

## Preview of FOMC and BOJ's Monetary Policy Meeting

- FOMC will likely keep its monetary policy unchanged. Focus will be on its assessment of inflation and balance of risks.
- Although market expectation on additional easing has been rising, BOJ will likely to keep the monetary policy on hold.
- Even if monetary policy of both the US and Japan remain unchanged, we do not have to heed as far as US Fed keeps dovish stance and expectation on BOJ's accommodative policy stance is maintained.

### FOMC will likely keep its monetary policy unchanged. Focus will be on its assessment of inflation and balance of risks.

Federal Reserve Board (FRB) will hold Federal Open Market Committee (FOMC) on 26<sup>th</sup> and 27<sup>th</sup> April. This time, FRB will only make announcement of statement. Outlook of economy and policy rate by FOMC members will not become public and press conference of FRB chairwoman Yellen is not scheduled. As recent financial market is stable thanks to dovish stance of US financial authorities in March, monetary policy this time is likely to remain unchanged as most people has expected.

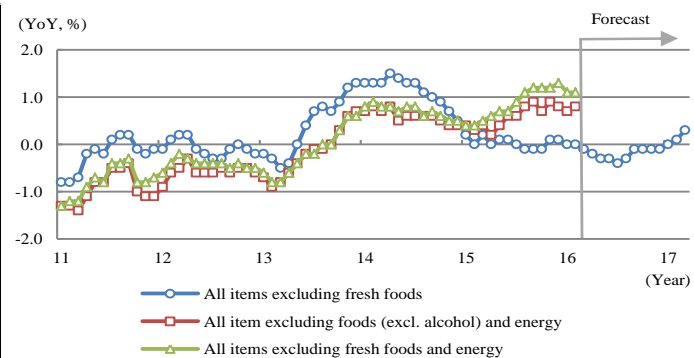
In the FOMC's statement made in March (Diagram 1), assessment of current economic conditions was revised up, while that of subdued inflation was maintained by adding the phrase, "monitor inflation development closely". Furthermore, FOMC suspended its balance of risks assessment on outlook of economic activities and labor market and this reflected their view that "risk continuously lies in global economic and financial development". As for the next meeting, focus will be on FOMC's assessment on (i) inflation, (ii) balance of risks and (iii) also global economic and financial development.

"Diagram 1: Comparison of FOMC's Statements (Jan. vs Mar.)"

Items	January Statement	March Statement
Assessment on current Economic activities	Slowed late last year	Expanding at a moderate pace
Assessment on Market-based measures of inflation	Further declined	Remain low
Assessment on future Economic activities	Expand at a moderate pace	Same as on the left
Assessment on future inflation	Rise to 2% over medium term	Same as on the left
Global economic and Financial developments	Closely monitoring	Continues to pose risks
Risk of economic activities and labor market outlook	Assess impact of global economic and financial development	Deletion of comments (No assessment was made, same as January)
Pace of policy rate hike	Economic conditions will improve on conditions that rate hike is moderate	Same as on the left

(Source) SMAM, based on FRB's data.

"Diagram 2: 3 Types of Consumer Price Index"



(Note) Data period is from January 2011 to February 2016. From April 2014 to April 2015, data is calculated avoiding impact of consumption tax hike. Data from March 2016 to March 2017 is a forecast of SMAM as of 14th April 2016.  
(Source) SMAM, based on Bloomberg L. P. data.

**Although market expectation on additional easing has been rising, BOJ will likely to keep the monetary policy on hold.**

BOJ will hold the Monetary Policy Meeting (MPM) on 27<sup>th</sup> and 28<sup>th</sup> April. As inflation continues to be subdued (Diagram 2), it is likely that inflation outlook will be revised down and timing of inflation target achievement will be postponed in the “Outlook for Economic Activity and Prices” (Outlook Report). With this context, market expectation on additional easing has been rising. JPY weakened and Japanese stock market rose sharply when possibility of additional easing was covered by news in the afternoon of 22<sup>nd</sup> April Japan time.

However, it seems that the urgency of additional easing has lowered as excessive risk of JPY appreciation subsided and Japanese stock market is in recovery phase on the back of crude oil price recovery and stability of overseas financial markets. In addition, I believe fiscal measures by government will proceed first by order, as BOJ requires time to assess impact of negative interest rate for some time. Therefore, I expect possibility of postponement of additional easing at this MPM will be high.

**Even if monetary policy of both the US and Japan remain unchanged, we do not have to heed as far as US Fed keeps dovish stance and expectation on BOJ’s accommodative policy stance is maintained.**

Finally, I would like to assess how market will be impacted if monetary policy of both the US and Japan remain unchanged. I think if FOMC kept its dovish stance, trend of weaker USD will not change in the foreign exchange market. JPY will depreciate against currencies other than USD which will be a tail wind to overall risk assets including Japanese equity. Meanwhile, if FOMC’s statement is hawkish indicating high possibility of rate hike at next meeting in June, overall risk assets such as equity are likely to consolidate, as USD and JPY may strengthen against other major currencies, regarding that current financial market is still fragile.

Context of the media report forecasting BOJ’s monetary policy, as referred to above, was that BOJ is considering the adoption of negative interest rate to the loan for financial institutions along with the lowering of negative interest rate. JPY depreciation and Japanese equity prices may undergo correction, if BOJ decides to keep its monetary policy unchanged despite rising market expectations. I think we need to assume the risk of USD/JPY rate to fall below JPY 110 and Nikkei 225 index to fall below JPY17,000. I, however, do not think we should be too cautious, if expectation on further monetary easing is unchanged and market sentiment stays in a steady undertone.

**\* Please note that this report is a translation of Japanese report written on 25<sup>th</sup> April, 2016.**

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