Mizuho Market Comment

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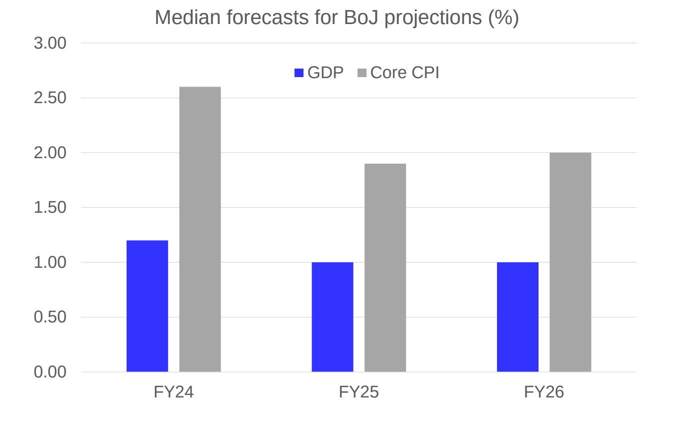
BoJ preview: Weaker yen a growing headache

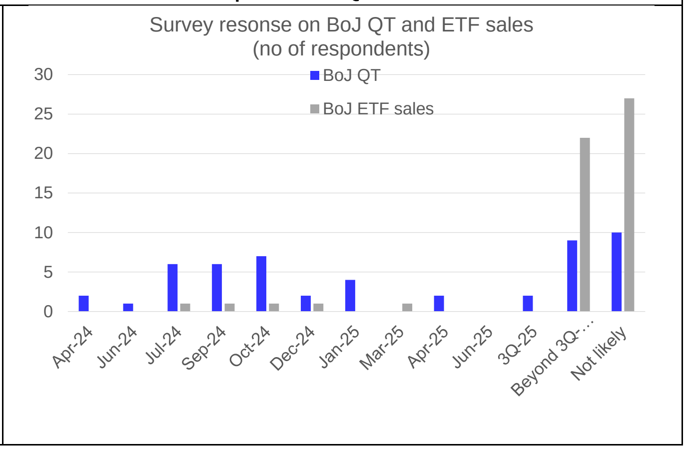
- **No policy change expected but FY26 CPI forecast seen at 2.0%**
- **Impact of the weak yen a focus. A more hawkish Ueda?**
- **BoJ and MoF increasingly on the same page with regard to the yen…**
- **…but to be effective intervention needs some help from weaker US data**

After the NIRP exit in March, BoJ expected to stand pat in April
In March the BoJ made major changes to its policy framework, ditching YCC and exiting NIRP. As such there are limited expectations that policy will be tightened further at the upcoming meeting on 26 April. That said the meeting is not without interest. The main focus will be on the BoJ's forecasts and to what extent these forecasts are impacted by the weak currency. Since the BoJ's last forecast round in late January, USD/JPY has risen ~4%. Oil and gas prices have both risen almost 10%. This will show up in a weaker trade balance, worse terms of trade and higher near-term inflation. In addition to a weaker yen, the BoJ also has to incorporate a much firmer-than-expected round of wage negotiations into its inflation and growth forecasts. Certainly, the near-term inflation forecast is likely to be pushed higher. The impact will likely extend into FY25. There is also some focus on the BoJ's balance sheet. Here we see it as too early for any major policy announcements but it's a topic that the BoJ will have to opine on soon.

BoJ set to forecast 2% inflation at the back end of the forecast horizon
The main focus, however, is on inflation at the back end of the forecast horizon. The FY26 forecast will be new. The media report that it will be close to 2.0%. The median forecast in Bloomberg's pre-meeting survey was also 2.0% for both core (ex fresh food) CPI and core core (ex fresh food and energy), while the median GDP forecasts for FY24~26 were all 1.0% of above – so all above Japan's potential growth, which implies on-going narrowing of the output gap This suggests the BoJ is close to achieving a virtuous wage/price cycle.

BoJ watchers expect upbeat forecasts but have mixed views on the speed of QT.





Source: Bloomberg

Is MoF and the BoJ moving into synch on the yen enough?
The impact of the weak yen is also a growing focus not just for the BoJ but more widely. It is becoming a broader problem not just a political problem for the government. The president of the JCCI, which represents smaller companies, this week issued a warning against the dangers of the yen's slide and called on the government to intervene alongside other countries. He argued that the rise in oil prices and a weak yen were making life difficult for small companies. The head of the Keidanren, which represents larger companies, made similar comments earlier in the month. There are few sectors of society that seem happy with JPY weakness, including the government.

