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The Aerial View

Morning Briefing

A Hint From Governor Kuroda?

- **Kuroda has warned about asset price risks**
- **A debate about the BOJ's policies is growing**
- **Is Kuroda thinking about the eventual exit from QQE?**

Out of all the warnings to emerge from senior finance officials over the past month that market participants might be misplacing risk, those by Bank of Japan (BOJ) Governor Haruhiko Kuroda just over a week ago were arguably the most interesting.

Speaking at a G30 seminar in Washington, Governor Kuroda warned: "So far, heightening geopolitical risks have not led to a serious risk aversion in the market. Asset valuations remain elevated with volatility being at historically low levels." He added: "Stability in financial markets is good news. But there is a possibility that market players are complacent and not properly pricing risks, which requires attention."

On the face of it this is an uncontentious statement. However, it becomes slightly more meaningful when considered in the light of the slowly growing debate over the Bank of Japan's current monetary policy settings. On the political front, the most prominent critic

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Email >

Newswatch

1.

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2.

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of the BOJ's bond buying programme has been Tokyo Gov Yuriko Koike's Party of Hope.

> ***... it becomes slightly more meaningful when we consider the debate over the BOJ's current monetary policy settings***

However, as Reuters notes, several Liberal Democratic Party (LDP) officials have warned of the rising cost of prolonged monetary easing. There have also been growing concerns within the Japanese financial industry about the distortions being created.

Given this it is worth highlighting that Governor Kuroda's term expires in April 2018. It could therefore be argued that his statement in Washington last week could be seen as an attempt to indirectly position himself as being a little more hawkish than previously imagined.

If one of the potential causes of market players becoming "complacent and not properly pricing risks" is the availability of ultra cheap funding then the obvious solution is to start removing that funding. By highlighting this it's arguable it would give the policy board the excuse to gently shift away from focusing solely on their inflation target. No doubt some within the bank would also welcome this.

> ***... it would give an excuse to gently shift away from focusing solely on the inflation target.***

Although it seems reasonable to assume that an actual exit from quantitative and qualitative easing is still some way off, it is certainly possible to see Governor Kuroda's comment as a signal that he recognises the need to start thinking about how an exit from current

3.

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4.

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October 23, 2017

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policies might look. With the election out of the way it will be interesting to see how this develops.

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