

Flash Comment

Japan: BoJ slightly more positive on the economy

- Bank of Japan (BoJ) as expected left its leading interest rate unchanged at 0.1% and did not see the need for further non-conventional easing.
- BoJ turned marginally more positive on the economy. However, the main message continues to be that the economy is bottoming out.
- The focus at the future monetary meetings will mainly be on changes in BoJ's view of the economy. The next major change in outlook by the bank should be to regard the economy as expanding. However, this change is unlikely to happen before the latter part of Q3.

Details

Bank of Japan as expected left its leading O/N target rate unchanged at 0.1% in a unanimous decision. No new non-conventional easing measures were announced and the target for the purchase of treasury bonds was maintained at JPY 1.8 trn monthly. This was in line with expectations too.

In its policy statement, BoJ upgraded its view of the economy slightly in a more positive direction, see [Complete policy statement](#). However it was only a minor move compared to the May monetary meeting, when BoJ said that it believed the economy was levelling out and not contracting as earlier stated. In today's statement it just added that it now believes the coming months "are likely to show clearer evidence of levelling out".

Concerning **financial conditions**, the BoJ message is unchanged compared to the May monetary meeting: Financial conditions remains tight, but are improving.

BoJ's **baseline scenario** remains unchanged. The economy is expected to recover from the latter half of fiscal 2009 (Q4 09 and Q1 10). This forecast is more positive than the current IMF and OECD view. Neither expect the Japanese economy to recover before H2 10. In our opinion the recovery in Japan will gain traction in Q3 and signs of expansion should already be evident in data covering the latter part of Q2 09. BoJ still sees mainly **downside risks** to both growth and inflation compared to its baseline scenario.

Assessment and Outlook

With the economy stabilising and financial conditions easing we do not expect further non-conventional easing from BoJ. The most interesting aspect for future monetary meetings will be the extent to which the BoJ changes its view on the economy. In that respect the next monetary meeting in mid-July should be more interesting, because BoJ will publish revised macroeconomic forecasts from the board members. However, the next important shift in BoJ's view of the economy should be from "levelling out" to "expanding". That shift is unlikely to happen before late Q3.

In addition there will be increasing focus on how to unwind existing non-conventional easing measures. However, in Japan this will only be a minor issue, as the size of non-conventional easing there has been modest. Basically there has been little demand for using BoJ's instruments (commercial paper and corporate bond purchase) and BoJ's balance sheet has only expanded modestly (see chart)

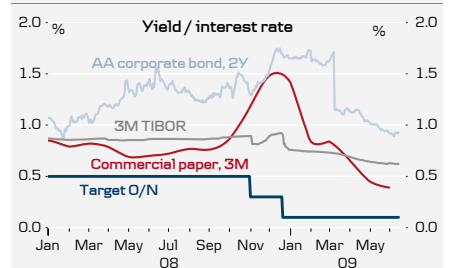
We believe BoJ will start tightening monetary policy in Q3 2010. That said, an earlier "technical" interest rate hike to support the functionality of the money market cannot be completely ruled out.

Outcome of today's monetary meeting

	Act	Con	DB
O/N Target	0.1%	0.1%	0.1%
Treasury purch.*	1.8trn	na	1.8 trn

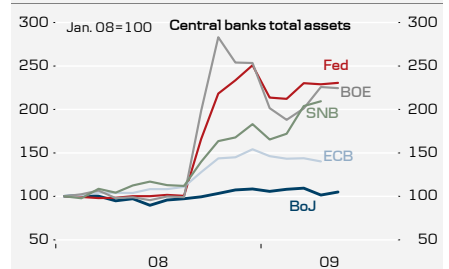
*Target for monthly purchase of treasury bonds
Bloomberg and Danske Bank

Financial conditions are easing



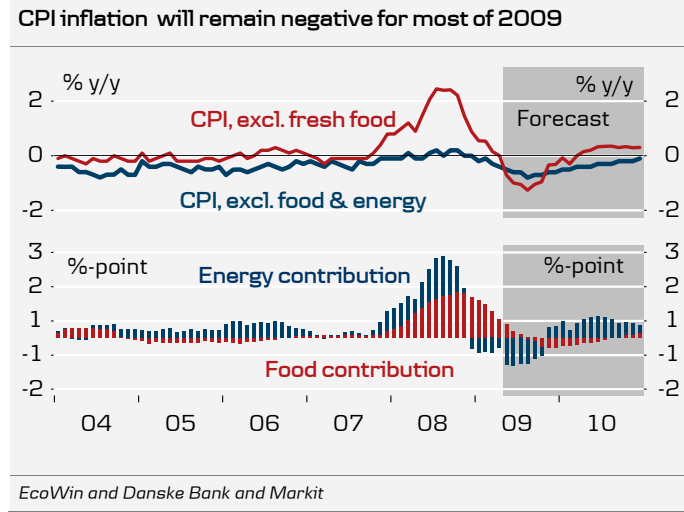
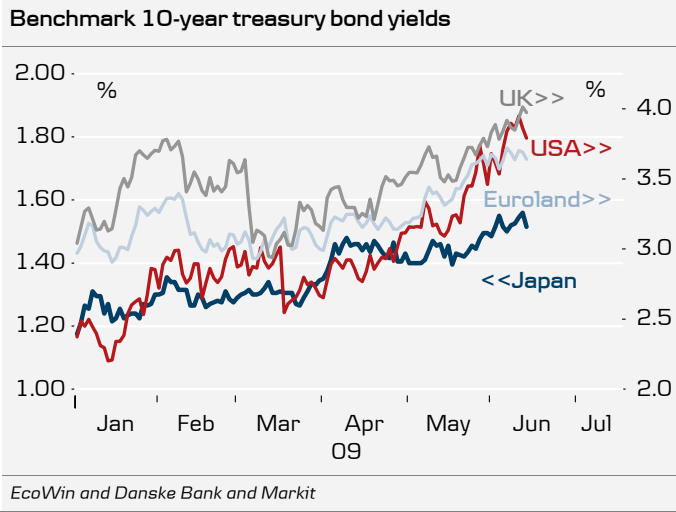
EcoWin and Markit

Quantitative easing so far modest in Japan



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