

【Japan`s Monetary Policy (April) ~Unprecedented Monetary Easing Left Unchanged~】

<Key Points>

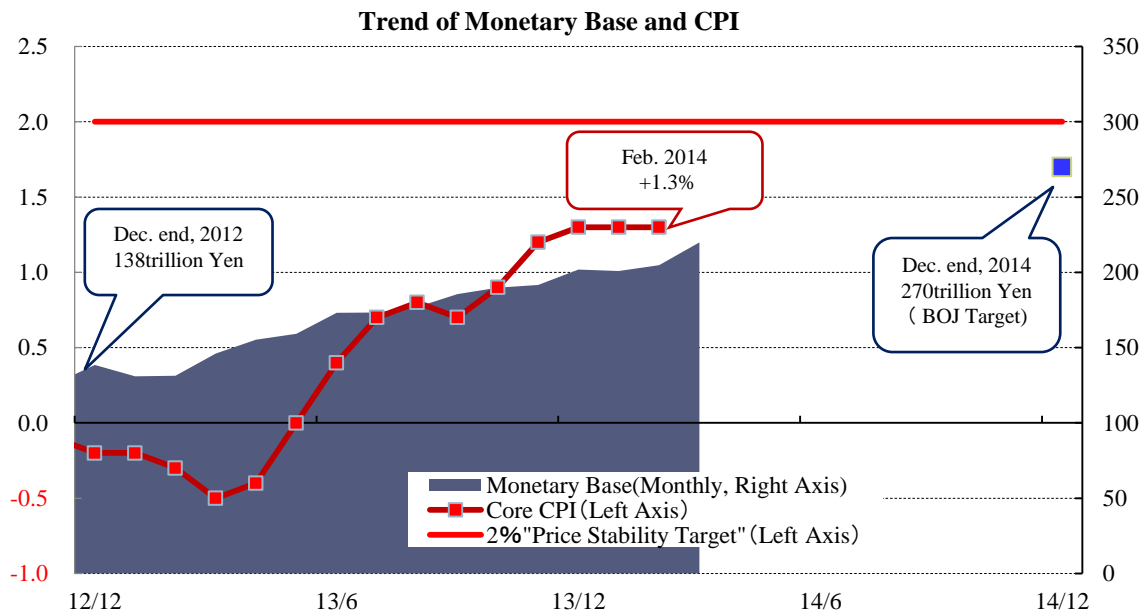
- The BOJ decided to stay on hold of unprecedented monetary easing policy introduced last April.
- March end monetary base increased to Japanese yen 220 trillion in line with what the BOJ targeted.
- Possibility of additional easing may have slightly retreated for the time being due to likely prices hike.

1. Retained unprecedented monetary easing policy introduced last April

The BOJ`s policy board convened on 7-8 April and decided by unanimous vote to leave “Quantitative and Qualitative Monetary Easing” (Unprecedented Monetary Easing) policy introduced in last April unchanged. The BOJ retained its “ has continued to recover moderately” assessment of the economy, while adding “albeit with some fluctuations due to the consumption tax hike”. Financial markets seemed to have reacted slightly negative as deep rooted expectation of additional easing existed amongst few of the market participants.

2. Monetary base has increased as expected

In January 2013, the BOJ had set the price stability target of approximately 2% aiming to achieve within 2 years to put an end to deflation. In order to materialize it, the BOJ introduced unprecedented monetary easing which is to double both the monetary base and the holdings of ETFs and REITs under its own account. The BOJ announced that March monetary base (banknotes & coins in circulation plus current account deposits in the BOJ) increased to the historical high of Japanese yen 220 trillion approaching towards their target of Japanese yen 270 trillion set to be achieved by the end of year 2014. With this effect, consumer price index (excluding fresh food called Core CPI) has been constantly on the positive trend since June 2013.



(Note) Data Horizon : Monetary Base December 2012 – March 2014
 Core CPI December 2012 – February 2014
 (Source) Produced by SMAM based on the data of the BOJ and Bloomberg

3. Future Outlook

A year has passed since the introduction of unprecedented monetary easing which resulted in the constant increase of monetary base as targeted and pushed the core CPI higher. According to the interim review by the BOJ of the Outlook for Economic Activity and Prices Report (Outlook Report) conducted this January, core CPI (excluding impact of consumer tax hike) was estimated to be + 1.3% which is in line with actual core CPI number in February. Also, the monetary base has steadily increased in line with what the BOJ targeted. With the consumer tax hike in April, we may likely to experience a rise of Core CPI much higher than the market expectations. According to The UTokyo Daily Price Index (uses data collected through POS system of selected supermarkets excluding the impact of the consumer tax hike) calculated and published by the University of Tokyo, figure of March was negative y-o-y but turned positive in April. Though this index does not mirror the fluctuation of CPI index as a whole, the April hike could be an implication of possible opportunity for the manufacturing companies to pass through the increase in manufacturing cost to their final prices which they had been longed for. With this regard, the possibility of additional easing has retreated for the time being. On the other hand, there is a concern over the possible pullback of consumer spending due to the consumer tax hike, going forward. Now the focus turns to the semi-annual Outlook Report on 30 April. People's focus will be on the extent of adjustments which the BOJ would make for its outlook of the prices and business activities after factoring in the impact before and after the hike of consumer tax.

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