

Chart of the Day

More dovish than anticipated, today's Bank of Japan (BOJ) meeting was the last G10 central bank meeting of 2023. As we enter 2024, the G10 monetary tightening regime of the last two years is largely complete, with the BOJ comparatively behind the curve in combatting post-COVID inflation. As such, while today's meeting represents a short-term setback for Yen, MUFG maintains a bullish Yen strengthening view for 2024.

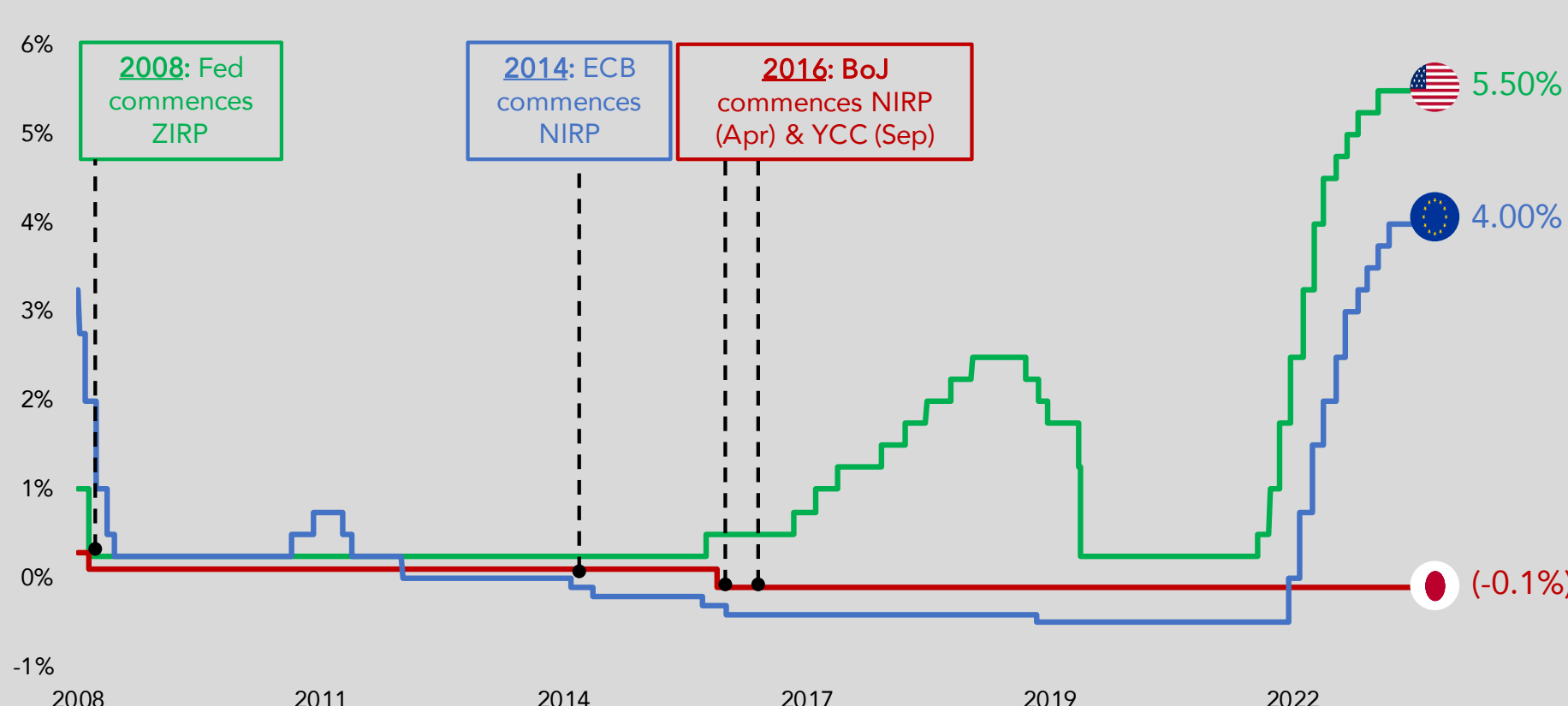
G10 Central Bank policy rate decisions in 2023

Central Banks	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fed		Hike	Hike		Hike	Pause	Hike		Pause		Pause	Pause
ECB		Hike	Hike		Hike	Hike	Hike		Hike	Pause		Pause
BOJ	Pause		Pause	Pause		Pause	Pause		Pause	Pause		Pause
BOE		Hike	Hike		Hike	Hike		Hike	Pause		Pause	Pause
BOC	Hike		Pause	Pause		Hike	Hike		Pause	Pause	Pause	
RBA		Hike	Hike	Pause	Hike	Hike	Pause	Pause	Pause	Pause	Hike	Pause
SNB			Hike			Hike			Pause			Pause
Riksbank		Hike		Hike		Hike			Hike		Pause	
Norges Bank	Pause		Hike		Hike	Hike		Hike	Hike		Pause	Hike
RBNZ		Hike		Hike	Hike		Pause	Pause		Pause	Pause	

