MNI BOJ Preview – January 2026

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MNI Point Of View: Time To Assess After Dec Hike

The Bank of Japan (BOJ) is widely expected to maintain its current policy stance at the January 2026 Monetary Policy Meeting, following the December 2025 rate hike from 0.5% to 0.75%, the highest level in about 30 years. When delivering the December 25 basis point increase, policymakers signaled that further rate rises were likely “assuming the economic outlook unfolded in line with the bank’s forecasts.” Since then, economic data have been mixed: inflation remains above target, but November wage growth “surprised to the downside,” complicating the path toward further normalisation if weaker trends persist. As a result, the Bank is likely to focus on assessing “the impact of the rate hike on the economy, prices, and financial affairs,” making a near-term change in policy unlikely.

The BOJ’s cautious approach is reinforced by political developments. With a snap lower-house election expected following Prime Minister Takaichi’s announcement to dissolve parliament, major policy decisions are effectively deferred. The unification of opposition parties has also reshaped the political backdrop, limiting the Bank’s room to act decisively.

At the same time, political sensitivity around the yen is rising, as “the recent shift in language around Japanese lawmakers’ tolerance for JPY weakness suggests limits have been reached.” Governor Kazuo Ueda is therefore expected to address the risks associated with further yen depreciation and clarify how the BOJ intends to manage these risks, even if policy itself remains unchanged. The December Summary of Opinions and the 8 January branch managers’ meeting report highlighted concerns about higher-than-expected prices due to yen depreciation and fiscal developments. Officials noted that “in response to increased costs due to the recent yen depreciation, we are considering the need to pass on these costs to our customers,” reflecting growing attention to currency-linked inflation pressures. The yen weakened from the USD/JPY 155 range to around 159 amid election speculation, heightening these concerns.

Despite this, many analysts note that the BOJ is gradually shifting from a previously cautious stance toward favouring steady rate hikes, driven by a growing awareness of the risks of delayed action and the Bank’s increasing conviction that the price stability target is “steadily approaching.” A common expectation is for the next rate hike to occur in July 2026, coinciding with the confirmation of wage increases at small and medium-sized enterprises (SMEs) through surveys following spring Shunto negotiations. Wage growth at SMEs is a key factor for the BOJ, as it provides insight into broad-based inflation trends. Nonetheless, there is significant uncertainty, and the next hike “could be brought forward depending on yen depreciation.”

Market participants will closely interpret the Bank’s January Outlook Report and Governor Ueda’s post-meeting comments to gauge the pace of future hikes. The January Outlook Report is expected to incorporate the effects of the government’s economic stimulus package, modestly revising up GDP growth forecasts for FY2025 and FY2026. Inflation projections are likely to be nuanced: while energy price controls such as gasoline tax cuts and electricity subsidies could put downward pressure on headline core CPI, the BOJ is expected to keep underlying inflation forecasts largely unchanged, effectively revising up underlying trends excluding policy effects. Analysts generally agree that these adjustments will not materially alter the BOJ’s assessment of medium-term equilibrium levels for economic activity and prices, nor the process by which those levels are reached. Any such revisions are therefore likely to have negligible influence on policy conduct.

At the post-meeting press conference, Governor Ueda will likely face questions on the BOJ’s response to the Takaichi administration’s “responsible proactive fiscal policy,” as well as about yen depreciation and rising JGB yields. The Bank may view the recent rise in market expectations for the terminal rate as “a positive development,” but the continued weakness of the yen despite higher terminal rate pricing indicates that the BOJ may be lagging behind increasingly expansionary fiscal policy. Catching up may not be easy, and this remains a source of market concern. So far, the Bank has maintained a negative stance toward consecutive rate hikes due to concerns about the financial system’s ability to handle normalization after decades of low interest rates, compounded by administrative pressure from a government reluctant to raise rates. Whether recent yen depreciation prompts a change in this stance will be a key point for markets to watch.

