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**HASLINDA AMIN, BLOOMBERG:**

Let's bring in our guest Andrew Balls. Perhaps he'll give us more clarity, CIO of global fixed income at PIMCO, his team manages over one hundred billion dollars in global bonds. Andrew could 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 so 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 bands. 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 what 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 you know 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 to from yield curve control to do it now the end of the 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 that 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, you know really you're noticing saying 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 the yield curve control and whether it's just a mere ripple for global markets so one which is actually perhaps something which really rattles investors, and which side of the corner 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 yeild curve control is that big a deal. Overnight we had strong US data of course that pushed yields higher in the US, so you know 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 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 repriced global yields, we've repriced central bank rates globally. From my perspective the end of yield curve control as and when it happened will 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 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 the whole range of shocks we've seen, this is an incremental move.

**SALAMAT:**

Andew, 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. To that, 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 behavior of Japanese swap markets, so less interest rates swap markets, so less affected by yield curve control than the JGB's. I don't see anything inappropriate in terms of what we've seen in terms of interest swap market pricing. So you know it seems like a very good time to step away from this policy. Now I should mention you know 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 Balls from PIMCO is sticking around.

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Let's bring in Andrew Balls, CIO of Global Fixed Income at PIMCO. He is still with us, of course apart from the BOJs also the ECB moved 25 basis points but of course left September open. Lagarde did say that data out of Europe is looking pretty dire. What's the sense you're getting and what the next move will be?

**BALLS:**

Yeah so the growth data is weaker as Christine Lagarde said but they are further behind the US in terms of disinflation, and you know I think the 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, possibly more, and it's 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 US.

**AMIN:**

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

**BALLS:**

In terms of the European bond market I mean 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 pretty attractive the ECB getting you know maybe up to 4% so there's been a big shift in terms of European markets and going forward we're going to be looking for the same indications as in the US on inflation, but you know the world of negative yielding bonds is one that looks you know a long way back in the rear view mirror.

**SALAMAT:**

Andrew, I'll just dovetail to the 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. There's only really hiked a tight monetary policy on two occasions. I think one was in August of 2000, the next in July 2006. Now they did that when the Federal Reserve had stopped their interest rate hiking cycle so does this presage a history repeating itself and 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. To me clearly after this very big cycle we're close to the end at least of 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 slow down 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 in the initial claims which suggests we're seeing any weakening in the job market of any import as it were, so I guess with this eight week into (unintelligible) and 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, or 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 height 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 slow down in terms of the data, particularly wages, the labor market data, and into next year we start thinking that maybe there could be further rate hikes to come. And that's something which were it to happen I think would be, you know potentially quite destabilizing for equities, credit. I think you know that that's a big source of risk not our baseline. We think after they pause it's unlikely they'll start again but it's a big source of risk that you need to think about when you're managing portfolios.

**ADMIN:**

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 close to the 4% point now and so yields start to look quite attractive here I think in terms of the US, and then globally the level of yields for fixed income look pretty attractive overall . But above 4%, 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 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.

**ADMIN:**

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