



FX Daily

When will the BoJ make its next move?

The BoJ voted to maintain its policy at yesterday's MPM, one year after it introduced QQE. We think the BoJ will decide when to ease further based on (1) coordination with the government's economic policy, (2) receding inflation expectations, and (3) a surprise effect. Easing further at yesterday's meeting probably would not have been out of the question if the BoJ was only aiming for a surprise effect. But, the BoJ would not have fulfilled its accountability in the conduct of policy action in the absence of points (1) and (2).

Many market participants expect additional QQE in Jun-Jul based on point (1) (although the expectation may have a bit weakened after Kuroda's "negative" comment on additional QQE). The government could announce its growth strategy, including corporate tax cuts, in June after confirming the economic impact of the consumption tax hike. The BoJ is therefore expected to ease further in June along with the government's growth strategy, or in July when the Bank announces its Interim Assessment of the Outlook Report.

However, we think the BoJ may be still able to show confidence on achieving 2% CPI target in many factors. Others in the market (including our economist) forecast the BoJ could ease further after October based on point (2), as the Bank might have to lower its CPI forecast in the October Outlook report.

However, the BoJ would not have to ease further, and the market would not be disappointed even without additional easing, if the USD/JPY rises to 105-110 in May-Jun and 110-115 in 2014 on the back of a firm US economy as we forecast. We consistently focus on the US economy as a more important driver of yen depreciation than the BoJ's policy.

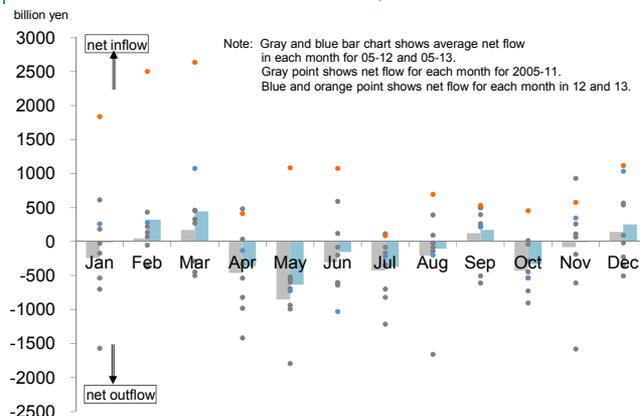
The USD/JPY fell to around 102 due to a weaker than expected US nonfarm payrolls report for March. However, we expect the USD/JPY to repeatedly test highs ahead of US employment data at the start of May and June. This period will also see light trading in Japan due to the Golden Week holiday, foreign currency purchases with redistribution of pension and other institutional funds, and expectations of policy action by the government and BoJ. We remain bullish on the USD/JPY.

Figure 1: Scheduled date of MPM

Apr 30 (Wed)	CPI outlook report
May 20 (Tue), 21 (Wed)	
Jun 12 (Thu), 13 (Fri.)	
Jul 14 (Mon), 15 (Tue)	CPI outlook interim report
Aug 7 (Thu), 8 (Fri)	
Sep 3 (Wed), 4 (Thu)	
Oct 6 (Mon), 7 (Tue)	
Oct 31 (Fri)	CPI outlook report
Nov 18 (Tue), 19 (Wed.)	
Dec 18 (Thu), 19 (Fri)	

Source: BoJ

Figure 2: May has seasonality of net securities outflows for reallocation in the new fiscal year



Source: Deutsche Bank, MoF, Bloomberg Finance L.P.