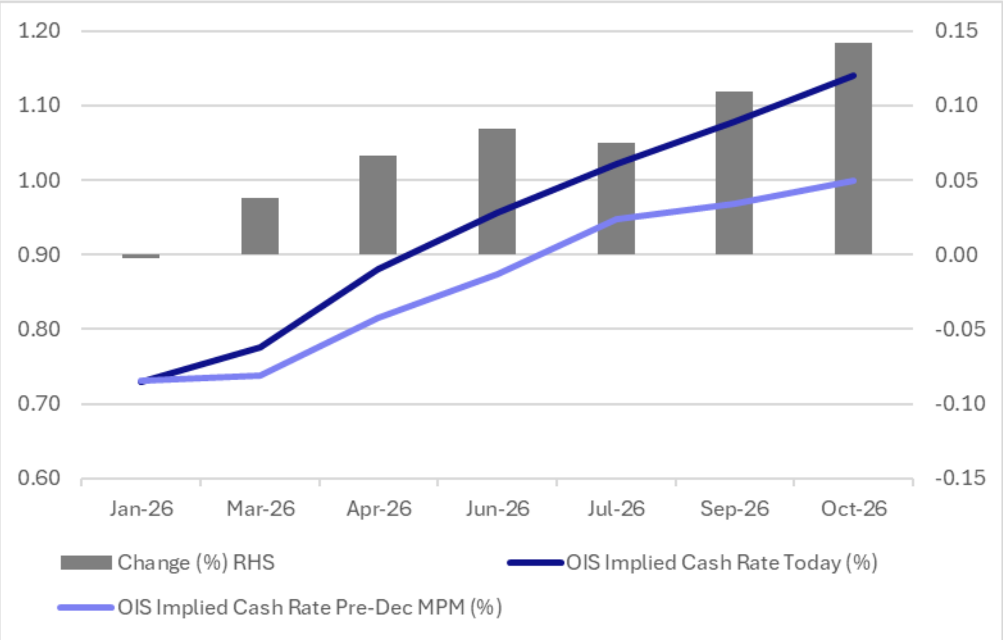
Overall, the BOJ is expected to maintain its current policy stance at the January meeting, continuing its careful, measured approach while assessing the effects of the December hike, the evolving wage-price dynamics, and political and currency developments. The focus will be on updated forecasts in the Outlook Report and Governor Ueda's guidance, which will help markets gauge the timing and pace of future rate adjustments, while broader economic conditions and fiscal developments will continue to inform the Bank's cautious approach.

BOJ Market Pricing: No Hike Friday But 25bps+ Priced For July

BOJ-dated OIS assigns a near-zero probability to a 25bp hike at Friday's meeting, consistent with the Bloomberg-surveyed analyst consensus.

- Beyond January, the curve is 4–14bps firmer than pre-December MPM levels, led by the October meeting.
- This pricing implies roughly a 19% probability of a 25bp hike in March, rising to around 115% by July and 166% by October, signaling expectations for more than one hike by late 2026.

Figure 1: BOJ-Dated OIS – Today Vs. Pre-Dec MPM



Source: Bloomberg Finance LP / MNI

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MNI POLICY: Board To Hold, Raise Growth Projection

By Hiroshi Inoue
Jan 19, 2026

TOKYO - The Bank of Japan is expected to hold the policy rate at 0.75% on Friday, seeing the economy and inflation broadly in line with its October forecast, but is likely to raise its fiscal 2026 growth projection above its last estimate of +0.7% in response to government stimulus measures aimed at boosting private demand.

Friday's decision follows December's 25-basis-point policy-rate hike, which was the Board's second increase of 2025. (See MNI BOJ WATCH: Ueda Signals More Hikes, Timing Unclear) Markets see little chance of a move this week, but BOJ overnight index swaps imply a 1.186% rate by December, with a 40% probability of a hike priced in for April.

While the core consumer price index (CPI) is likely to be dampened by the abolition of the gasoline tax surcharge and subsidies to reduce electricity and gas costs, rising demand and an improving output gap will provide upward pressure on inflation.

The combination of these factors is expected to result in only modest revisions to the inflation outlook, with the bank maintaining projections of +1.8% in fiscal 2026 and +2.0% in fiscal 2027, although the forecast for the current fiscal year will likely be revised up from +2.7%.

WEAK YEN

The board's median inflation forecast will depend on how individual members assess price trends since October and the potential impact of the weak yen on inflation.

BOJ officials remain vigilant to the possibility that the weak yen may amplify cost pass-through and reinforce inflation expectations.

In December, the bank abandoned the view that underlying CPI inflation would remain sluggish, citing the effects of government measures and a reduction in downside risks to the U.S. economy. Officials expect underlying CPI to be supported by stimulus measures, keeping the path toward the 2% target intact and enabling gradual policy tightening.

