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**HASLINDA AMIN, BLOOMBERG:**

Let's bring in our guests. Andrew Balls, perhaps he'll give us more clarity. CIO of Global Fixed Income at PIMCO, his team manages over $100 billion in global bonds. Andrew, good to have you with us. Perfect timing to have you with us. Will the BOJ tweak or not?

**ANDREW BALLS, PIMCO:**

Yeah, no, it's great to be here. I'm in the right time zone today. That's for sure. I'm not sure. I thought when, earlier in the week, there were the leaks saying they would do nothing. It made me think maybe they would do something. Now the leaks are maybe they will do something. You know, maybe they won't. I'm not sure. But I agreed with what Kathleen said before, which is one way or another, the speculation today, if they make some small change, I think that that will build the expectation that we're on the way to the end of yield curve control, you know, say over the second half of this year. So that's what I expect. I think today it could be quite confusing, you know, the signal that they will allow yields to go above the 50 basis point mark without making a change. It's not obvious what the point of doing this is to me, but I would interpret that as a shift, you know, over time towards the end of yield curve control.

**AMIN:**

You either have a red line or you don't. You either defend it or you don't. If it does allow it to go beyond the half percent, what is the purpose of that? It is like removing a ceiling. Is that the way you look at it?

**BALLS:**

I guess- I think the way I would interpret that is that the BOJ wants to move away from yield curve control, but they are concerned about doing this too quickly. We started this process last December, of course, when we had the widening of the bans. I think Governor Ueda does not want to signal any great change to his predecessor, wants to signal continuity. I think over the course of this year, they will look to have greater flexibility, maybe end yield curve control. And let's see, maybe we get the signal towards that today. It's not 100% obvious to me what the point of yield curve control is at the moment, what problem the BOJ is looking to solve. I agree with the earlier comment as well that the policy rate over time is going to be very important. But yields have come down after the regional bank crisis in the US. It seems like a pretty good time if you're going to move away from yield curve control to do it. Now the end of the hiking cycle. So I don't know, from my point of view, it's a policy that they have. It's hard to get out of these things. They’re probably worried about the Australian example among other things. But it's not obvious that there's a lot of point to this strategy for me at this point.

**RISHAAD SALAMAT, BLOOMBERG:**

Andrew, in reading your notes you said, “If there's one way to really kick off an argument in your office, it is to really discuss what would happen if there is a change in yield curve control and whether it's just a mere ripple for global market, so one which is perhaps something which really rattles investors.” And which side of the coin are you on? Where do you sit?

**BALLS:**

Well, yeah, that's right. There's different views at PIMCO. So I am in the camp that I don't think that the eventual end of yield curve control is that big a deal. Overnight, we had US data, strong US data, of course, that pushed yields higher in the US. So I think this announcement today could, if we do have a move from the BOJ, is worth something for global bonds. I'm not sure it's that significant. If you go back to December when they widened the band, it was not that significant. And we're in a world where we've reprised global yields. We've reprised central bank rates, globally. From my perspective, the end of yield curve control as and when it happened would just be bringing Japan into line with the rest of the world. But that said, I have colleagues, it's often my colleagues who work on our hedge funds at PIMCO, who will be very, very sensitive to shifts in terms of the BOJ. To the extent, you believe that the BOJ has been and remains an important suppressor of global volatility. So I think it's a reasonable argument, but from my perspective, given the whole range of shocks we've seen, this is an incremental move.

**SALAMAT:**

Andrew, the thing is, Japan's economy seems to be coming back. There seems to be a bit of a sea change in confidence in the country. So shouldn't that be emboldening the Bank of Japan to do something here and get away from something which is now, in effect, pushing on a string?

**BALLS:**

So you're kind of preaching to the choir in the sense that I agree with you. It's not clear to me, at this point, given the outlook for the Japanese economy, that you still need these emergency room policies in Japan at a time when we have normalized elsewhere in the world. If you look at the behavior of Japanese swap markets, so less interest rates swap markets, so less affected by yield curve control than the JGBs. I don't see anything inappropriate in terms of what we've seen in terms of interest rates swap market pricing. So it seems like a very good time to step away from this policy. Now I should mention, I'm positioned for the end of yield curve control. So we have positions in terms of interest rates strategies and Yen currency strategies. So this is our belief. This is what we think is going to happen. But I also do think it makes sense.

