

**MONETARY POLICY RESEARCH**

January 23, 2024

**BOJ: Expect NIRP Exit in April****KEY TAKEAWAYS**

---

Last April, the IMF warned off the potential for spillover effects to the global bond markets as Japan exited its negative interest rate policy (NIRP): rising Japanese yields could ‘provide an incentive for the repatriation of Japanese portfolio investments as well as drawing foreign investors into Japanese bonds – pushing up the foreign exchange value of the yen and putting upward pressure on [global] interest rates.’

We continue to expect the BOJ to raise its policy rate by 10bps at the meeting of April 25, after the Spring wage negotiations, thereby ending NIRP. This will make US treasury’s relatively less attractive than JGBs both on a currency-hedged basis (since the cost of currency-hedging results in a significantly negative spread) and on an outright basis (since there will be less tolerance than last year, as NIRP ends, for the risk of an appreciating yen).

**Ratings**

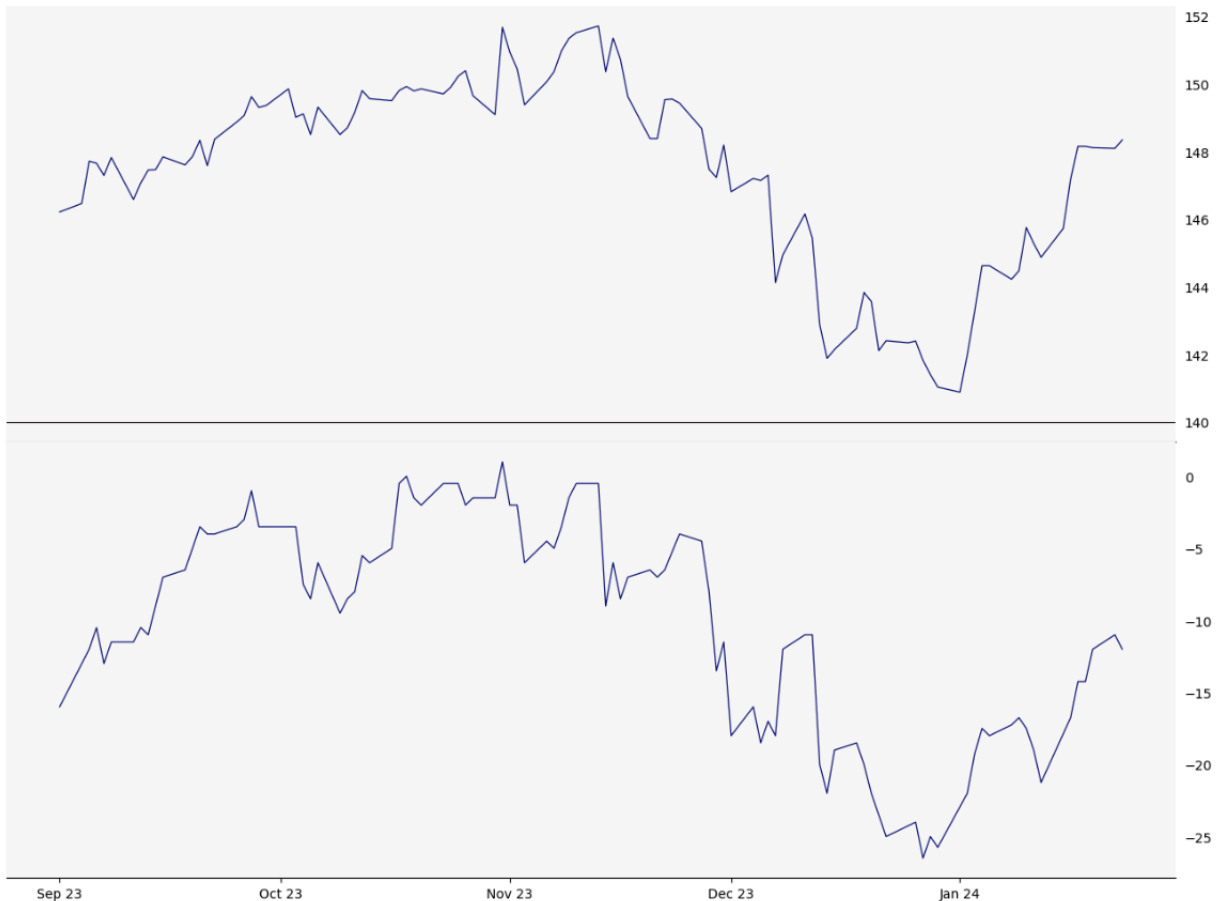
---

**Howard Mason**  
Monetary Policy  
212.537.8814  
[hmason@renmac.com](mailto:hmason@renmac.com)

## BOJ: Expect NIRP Exit in April

Dollar-yen has tracked market expectations for a FED cut in March with the dollar strengthening as the market pricing has retreated over the last month from a full cut at the March meeting to nearer half a cut today (Ex 1). It has not helped the yen that, over the month to January 11, the market has shifted from pricing at least a full BOJ hike at the April meeting to nearer a 20% chance of a hike (although that probability has since increased to over 50%).

