PRO-GROWTH JAPAN–ONE TEAM, ONE DREAM

Wisdomtree EU

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We expect added Bank of Japan (BOJ) action. With the BOJ policy board meeting last week (Oct 7) leaving monetary policy unchanged, a move at the next meeting, on October 30, is likely. That's because the key in Japan is coordination of policy, with both monetary and fiscal policy being eased together. Team Abe is very focused on reasserting the "one team, one dream" focus; so I expect a simultaneous and well-coordinated announcement of both monetary and fiscal easing.

A ¥600 Trillion Nominal Gross Domestic Product (GDP) Target for the BOJ?

It is also possible that the BOJ will accept Prime Minister Abe's newly announced nominal GDP target of ¥600 trillion—a move from a Consumer Price Index (CPI) target to a nominal GDP target is in the cards, in my view. In essence, this would mean that the BOJ promises to stay accommodative until nominal GDP hits ¥600 trillion (it currently is at about ¥510 trillion). This would not only free the BOJ from the terms-of-trade and commodity price-related volatility of the CPI but would significantly raise the commitment credibility of a coordinated all-out pro-growth policy.

A Supplementary Budget Boost

For an added fiscal boost, we expect a supplementary budget of around ¥5 trillion, with ¥1–¥2 trillion in added public works and the remainder for childcare and elderly support. It is possible that a supplementary budget proposal would be ready by October 30.

A Sizable Boost from the BOJ

For the BOJ, we expect a sizable increase in exchange-traded fund (ETF) and real estate investment trust (REIT) purchases as well as a broadening of the bond-buying mandate to include local and regional government bonds in addition to "zaito" bonds (issued by the fiscal investment and loan program administered by the Ministry of Finance); currently only national government-issued Japanese government bonds (JGB) are eligible.

For ETFs, the BOJ has purchased ¥2.49 trillion in ETFs year-to-date[1], which is roughly 83% of its ¥3 trillion target. This is well ahead of schedule—we are only 67% through the year. Expect the BOJ to double its ETF purchase budget to ¥6 trillion (from the current ¥3 trillion).

Similarly, Japanese real estate investment trust (J-REIT) purchases are also ahead of budget, with ¥76.6 billion year-to-date[2], i.e., 85% of the budgeted ¥90 billion. Expect the J-REIT budget to double as well, to ¥180 or ¥200 billion (from the current ¥90 billion).

Negative Rates?

There is some discussion about the BOJ's introduction of negative interest rates. Here, we are not convinced this will happen. A primary reason is the potentially negative impact of negative rates on the banking system's profit margins. Specifically, the upcoming privatization of the Postal Bank reduces the probability of negative rates as a policy tool in Japan, in our view.

This being said, we are moving closer to Abenomics rebuilding its pro-growth credentials. In our view, the potential for a de facto new BOJ policy regime toward nominal GDP targeting is poised to reignite global and local investor interest in yen risk assets, equities and real estate. The coming four weeks will likely be of key importance in verifying our thesis.

Investors sharing this sentiment may consider the following UCITS ETF:

WisdomTree Japan Equity UCITS ETF USD Hedged (DXJ)

All data is sourced from WisdomTree Europe and Bloomberg, unless otherwise stated.

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