



SMAM

“Additional Quantitative & Qualitative Easing by the BOJ”

In April 2013, the Bank of Japan (BOJ) announced the decision of “quantitative & qualitative easing”. It was targeted to achieve stable 2% inflation within 2 years by mainly doubling monetary base (amount of fund supply) to JPY270 trillion within 2 years. There has been some expectations in the market for the further monetary easing by the BOJ as the inflation rate is staying lower than expected due to weak economic recovery after the consumption tax hike and oil price correction.

Point 1

Additional monetary easing decided to accelerate the pace of asset purchases of long-term JGBs to approx. JPY80trillion per year “JPX Nikkei 400 Index” ETF added on the purchasing list

- The BOJ's monetary policy board convened on 31 October and decided on the further quantitative and qualitative easing. The monetary base will be increased at an annual pace of about JPY80trillion from the current pace of JPY60 to 70trillion. As to the long-term JGBs, the BOJ will accelerate the pace of asset purchase to about JPY80trillion from about JPY50trillion per year. In terms of risk asset such as ETFs and J-REITs, the pace of amount purchased by the BOJ for both asset classes will be accelerated by three times to about JPY3trillion for the ETFs and about JPY90billion for the J-REITs respectively. In addition, the BOJ decided to add “JPX Nikkei 400 Index” ETF on their purchasing list.

Point 2

Worried about potential delay in conversion from deflationary mindset The stock markets responded positively to the monetary easing

- The BOJ explained the reason for taking the additional easing measures against the risk that "conversion out of deflationary mindset" might be delayed. The BOJ maintained its assessments on the economy unchanged stating “Japan's economy is keeping its moderate recovery trend”, however, it also admitted that decline in demand following the front-loaded increase prior to the consumption tax hike and sharp drop of oil price can be a factor of downward pressure of prices.
- The stock markets responded positively as the decision of the additional easing this time came unexpectedly earlier than the market expectations. After the announcement of the decision, the stock price soared. Nikkei 225 index rose 755.56 yen from the previous day's closing price to 16,413.76 yen on October 31. As to US\$/JPY FX rate, JPY weakened once to the 114 yen level against US\$.

Forecasts of the Majority of Policy Board Members (Oct. 2014)

| | Real GDP | Core CPI |
|--------------------|---------------------|---------------------|
| Fiscal 2014 | +0.2~+0.7 <+0.5> | +1.1~+1.4 <+1.2> |
| July Forecast | +0.6~+1.3 <+1.0> | +1.2~+1.5 <+1.3> |
| Fiscal 2015 | +1.2~+1.7 <+1.5> | +1.1~+1.9 <+1.7> |
| July Forecast | +1.2~+1.6 <+1.5> | +1.2~+2.1 <+1.9> |
| Fiscal 2016 | +1.0~+1.4 <+1.2> | +1.2~+2.3 <+2.1> |
| July Forecast | +1.0~+1.5 <+1.3> | +1.3~+2.3 <+2.1> |

- (Notes) 1. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board members will make a forecast with the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded.
2. Y-o-y base, unit is %, figures in brackets indicate the median of the Policy Board members' forecasts.
3. Core CPI is all items less fresh food, forecasts based on figures excluding the direct effects of the consumption tax hikes.

(Source) SMAM, based on the BOJ data



Further government measures can be expected in order to keep the Japanese economic recovery on track toward FY2015

■ 2014 real GDP growth forecast was revised downward, but 2015 kept unchanged

The BOJ's Outlook for Economic Activity and Prices Report (Outlook Report) released in the afternoon of October 31 revised down 2014 real GDP growth rate (forecasted median) to +0.5% y-o-y from +1.0% y-o-y as of July this year. However, for the fiscal year 2015, the forecast was kept unchanged to +1.5% y-o-y from the forecast in July.

■ Could economic recovery be put back on the growth path?

Uncertainty over the future of Japanese economy has been mounting as the production was at a standstill due to the impact of consumption tax hike. We expect this uncertainty over the future be cleared by the latest decision on the additional easing. As another consumption tax hike is on schedule next year, we anticipate that additional economic measures such as increase in supplemental budget would be taken by the Japanese government.

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