Meanwhile, the BOJ expects core CPI to remain below 2% in the first half of fiscal 2026 as food-price increases gradually ease. Officials noted that slower CPI growth could weigh on short-term household inflation expectations, but they are monitoring whether medium- to long-term expectations will remain anchored.

Corporate price pass-through and retail price revisions, expected in April, will be influenced by consumer spending, as some firms remain cautious about raising prices amid sluggish consumption.

Officials are also closely watching wage trends, including the first base pay increases from Rengo, the Japanese Trade Union Confederation, due mid-March, to assess the foundation for achieving the 2% inflation target.

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Sell-Side Views

BNY: BNY expects the BOJ to leave policy settings unchanged, with major decisions effectively deferred as Japan prepares for a snap lower-house election. With parliament likely to be dissolved on the same day and the unification of the main opposition parties reshaping the political backdrop, the central bank is seen as constrained from taking decisive action in the near term.

- However, BNY highlights a growing political sensitivity around the currency, noting that “the recent shift in language around Japanese lawmakers’ tolerance for JPY weakness suggests limits have been reached.” As a result, Governor Kazuo Ueda is expected to address the risks associated with further yen depreciation and provide greater clarity on how the BOJ intends to manage those risks, even if policy itself remains unchanged.

CBA: “We expect the Bank of Japan (BOJ) to keep its policy rate unchanged at 0.75% after raising it by 25bp in December. Governor Ueda said at the last meeting that the BOJ will assess how the new policy rate affects the economy, suggesting caution about hiking further in the near term.”

CIBC: CIBC expects the BOJ to hold the policy rate at 0.75% this week, with guidance skewing dovish relative to market expectations, even as the Bank slightly upgrades its CPI and GDP forecasts. Governor Ueda is expected to remain neutral and vague on yen weakness, pushing back against recent speculation that JPY depreciation could bring forward rate hikes.

- CIBC’s reasoning for neutral exchange-rate guidance runs counter to recent media leaks and is supported by analysis highlighted by Max Lin in FX Weekly Asia (Jan 16, 2026). As noted, “the correlation between core-core CPI and JPY weakness has eased recently, and the lags are very long,” allowing the BOJ to focus on the recent easing in economic data rather than reacting directly to the currency.
- From a market perspective, CIBC expects USD/JPY to rally on the announcement, but to remain capped below 160, a level at which intervention is viewed as increasingly likely.

Daiwa: Daiwa expects the BOJ to keep policy unchanged at the January 22-23 Monetary Policy Meeting, as the Bank continues “carefully assessing the impact of its previous rate hike.” Recent reports, including the 8 January branch managers’ meeting, highlighted robust wage-setting and signs of disinflation, suggesting that the economy and prices are evolving as anticipated.

- The December Summary of Opinions showed growing concern over higher-than-expected prices from yen depreciation and fiscal developments. The branch managers’ report noted that “in response to increased costs due to the recent yen depreciation, we are considering the need to pass on these costs to our customers,” reflecting rising attention to inflationary pressures linked to currency movements.
- Daiwa notes that the BOJ will likely emphasise two conditions before hiking rates: “verification of impacts following the December 2025 rate hike” and “wage increase results from the 2026 spring labour-management wage negotiations, along with the extent to which higher wages are feeding through to higher prices.” If these conditions are met and underlying inflation moves toward 2%, the BOJ would likely proceed with another hike to 1%, following a baseline scenario of roughly one hike every six months.
- However, if higher-than-expected prices become more pronounced, especially due to yen depreciation, an earlier-than-planned hike becomes more plausible. Bloomberg reported on 15 January that yen weakness “could increase the likelihood of achieving the Bank’s price stability target and/or lead to an earlier rate hike.” Under this scenario, April 2026 could be a viable timing, coinciding with new FY28 projections and the first tally of spring wage negotiations. Market participants will likely interpret the pace of future hikes based on the Outlook Report and Governor Ueda’s post-meeting comments.

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DBS: DBS expects the BOJ to maintain its current policy stance, with Governor Ueda reiterating a medium-term normalisation outlook while stressing that policy remains "data-dependent."

- DBS argues that political uncertainty and heightened market volatility ahead of the February snap election will keep the BOJ cautious on near-term changes. As a result, the Bank is likely to favour "a wait-and-see approach," with policy settings expected to remain unchanged at least until April.

