



24th December 2022

Global Market- Bank of Japan policy & China's COVID emergency

Last week we have discussed the policy decision by US Fed, Bank of England and European Central Bank. ECB commentary was more hawkish than its previous policy statement. US Fed median forecast raised to 5.1% from previous of 4.6%, market disappointed as hopes of any rate cut in 2023 ruled out.

This week we will discuss the change in policy by Bank of Japan and fresh concern in China over rising number of COVID cases and its potential impact of global supply chain and economic growth. Global economy which was returning to some path of certainty hit by another round of uncertainty.

Bank of Japan – Policy outcome on 20-Dec-22

- Interest rate kept at -0.10% - Unchanged.
- BOJ will continue to purchase necessary amount of JGBs without setting an upper limit.
- BOJ – target rate for 10-year yield for JGB increase from 0.25% to 0.50%.
- BOJ – will purchase Exchange traded fund (ETFs) and Japan real estate investments trusts (J-REITs)
- BOJ – will continue to purchase CP & Corporate bonds at pace prior to COVID-19.
- BOJ – Quantitative and qualitative monetary easing (QQE) will continue with yield curve control, aim to achieve price stability target of 2%.

Key points from Bank of Japan policy outcome

- Global inflation impacting Japanese inflation numbers.
- Change in policy allowing – allowing the yield curve to rise – will encourage capital to remain in Japan.
- Japan has been net exporter of capital since interest rate in Japan is negative, Japan has been source of cheap money globally.
- Japanese YEN has appreciated post policy outcome of Bank of Japan.

China's COVID emergency

The situation in China continues to remain at alarming level as COVID spread continues to increase. News from China remains uncertain and selective for the world to understand the ground really very well.

Currently China is facing situation which was seen in India during 2nd wave between March 2021 to June 2021. People's bank of China continues to maintain easy monetary policy as expectation of another round of stimulus was expected.

Equichain Wealth Advisors: Market View & Opinion

After US Fed, BOE & ECB last week, Bank of Japan has now changed its monetary policy stance. Now the resources for easy money are drying up and global central banks have now obsession to bring inflation to 2% for long term sustainable growth.



We have seen term “Carry trade unwinding” where money is taken from BOJ at almost zero interest and invested in secured bond of developed countries, which is earning them risk-free return on their investment with currency risk which will hedge in forex market.

We believe, change in Japan ‘s monetary policy is a serious concern which could play out its impact in next 1 – 4 months as last source of cheap money which is Bank of Japan is now drying. Now Japanese banks and investor will prompt to keep their investment in their own country if BOJ continues its policy going forward.

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