



BOJ'S NEW LEADERSHIP



NEW GOVERNORS NOMINATED

Kishida administration proposed **Kazuo Ueda** as the new BOJ governor. **Ryozo Himino**, former Commissioner of Japanese Financial Services Agency, and **Shinichi Uchida**, Executive Director of BOJ, were also nominated as Deputy Governors. The nominees are scheduled to be interviewed at the Diet in the coming weeks to obtain the consent of both Houses of the Diet before being formally appointed.

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EXPECTED POLICY OF NEW GOVERNOR UEDA AND THE TEAM

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Judging from his Nikkei July 2022 and other articles, he has a **cautious view on Japanese economy and price movements**, stating that "We should keep in mind that we still have a long way to go to achieve sustained 2% inflation in Japan". Ueda also said on February 10th that **current monetary policy is appropriate and easing needs to continue for the time being**.

At the same time, he recognizes the side effects of the super-easy policy and need for goal changes and exit strategies, saying that "The future of the extraordinary monetary easing framework, which has lasted longer than many expected, will require serious consideration somewhere". **Ueda will act based on fundamentals**, as he says "it is important to make logical decisions and easily understood explanations".

Two Deputy Governors are expected to help the new Governor especially in practical and international arena with their experience. Uchida, who has a long career in planning and drafting monetary policy and has been involved in introducing and strengthening quantitative and qualitative monetary easing policies together with retiring Deputy Governor Amamiya, is expected to assist the new Governor with his experience in the practical affairs of policy management. Himino, a widely trusted international figure in financial regulation with his network established in Financial Service Agency days, will be a good support in communicating with global market participants, policy makers and regulators. **The new leadership is expected to work as a well-balanced team, but it is also true that a difficult path to normalization after a long period of extraordinary easing awaits them.**

"...THE BOJ IS EXPECTED TO CONTINUE EASY MONETARY POLICY FOR SOME TIME..."



IMPLICATIONS TO THE MARKET

Although the nomination of Ueda was a surprise when reported, especially as PM Kishida would have preferred to make some changes to still alive Abenomics policy, he appears to have compromised on a more market friendly decision that takes the continuity of policy into consideration; based on Ueda's latest discourse and the expected new Deputy Governors who will flank him, the **BOJ is expected to continue easy monetary policy for some time and explore the direction of policy revisions in light of economic and price trends**.

We continue to expect a tweak or removal of YCC in mid-2023, while keeping the short-term rate low and revising the accord between the BOJ and the government by changing the "short-term" 2% inflation target to a longer-horizon one. If monetary policy is to be decided with an emphasis

on the economy and prices, as Ueda says, **it is unlikely that the BOJ will rush to revise its policy when the economy, prices and financial conditions are facing headwinds, as are the cases now. YCC change, if any, will be another 50bp or a larger one as gradual tweak is not a good way to control long-term rates** as Ueda thinks, quoting the examples of FRB in 1950s and Australian central bank in 2021.

It appears that equity, fixed income and currency markets have reacted positively to the news so far, and **investors are expected to maintain a wait and see stance until the new Governor chairs its first BOJ's policy meeting in April**, assuming that no major actions are taken during Governor Kuroda's final BOJ policy meeting in March. First, let us see what they have to say during the nominees' Diet speech scheduled in the coming weeks.

