2003) and the Yen strengthened nearly 4%, **adding weight to recent downward pressure on the Dollar**. Japanese equities declined sharply, though Japanese bank shares rallied on optimism for steeper yield curves and higher net interest margins.

10 year UST yields increased 10 bps as investors concluded that more Japanese money will be incentivized to return home. **Notably, Japanese investors have more than \$3 trillion invested overseas in stocks and bonds, more than half of that in the US.**

By effectively acknowledging the untenable balance in its policy, the BOJ move **may also signal more policy changes ahead in 2023**. The move also opens the door to a **potential rate hike in 2023** under a new BoJ Governor after Kuroda's term expires in April. For global markets, the pivot contributes to the larger global narrative of a meaningful **shift away from "ultra-easy" monetary policy, and a new regime of comparatively higher rates and volatility.**

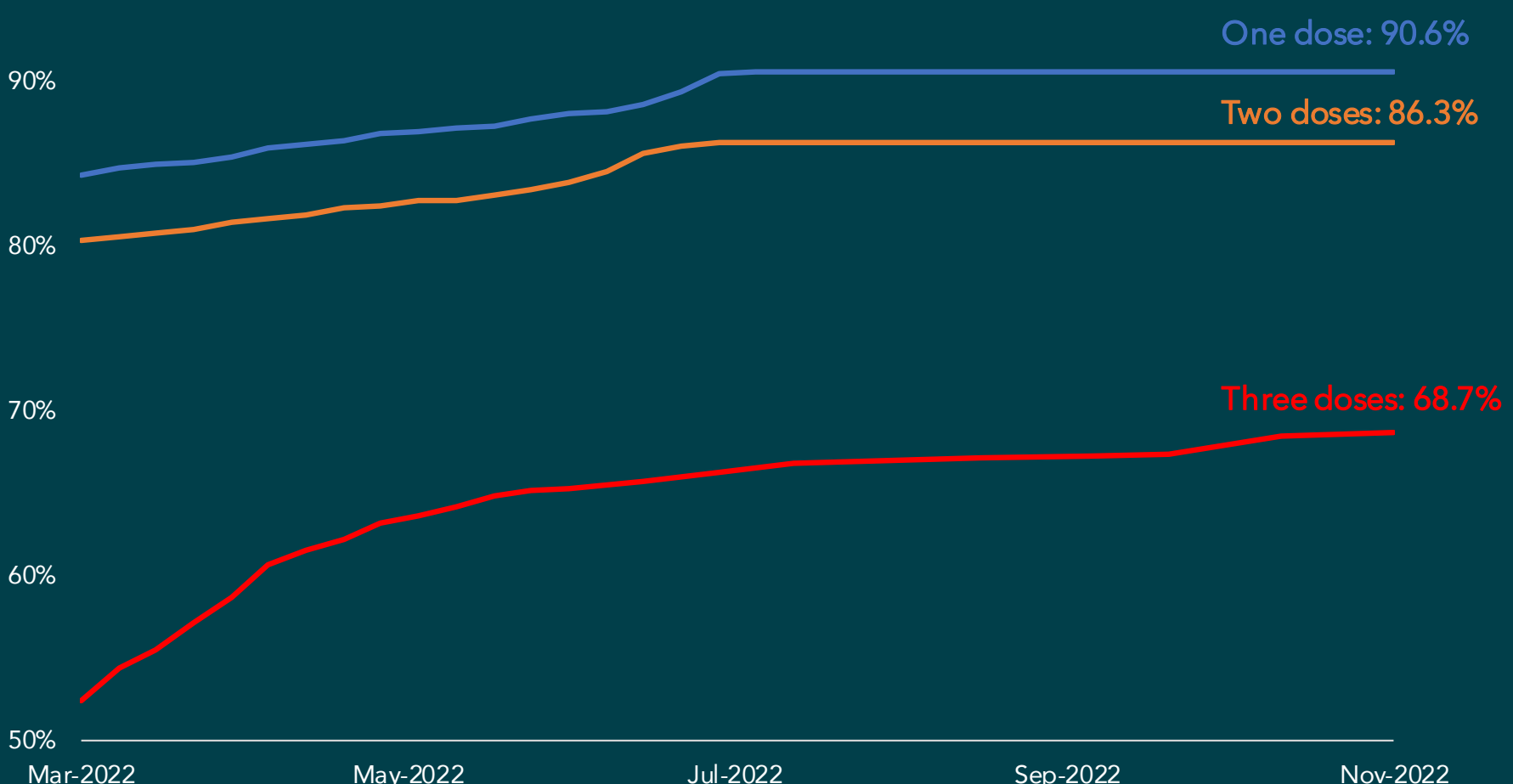
In the face of significant social unrest, President Xi's decision to unwind China's zero COVID policy has been followed by a surge in COVID infections that has put enormous pressure on China's health care system and economy.

China daily reported COVID cases vs. projected number of cases based on epidemic modeling



Over 30% of China's 267 million citizens over age 60 (nearly 90 million people) have not received a third vaccination important to virus resistance.

Vaccination status of people aged 60 and over (%)



Source: (1-2) FT. China's National Health Commission. Wigram Capital Advisors. Data through December 8, 2022. Vaccination data through November 29, 2022.

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