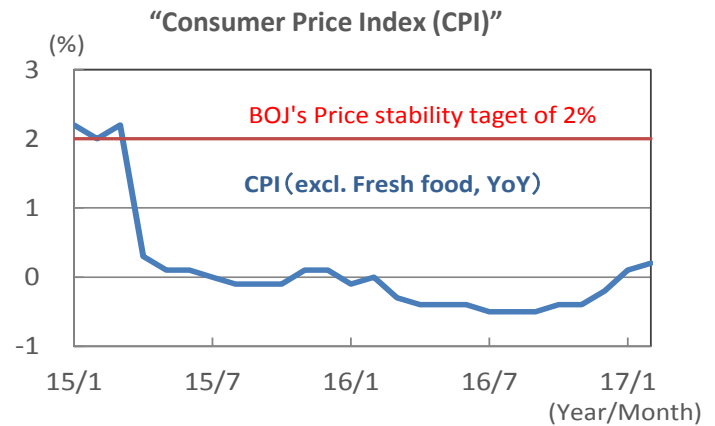


Today's Topic **BOJ's Monetary Policy (April 2017)**

Unchanged: Widening interest rate gap of US and Japan leads JPY to weaken

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

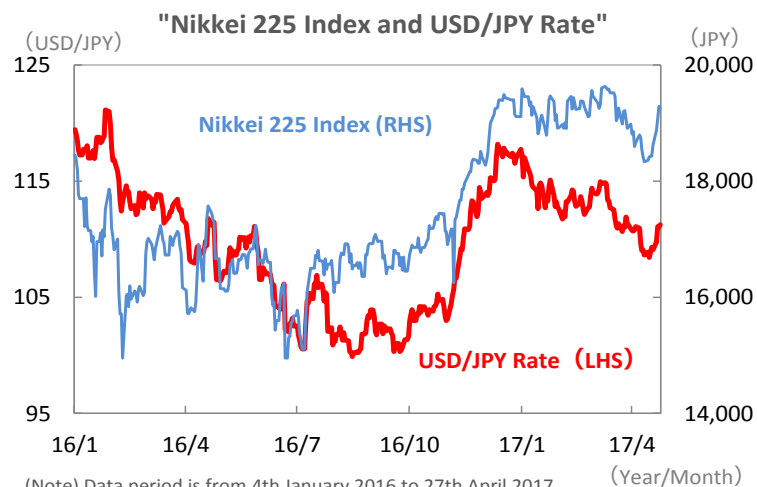
- BOJ decided to keep their monetary policy unchanged at Monetary Policy Meeting (MPM) on 27th April 2017 as market had expected. It maintained monetary operation to keep short-term policy interest rate to around -0.1% and long-term 10-year JGB yields to remain around 0%. Also, maintained the purchase of JGBs at an annual pace of about 80 trillion yen.



(Note) Data period is from January 2015 to February 2017.
(Source) SMAM, based on Bloomberg L. P. data.

Point 2 **Revised up economic assessment**
Revised down consumer price forecast for FY2017

- On the same day, BOJ released April 2017 "Outlook for Economic Activity and Prices (Outlook Report)" and revised up its assessment from "continue its moderate recovery trend" to "turning toward a moderate expansion".
- As to the outlook for prices, BOJ pointed out that prices of some consumer durable goods and services have shown somewhat weak development since the previous Outlook Report (January). BOJ marginally revised down its FY2017 outlook to +1.4% YoY from the previous outlook of +1.5% YoY. Latest February CPI (excluding fresh foods) rose moderately by +0.2% for two consecutive months.



(Note) Data period is from 4th January 2016 to 27th April 2017.
(Source) SMAM, based on Bloomberg L. P. data.

Future Outlook

Once geopolitical risk subsides, US and Japanese interest rate gap will become a major factor for JPY to weaken against USD

- In terms of outlook for prices, BOJ in its latest Outlook Report kept the timing of YoY rate change in the CPI reaching around 2% unchanged to around FY2018. However, BOJ is expected to continue its accommodative monetary policy in order to achieve the price stability target of 2 percent as it assesses inflation expectation still on a weak note. On the other hand, US policy rate is expected to be raised twice or so this year on the back of economic expansion. With regard to currency market, JPY appreciated by rise of geopolitical risk due to tense situation of Korean peninsula at this moment. However, once this risk subsides, widening of interest rate gap between USA and Japan is likely to be a factor for JPY depreciation.



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