

Monetary Policy to Remain Steady – BOJ's July Meeting

Written by Katsutoshi Inadome, Senior Strategist

- This report briefly reviews recently released monetary and economic data that may be relevant to monetary policy decisions. Then it looks ahead to future monetary policy and market developments based on an interview with Shinichi Uchida, Deputy Governor of the Bank of Japan (BOJ), published on July 6th.
- The monetary policy of the BOJ is decided through two types of judgments: "Quantitative Judgment" that relies on financial and economic data, and "Qualitative Judgment" that is based on the data and long-standing experience of the Board members, headed by Kazuo Ueda, the governor of the BOJ.

Quantitative Judgement: Recent data does not suggest that the BOJ will make any early policy revisions.

- Recent financial and economic data, which is the basis for quantitative judgments, will not encourage the BOJ to revise its policy early. The Tokyo core consumer price index (CPI), which was released on June 30th and ahead of Japan's national CPI, showed a year-on-year decrease to 3.1%, lower than the previous 3.2% and forecasted 3.4% respectively.
- The BOJ Tankan, released on July 3rd, indicated that the company's outlook for sales prices had slowed for the first time in three years, and the sales price Diffusion Index (DI) had also declined for the first time in three years. On July 5th, the supply-demand gap was reported to be negative (-0.37% to -0.34%), just like the previous report. Given these indicators, the BOJ would not feel the need for an early policy correction.

Qualitative Judgement: BOJ decision makers seem to agree on continuing the current policy.

- Deputy Governor Uchida showed similar views to Governor Ueda regarding the qualitative judgment in his recent interview with the Nikkei. Uchida's comments supported Ueda's previous statements. However, the timing of Uchida's comments led to the market expecting the BOJ to make changes, resulting in a significant increase in yen rates on July 7th. While the timing and market reaction are concerning, the deputy governor emphasized the risk of rushing policy changes and missing the opportunity to achieve the 2% target at the interview. Therefore, it is unlikely that the BOJ will act quickly.

Conclusion: The BOJ's Monetary Policy Meeting on July 28th will likely maintain the current status quo.

- To summarize, it is probable that the BOJ policy meeting on July 28 will keep things as they are. However, there is a chance that the BOJ may make changes to its policy in order to address any potential negative effects without causing monetary tightening. This could include expanding the Yield Curve Control (YCC) band or shortening its target from 10 years interest rate to 5 years. Regardless, it is expected that the fluctuation in interest rates at the end of July will be more significant than those seen around the June BOJ policy meeting.

About Writer



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After completing a master's degree in economics, Katsutoshi joined a domestic securities company in 2004, and in 2023 joined Sumitomo Mitsui Trust Asset Management, where he has been in his current position since February 2023.

After joining a securities company, he has consistently worked as a bond strategist for nearly 20 years. He has been engaged in research and analysis of the Japanese and global bond market and macroeconomics, writing reports and making presentations to clients. In his current role, he oversees macroeconomic and financial market analysis.

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