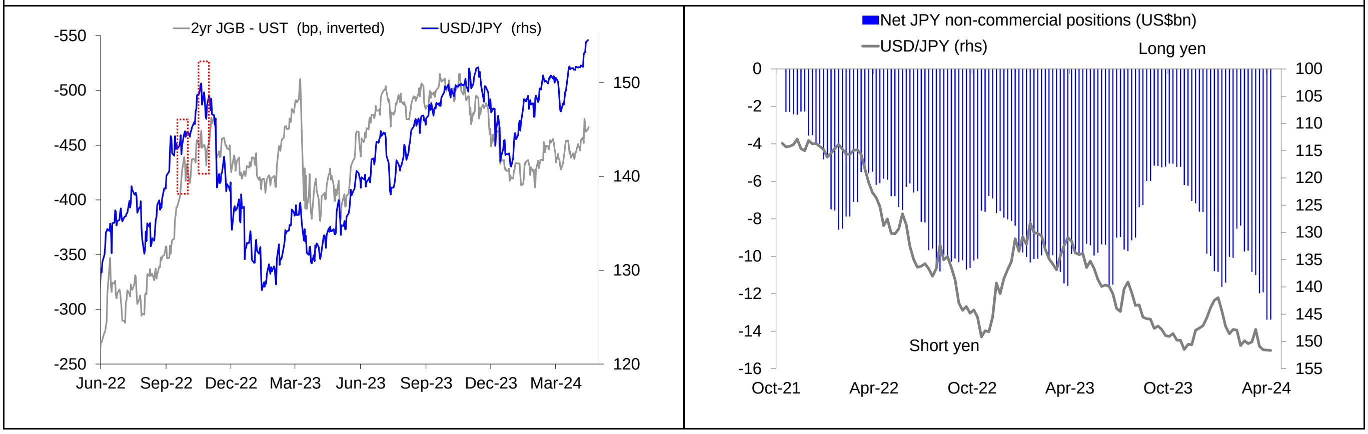
It is widely expected that MoF will intervene if USD/JPY pushes much higher, with the 155 level the next area of interest. If the Ministry of Finance and the Bank of Japan are at cross purposes, then the likelihood of intervention being successful is very low. We see signs that the BoJ is increasingly willing to tighten to support the yen, but there are alas limits as to how much tightening the BoJ can do. We had initially expected that the BoJ would start its hiking cycle with a couple of small steps but we now see the BoJ as more likely to move in larger increments, kicking off the tightening cycle with a 25bp hike rather than a 10bp hike in autumn. There is also some chance of somewhat more hawkish rhetoric from Governor Ueda in the post meeting press conference.

In addition to MoF potentially being more in synch with the BoJ, MoF has secured the green light on intervention from the US. Other Asian central banks are already intervening and adding the BoJ's heft to this group would be significant. Asian central bank reserves are very large.

However, for intervention to be truly effective it really needs to change the weather and this really only happens when the weather is set to change anyway. The main thing that would boost the effectiveness of intervention is weaker US data that allows investors to believe in US rate cuts. The US CPI has surprised to the upside for 3 consecutive prints and there is some chance that the data become a little softer going forward.

If we look back at the 2 bouts of intervention in 2022, the first was relatively ineffective. The BoJ spent ¥2.8trn on 22 September 2022. USD/JPY dipped sharply (from around USD/JPY 145.90 to USD/JPY 140.40) but one week later had recovered to around 144.50. The second effort on 21 (¥5.6trn) and 24 (¥0.7trn) October 2022 also pushed USD/JPY down around 5 big figures and one-week after the second intervention USD/JPY was around 1 big figure lower but the subsequent drop in UST yields over the following few months, which dragged USD/JPY much lower, gave the second intervention effort the impression of success.

Initial intervention less effective



Source: Bloomberg

We doubt that intervention will be especially effective in the medium term, although JPY shorts look quite large and there is scope for a sizable intra-day move. This is possibly one reason why MoF has been waiting. It is looking for a good opportunity that comes with a better chance of success. This implies it will be closely watching US data releases.