Most G10 Central Banks paused in Q4 2023

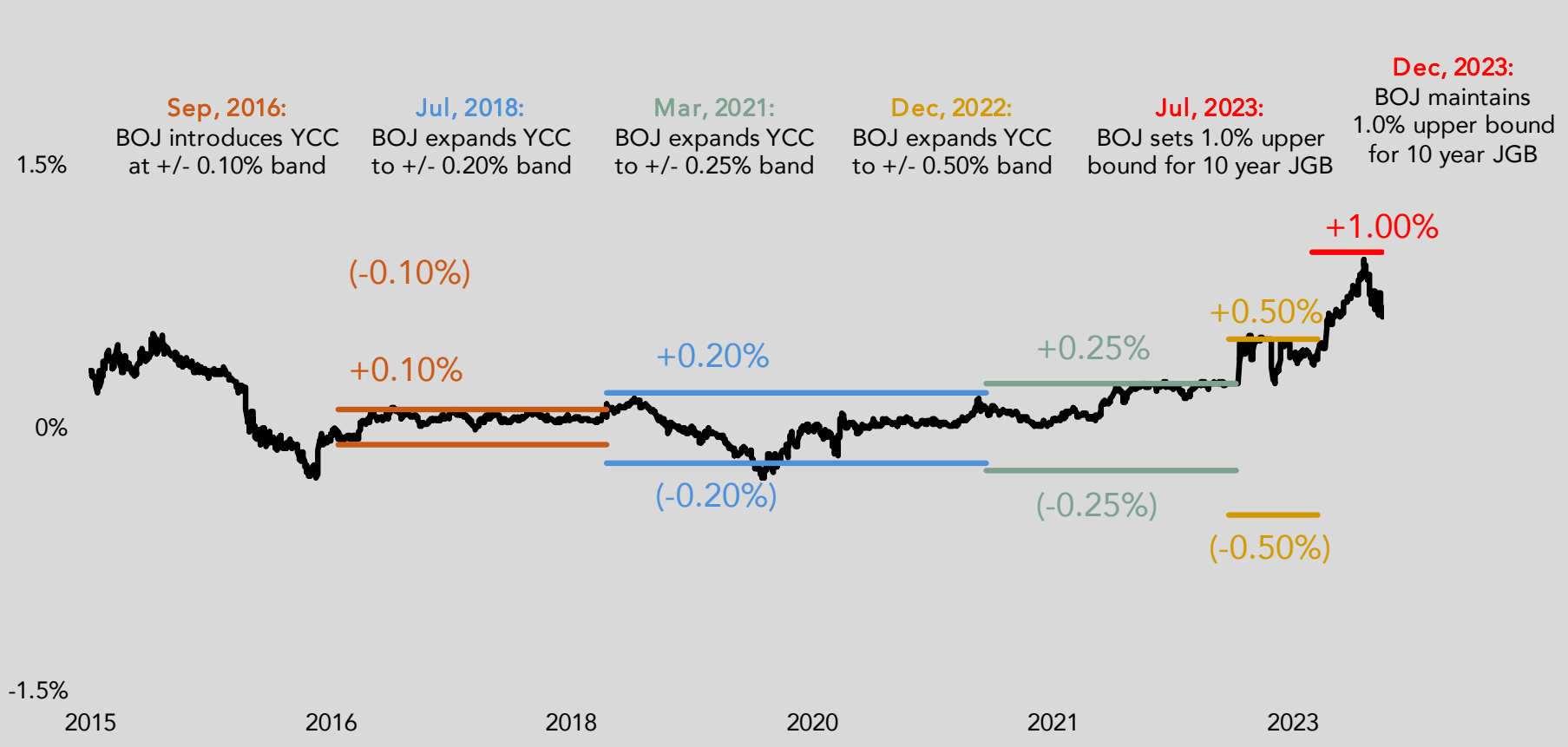
Earlier today, the BOJ left both its ST and LT policy rates unchanged, thereby maintaining its status as the only major global central bank with a negative benchmark policy rate. Despite Governor Ueda's dovish policy communication, MUFG expects the BOJ to pivot away from its negative interest rate (NIRP) and yield curve control (YCC) policies, initially established in 2016, in early 2024. Post today's meeting, the market is now pricing a 45% probability of a BOJ rate hike in January, an 85% probability by April and 100% probability by June 2024. For the BOJ, the end of NIRP may not necessarily represent policy tightening; but rather, policy easing by virtue of enhancing financial intermediation in markets.

