MUFG expects a policy change in 2020, signaling a shift in interest rate policy. Derek Halpenny, MUFG's Head of Research, highlights this as a significant development for global bond markets, particularly for Japan, where a long-term interest rate ceiling (Yield Curve Control, or YCC) policy was implemented in 2016 by the Bank of Japan (BoJ).

In his recent comments to Parliament, Governor Ueda, the first academic to hold the position, has acknowledged the challenges ahead. This Sunday, April 9, Kazuo Ueda will take over from Haruhiko Kuroda as Governor of the BoJ, signaling a "changing of the guard" for the Bank of Japan. MUFG's Head of Research, Derek Halpenny, expects Yen strengthening over the next 12 months as the Fed nears the end of its easing policy.

Global policy rates have continued to rise globally, with other central banks continuing to widen their policy rate bands. The Bank of Japan remains the only G4 central bank that still has a negative policy rate. With Japan CPI inflation and Japan core inflation (excluding energy and fresh food) accelerating from 3.2% to 3.5%, its highest level since January 1982, further wage negotiations with Japan's trade union confederation concluded with a base pay raise of 2.3%, up from 0.5% a year ago. While Japan has historically struggled with deflation, the recent rise in inflation has put upward pressure on Japanese rates.

Upward pressure in the JGB market has made defending the YCC target more difficult. In December, the BoJ surprised markets by expanding its YCC operations range from +/-0.5% to +/-0.25% and widened the policy band from its existing +/-0.10% to +/-0.25%.

The BoJ's current stance, to be held on April 27, will be a particular focal point for market participants. There is speculation that the BoJ may reduce its JPY 10 year government bond yield to the current range of -0.2% to -0.4%.

The YCC policy will target shorter duration yields rather than the current 10 year JPY swap rate, as it will be the only G4 central bank meeting this month (Fed, BoE and ECB all meet next in May). With the BoJ implementing its YCC policy, there will also be a policy meeting in place to cap long-term government borrowing costs.

In December, the BoJ announced, for the second time, expanding the YCC operations range from +/-0.5% to +/-0.25% and widened the policy band from its existing +/-0.10% to +/-0.25%, and in January, the BoJ widened the policy band to +/-0.25%. This is significant as it signals the policy was unlikely to survive in its existing form and acknowledged its distorting effects on Japan's rate curve.

In December 2016, the BoJ implemented the YCC policy as "live" for potentially significant changes to Japan's YCC policy. Governor Ueda to normalize interest rate policy, unwinding two decades of quantitative easing policy. This will target shorter duration yields rather than the current 10 year JPY swap rate, as it will be the only G4 central bank meeting this month (Fed, BoE and ECB all meet next in May). With the BoJ implementing its YCC policy, there will also be a policy meeting in place to cap long-term government borrowing costs.

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