Ex 1: Dollar-Yen (Upper) and Fund Futures Apr-Jun Calendar Spread (Lower bps)



We expect dollar-yen to weaken from here given the rising risk of government intervention as we approach the psychologically important

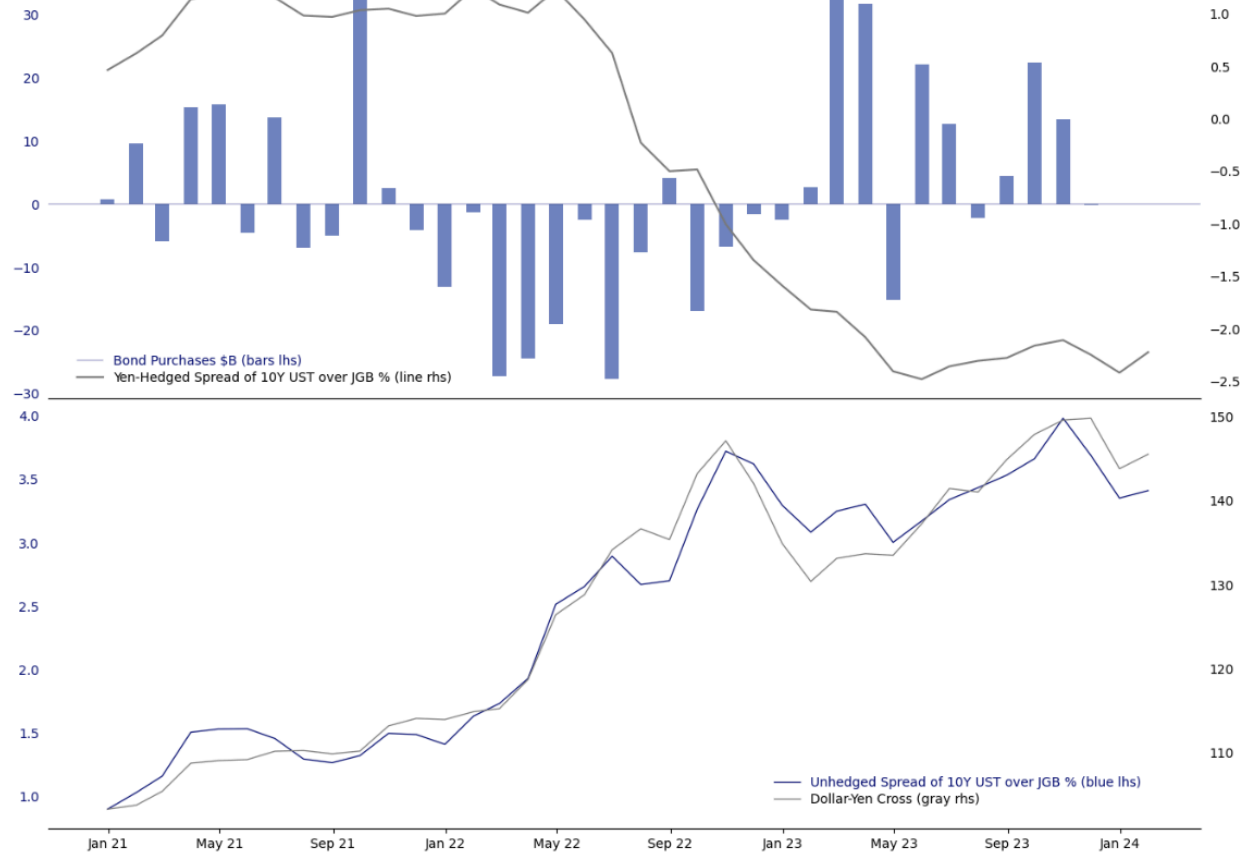
150 level and as market pricing firms for a BOJ hike in April. Given the step-size for the BOJ is 10bps, and that the policy rate is presently negative 10bps, this would represent an exit of the long-standing negative interest rate policy (NIRP). Bloomberg reports that BOJ officials view their expectations for inflation, currently 2.4% for the fiscal year beginning in April as high enough to justify ending the negative rate.

However, there is a concern to ensure inflation is well-anchored to the policy target of 2%. We expect the 'Shunto' wage negotiations in the Spring to support the presence of a sustainable [wage-price](#) cycle and hence a hike at the policy meeting of April 25. Governor Ueda appears to be looking to re-assure those concerned about premature tightening when he says, 'extremely accommodative financial conditions will stay in place for the time being even if the negative rate is ended.'

