THE BOJ STAYS PUT…FOR NOW

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The Bank of Japan (BOJ) decided to maintain its steady policy course this week, very much in line with consensus expectations. However, its policy statement did add a twist to a previously mentioned sentence: "[original sentence from an earlier policy statement:] inflation expectations appear to be rising on the whole from a somewhat longer-term perspective, [new addition:] although some indicators have recently shown relatively weak developments."[1] This new modification paves the way, in our view, for added stimulus in coming months. Here, we stress our long-held view that it is all about coordinated policy—the BOJ will come into play when next year's fiscal policy is finalized. Fiscal policy leads, BOJ follows. Yes, we still expect there to be an extra budget of ¥3 to 5 trillion, but it is taking longer than normal to compile the exact content of the coming fiscal boost. The reason for the delay is that the newly created minister for population growth has a new portfolio that is still working out its policy and spending needs. A press conference has been scheduled for November 26, which should provide the first concrete announcements (expanding child support, kindergarten, tax breaks for gifts to grandchildren and tax breaks for three-generation home building, etc.). In short, we believe Japan is set to have both stimulative fiscal and monetary policy in place for 2016. And we remain convinced that the country is in a multi-year bull market for such risk assets as equity and real estate.

[1]Statement on Monetary Policy, Bank of Japan, 11/19/15.

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Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Bullish : a position that benefits when asset prices rise.

Riskier assets : Assets not backed by the full faith and credit of a government entity.