

Today's Topic **BOJ's Monetary Policy (January 2017)**

## Unchanged: Likely to maintain current policy for the time being

### Point 1 Monetary Policy was unchanged No surprise to the market

- BOJ decided to keep their monetary policy unchanged at Monetary Policy Meeting (MPM) on 31<sup>st</sup> January 2017. It has maintained monetary operation to keep short-term policy interest rate to around -0.1% and long-term 10-year JGB yields to remain around 0%. Also, maintained the purchase of JGBs at more or less the current pace, an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen. BOJ's decision to keep its monetary policy unchanged is in line with the market expectation.

"BOJ Policy Board majority forecasts in Outlook Report"

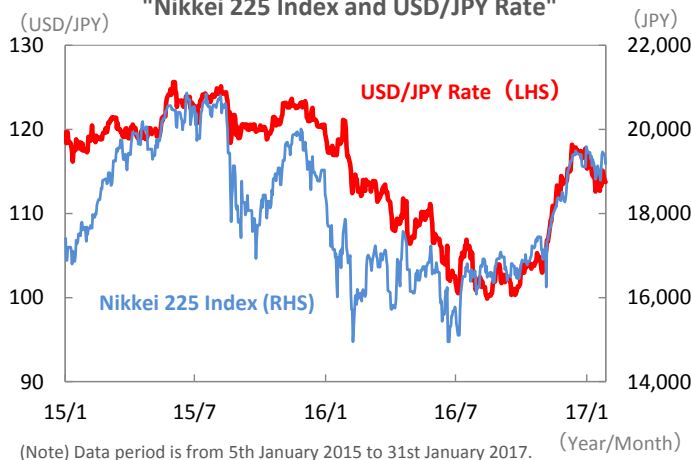
	Real GDP Growth Rate	Core CPI (Excl. fresh food)
FY2016 Est.	+1.2~+1.5 <+1.4>	-0.2~-0.1 <-0.2>
Oct. 2016 forecast	+0.8~+1.0 <+1.0>	-0.3~-0.1 <-0.1>
FY2017 Est.	+1.3~+1.6 <+1.5>	+0.8~+1.6 <+1.5>
Oct. 2016 forecast	+1.0~+1.5 <+1.3>	+0.6~+1.6 <+1.5>
FY2018 Est.	+1.0~+1.2 <+1.1>	+0.9~+1.9 <+1.7>
Oct. 2016 forecast	+0.8~+1.0 <+0.9>	+0.9~+1.9 <+1.7>

(Note 1) Majority forecasts represent range of forecasts by board members after discarding highest and lowest value. Forecasts are as of January 2017.  
 (Note 2) Figures in parentheses <> are median forecasts.  
 (Note 3) Both real GDP and the core CPI inflation rate are based on y-o-y comparison.  
 (Source) SMAM, based on publicly available data of BOJ.

### Point 2 Raised GDP growth outlook Consumer price forecast for FY2017 and onward was unchanged

- On the same day, BOJ released January 2017 "Outlook for Economic Activity and Prices (Outlook Report)". GDP growth outlook was revised up as follows; FY2016 to +1.4% (previous forecast +1.0%), FY2017 to +1.5% (ditto +1.3%) and FY2018 to +1.1% (ditto +0.9%). Core CPI rate forecast of FY2016 was revised down from -0.1% to -0.2%, while those for FY2017 and FY2018 were kept unchanged at +1.5% and +1.7% respectively.
- The timing of the year-on-year rate of change in the CPI to reach around 2 percent was kept unchanged to "around FY2018".

"Nikkei 225 Index and USD/JPY Rate"



### Future Outlook Monetary policy is likely to be kept unchanged for the time being

- Financial market's reaction against BOJ's decision to keep monetary policy unchanged was very much confined as it was just as market had expected. However, JPY appreciated to around 113.5 against USD and Japanese stock market dropped to around JPY 19,100 from the previous day, seeing market participants stepped up their risk-aversion stance over concern on Trump administration's policies at the New York financial market. 10-year JGB yields moved slightly at around 0.08%, unchanged from the previous day (as of 14:00 on 31<sup>st</sup> January 2017 in Japan).
- Although BOJ revised its forecast of GDP growth rate upward, its monetary policy is expected to remain unchanged for the time being as forecast of price beyond FY2017 was not changed from the previous forecasts made on October 2016.



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