**AMIN:**

Andrew, hang tight. Andrew Balls from PIMCO is sticking around.

**AMIN:**

Well, let's bring in Andrew Balls, CIO of Global Fixed Income at PIMCO. He is still with us. Of course, a part of the BOJ is also the ECB move; 25 basis points. But, of course, leaving September open. Lagarde did say that data out of Europe is looking pretty dire. What's the sense you're getting on what the next move will be?

**BALLS:**

Yeah, so the growth data is weaker as Christine Legarde said. But they are further behind the U.S. in terms of disinflation. And I think the hawkish camp at the ECB is in the driving seat. So it seems, you know, as with the Fed, they've moved into data-dependent mode here, but it seems quite plausible that they go at least one more time, you know, possibly more. And it's going to be very important to see the same trajectory for inflation confirmed in Europe that we are starting to see in the U.S.

**AMIN:**

So what does it all mean for the European bond market then?

**BALLS:**

In terms of the European bond market, the markets are expecting some further tightening, almost to full hike. I mean, it's very interesting. You see yields now in Europe, which look pretty attractive. The ECB getting, you know, maybe up to four percent. So there's been a big shift in terms of European markets. I mean going forward, we're going to be looking for the same indications as in the U.S. on inflation. But, you know, the world of negative yielding bonds is one that looks, you know, a long way back in the rearview mirror.

**SALAMAT:**

Andrew, I'll just dovetail to the BOJ and the Fed. Now, something interesting. In 1998, we had the new Bank of Japan Act that brought in the modern central bank as it is right now. Now, its only really hiked- tightened monetary policy on two occasions. I think one was in August of 2000, the next was July 2006. Now, they did that when the Fed Reserve had stopped the interest rate hiking cycle. So does this presage history repeating itself? And will- does this mean the Fed is not going to tighten anymore? And we're done there.

**BALLS:**

So, you know, I think it's data-dependent in terms of the Federal Reserve. For the next meeting, we'll get to job reports, to inflation reports. I don't have a super strong view that they may go again. They may not. I mean, clearly, after this very big cycle, we are close to the end of the, at least this phase of the cycle. But they're going to need the data to cooperate over time, particularly the labor market data. And, you know, strong data overnight, we're not yet seeing as clear a slowdown as I think as the Fed will want to see.

**SALAMAT:**

Well, absolutely. And, you know, we had that GDP read, certainly, and nothing with continuing initial claims, which suggested we're seeing any weakening in the jobs market of any import as it were. So, I guess, with this eight-week interregnum, we have to wait for Jackson Hole for Jay Powell to set his stool out again.

**BALLS:**

Yeah, so we have Jackson Hole. I don't know quite how, how, why, why, why to expect, whether to expect big indications there, because they'll have further data after that. I mean, I think, you know, they've done a very rapid rate-high cycle. They've done more than 500 basis points now over, you know, very, very quickly once they started getting going. They clearly are going to want to call an end soon and assess the impact in terms of what they have already done. I mean, the risk case, the thing I worry about myself is the risk that you don't see sufficient slowdown in terms of the data, particularly wages, the labor market data. And, in the next year, we start thinking that, you know, maybe there could be further rate hikes to come. And that's something which, where it to happen, I think would be, you know, potentially quite destabilizing for equities, credit. I think, you know, that's a big source of risk. Not our baseline. We think after they pause, it's unlikely that they'll start again. But it's a big source of risk that you need to think about when you're managing portfolios.

**AMIN:**

Andrew, how high can yields go? How do you play the curve?

**BALLS:**

So we've tended to use a range of about 325 to 425 for the US 10-year. Treasury, we're getting, you know, close to the 4% point now. And so yields, you know, start to look quite attractive here, I think, in terms of the US. And then globally, you know, the level of yields for fixed income look pretty attractive overall. But above 4%, you know, above 4.25% in particular, I think we'll want to look to add more duration risk, interest rate risk in our portfolios. And you, you know, the baseline we have is one of inflation coming down over the next few quarters. And then in that context, you know, real yields start to look on a forward basis quite attractive as well.

**AMIN:**

Andrew, thank you for being with us today. Andrew Balls, CIO of Global Fixed Income at PIMCO.