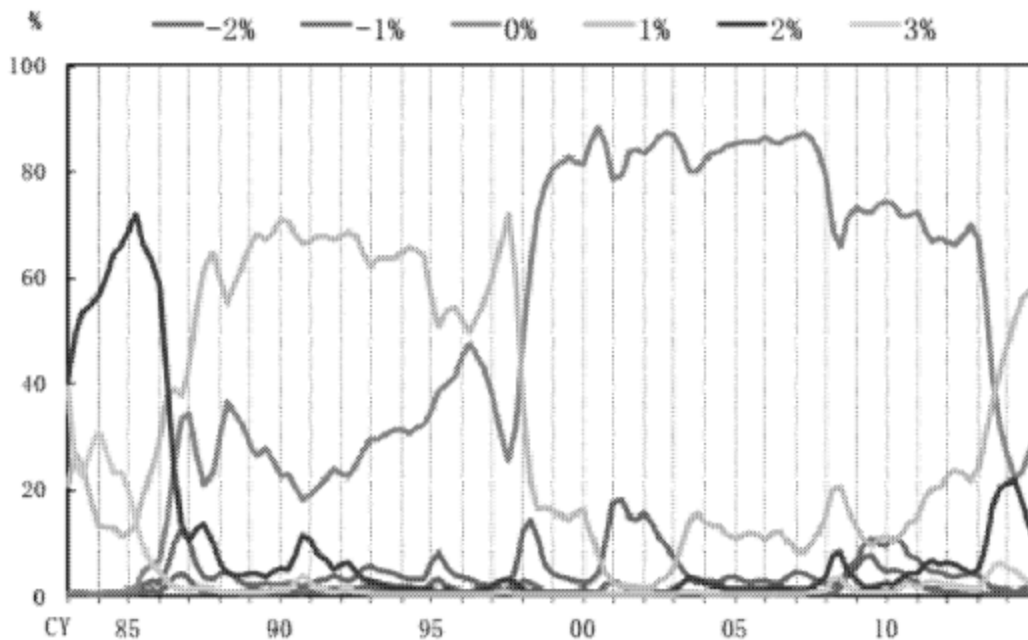


the overall results have been broadly in line with expectations "... [the] demand component data for real GDP -- particularly private consumption -- point to considerably weaker improvements than predicted," even if, on the other hand, actual increases in corporate profits and employee income have noticeably exceeded expectations. And an empirical regime-switching model that researchers at the Bank have developed shows that the likelihood of a switch in inflation to a 2% trend remains very low. In fact, it has turned down from about 20% to 10% more recently, while the probability of the trend being at 1% has risen to about 55% from less than 20% pre-2013 (chart below). That is good in so far as the probability of the trend being at zero has dropped from stably more than 80% to less than 30% today, yet that is clearly not something which Mr Kuroda will settle for.

For his part, the central bank chief is walking a tightrope. He has conceded his much vaunted original 2-year timeframe will be missed due to inflation, but clearly also feels like he cannot give the government any scope to relax on their medium-term fiscal consolidation plan, as this was an explicit precondition for the conduct and support of extraordinary monetary easing in the first place. It warrants some 3-month vol premium on yen assets and a particularly close following of domestic data and news in the interim. Both mark a sharp shift from what was always likely to be a very quiet 4 or 5 months following last December's election.



<http://www.boj.or.jp/en/mopo/outlook/gor1504a.pdf>

http://www.boj.or.jp/en/research/wps_rev/rev_2015/data/rev15e03.pdf

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