A strengthening yen, and the increase in yields across the curve (including likely further relaxation of the BOJ's policy of yield curve control even after an October recharacterization of the 100bps level for 10-year JGBs as a [reference](#) rather than a cap), will increase the relative attractiveness of domestic bonds. The IMF warned, in its financial stability [report](#) of April, of potential spillover effects to the global bond markets from rising Japanese yields that could 'provide an incentive for the repatriation of Japanese portfolio investments as well as drawing foreign investors into Japanese bonds – pushing up the foreign exchange value of the yen and putting upward pressure on [global] interest rates.'

There is already a downward trend in net purchases of US treasury bonds by Japanese funds (Ex 2). There were net buys in 2023, despite a significantly negative spread for USTs over JGBs *after currency-hedging*, as Japanese funds chose to absorb the risk of yen appreciation. We expect less tolerance for this risk as the BOJ begins to tighten monetary policy albeit gradually and from a negative policy rate.

Ex 2: Net Purchases of US Treasury Bonds by Japanese Funds and Yen-Hedged Yield



**ANALYST(S) CERTIFICATION(S):** I, Howard Mason, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

**AFFILIATE DISCLOSURES:** RenMac is the trade name and registered trademark under which research and services of Renaissance Macro Holdings and its subsidiaries Renaissance Macro Securities, LLC and Renaissance Macro Research, LLC are marketed. This report has been prepared by Renaissance Macro Securities, LLC. Renaissance Macro Securities, LLC is regulated by FINRA and the United States Securities and Exchange Commission. Disclosures in this section and in the Disclaimer section referencing RenMac include all subsidiaries unless otherwise specified.

**IMPORTANT DISCLOSURES:** The analysts responsible for preparing this research report received compensation based on various factors, none of which is revenue generated by investment banking activities. RenMac is not engaged in any investment banking activities at this time. Analysts regularly conduct site and company visits to review the operations of the company and discuss financial and strategic plans with management, but RenMac's policies prohibit them from accepting payment or reimbursement for their travel expenses. RenMac produces many types of research including, but not limited to, fundamental research, quantitative research, Washington Policy, Economics and Technical Research. Recommendation in one type of research product may differ from recommendations contained in other types of research products whether as a result of differing time horizons, methodologies, or otherwise.

#### **Companies Mentioned:**

**Price target and Valuation Methodology:** Each Analyst has a single price target in all of the stocks that they cover. The price target represents that Analyst's expectation of where the stock will trade in the next twelve months.

**Guide to RenMac's Fundamental Research Rating System:** Our fundamental coverage Analysts use a relative ranking system to rate stocks as Buy, Sell or Hold (see definitions below) relative to other companies covered by the Analyst or are deemed to be in the same industry (the Analysts Coverage Universe). In addition to the stock ratings each Analyst provides an Industry Ratings which provides the outlook for the industry coverage as Positive, Neutral or Negative (see definitions below). Investors should carefully read the entire research report including the definitions of all ratings and not infer its content from ratings alone.

#### **Stock Ratings:**

**Overweight** – The stock is expected to outperform the un-weighted expected total return of the industry coverage universe over the next 12 months.

**Equal Weight** – The stock is expected to perform in line with the un-weighted expected total return of the industry coverage universe over the next 12 months.

**Underweight** – The stock is expected to underperform the un-weighted expected total return of the industry coverage universe over the next 12 months.

**Ratings Suspended** - The ratings and price target have been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and /or firm policy.

#### **Distribution of Ratings:**

As of January 23, 2024, RenMac has 8 companies under coverage.

62% have been assigned an Overweight Rating. 38% have been assigned an Equalweight Rating. 0% have been assigned an Underweight Rating. None of the companies under coverage are Investment Banking clients.

#### **Industry Rating:**

**Positive** – Industry coverage universe has improving fundamentals and valuations.

**Neutral** – Industry coverage universe has neutral fundamentals and valuations.

**Negative** – Industry coverage universe has deteriorating fundamentals and valuations.

**DISCLAIMER:** This document has been prepared by Renaissance Macro Securities LLC, a subsidiary of Renaissance Macro Holdings, LLC. This document is for distribution only as may be permitted by law. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document. The information is not intended to be a complete statement or summary of the markets, economy or other developments referred to in the document. Any opinions expressed in this document may change without notice. Any statements contained in this report attributed to a third party represent RenMac’s interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor’s individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. The value of any investment may decline due to factors affecting the securities markets generally or particular industries. Past performance is not indicative of future results. Neither RenMac nor any of its directors, employees or agents accept any liability for any loss (including investment loss) or damage arising out of the use of all or any of the information. Any information stated in this document is for information purposes only and does not represent valuations for individual securities or other financial instruments. Different assumptions by RenMac or any other source may yield substantially different results. The analysis contained in this document is based on numerous assumptions and are not all inclusive. Copyright © RenMac 2024. All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to RenMac. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of RenMac.