Fed Funds, ECB deposit rate, and BoJ policy rate



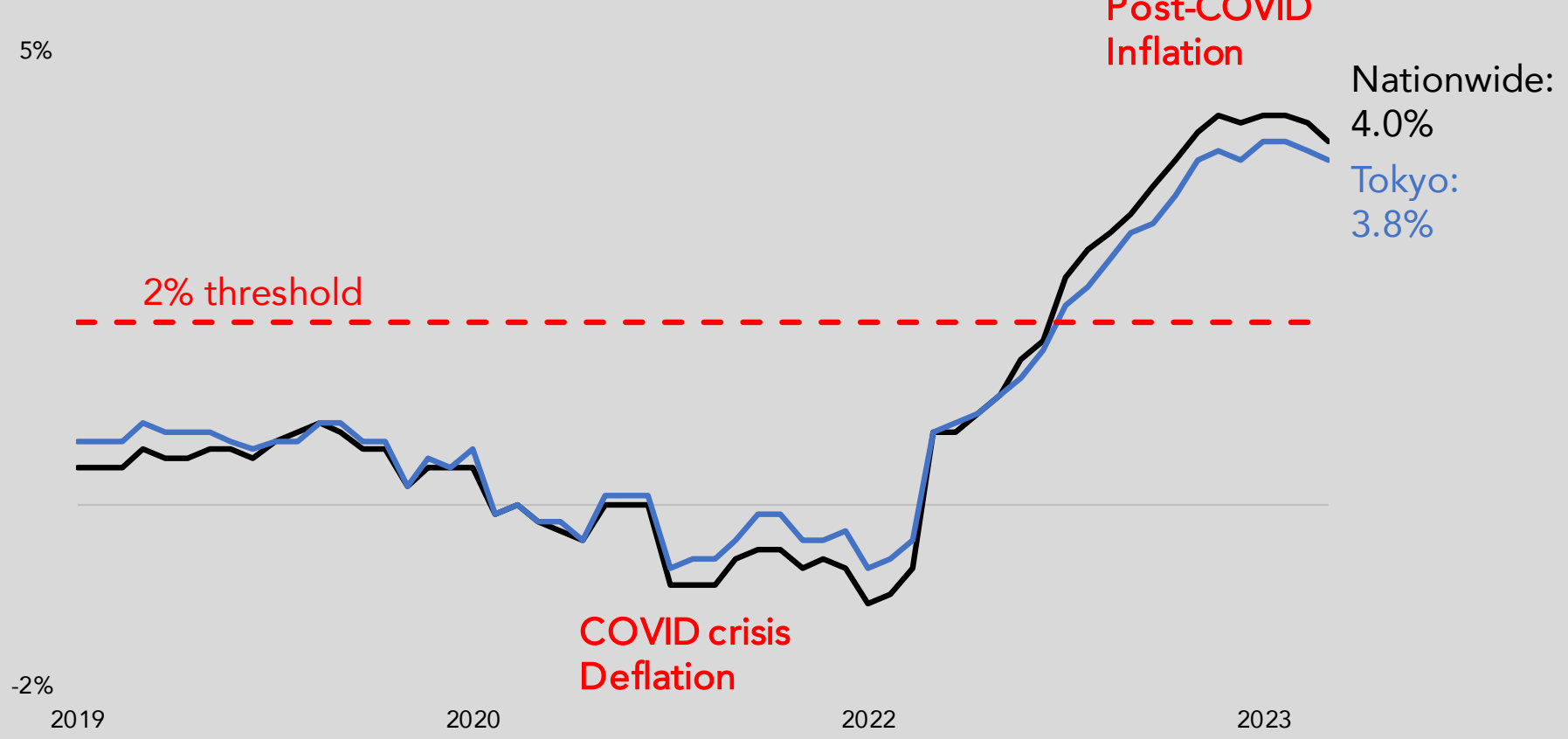
The rally lower in UST yields, which has reduced pressure on JGBs and Yen, has given the BOJ more flexibility to assess the timing of their departure from both NIRP and YCC which MUFG views as likely in early 2024. In today's unanimous decision, the BOJ maintained its YCC policy parameters in capping JGB yields. Notably, Governor Ueda characterized the probability of a major policy pivot as soon as this January as "low" with relatively little substantive data expected between now and the January meeting. With staff papers from the comprehensive monetary policy review already highlighting the negative side effects of unconventional BOJ policy easing (specifically NIRP and YCC), a cautious and gradual pivot toward policy normalization remains the base case for early 2024. By comparison, the BOJ's move away from QE will be a more complicated and multi-year pivot that is unlikely to commence until the BOJ's "monetary policy review of the last 25 years" concludes in mid-2024.

Japan 10 year government bond yield



The BOJ remains concerned that the origins of post-COVID Japanese inflation have been less from robust demand driven growth, and more exogenously derived food and fuel price increases. Core-core inflation in Japan (ex fresh food and energy) is expected to drop closer to 2% in early 2024. Wage growth will be critical to Japan's medium term inflation outlook. In this regard, forthcoming spring wage negotiations and settlement, which should become more evident by April, will be an important development.

Japan Core-core CPI (excluding fresh food and energy)



Source: (1-4) Bloomberg. Data as of December 19, 2023. Fed funds is upper bound. Oxford Economics, "Japan: No Change in Policy as BoJ Waits for Wage Data." Capital Economics. Bloomberg Government. MUFG Economics Research.

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"Macro stability isn't everything, but without it, you have nothing."