Danske: "We do not expect the Bank of Japan to make policy rate changes early Friday morning after the December hike. Markets do not price in any possibility for a policy rate move. Japanese PM Sanae Takaichi could formally announce a snap election next week, with tentative election date set for 8 February."

Goldman Sachs: Goldman Sachs expects the BOJ to maintain the status quo at the January Monetary Policy Meeting, noting that the December rate hike was recent and the Bank is still assessing its impact on the economy, prices, and financial conditions. As a result, policy is likely to remain unchanged in the near term.

- However, Goldman argues that the BOJ is gradually shifting away from a highly cautious stance toward one that favours steady rate hikes. The January Outlook Report is expected to reiterate that "given that real interest rates are at significantly low levels," the Bank will "continue to raise the policy interest rate and adjust the degree of monetary accommodation" as economic activity and prices improve. Goldman believes the updated outlook will reinforce that achievement of the price stability target is "steadily approaching," increasing the BOJ's awareness of "the risks of delayed rate hikes."
- Goldman's base case is that the next rate hike occurs in July 2026. This timing reflects the BOJ's focus on achieving stable 2% inflation accompanied by broad-based wage growth, including at small and medium-sized enterprises. Wage increases at SMEs are typically determined over the summer, allowing the BOJ to confirm trends via surveys in July, after shunto wage negotiations at large firms.
- That said, Goldman emphasises that there is significant uncertainty around the timing. The next hike "could be brought forward depending on yen depreciation." The bank argues that the BOJ's December 2025 hike was partly aimed at addressing yen weakness, even though January 2026 would have allowed more confirmation of wage momentum. Looking ahead, Goldman does not rule out another earlier move if USD/JPY depreciation intensifies and currency dynamics become a greater policy concern.

JPM: JPMorgan expects little chance of a policy change at the upcoming BOJ meeting, with attention focused on the Outlook Report and Governor Ueda's press conference for clues about the next rate hike. The bank continues to anticipate that the next hike will come in April, once the results of spring wage negotiations, including those at SMEs, become clear.

- The January meeting coincides with Prime Minister Takaichi's announcement to dissolve the Lower House on January 23, which has already pushed up long-term JGB yields and USD/JPY. JPMorgan notes that "the tone of the BOJ Governor's press conference scheduled for the same day as the dissolution is drawing considerable market interest," but expects the Bank to maintain its current policy stance, given the challenges of navigating both JGB and FX markets simultaneously.
- The Governor is likely to face questions on the administration's "responsible proactive fiscal policy," yen weakness, and rising JGB yields. JPMorgan observes that while the recent rise in terminal rate expectations is "a positive development," the continued yen weakness suggests the BOJ may be lagging behind fiscal expansion, and catching up "may not be easy." So far, the Bank has stayed negative on consecutive rate hikes due to concerns about the financial system and ongoing administrative pressure.

- The Outlook Report is expected to be revised upward. JPMorgan notes that the BOJ's prior caution, citing US tariff risks, is now outdated. Given domestic and global resilience, the Bank will likely "slightly revise up its growth forecast and bring its risk balance to neutral," using the supplementary budget as a rationale. The inflation outlook is more complex: gasoline tax cuts and electricity subsidies, previously unaccounted for, may normally lower the forecast, but the BOJ is expected to keep inflation projections largely unchanged, effectively revising up underlying inflation forecasts excluding policy effects.

Mizuho: Mizuho expects the BOJ to keep the policy rate at 0.75% at the January Monetary Policy Meeting, given how little time has passed since the December hike. The Bank is likely focused on monitoring developments in growth and inflation, as well as financial market reactions. Yen weakness, partly driven by political uncertainty and speculation about a possible Lower House dissolution, is a concern but "does not warrant an immediate rate increase."

- The December Summary of Opinions was generally hawkish, with Board members noting that the weak yen and "the prevailing low level of real interest rates would likely keep future policy adjustments within the scope of 'adjusting the degree of accommodation,'" suggesting that many members are already considering the next rate hike.
- Mizuho notes that the timing of the next hike is uncertain, as the BOJ does not appear to have a specific date in mind. Based on the pace of prior tightening, the June or July 2026 meetings—roughly six months after December 2025—are seen as the most plausible, with July slightly more likely. This timing would allow the Bank to verify the impact of the December hike and coincide with the release of the Outlook Report, providing updated growth and inflation forecasts to guide further policy decisions.

MUFG: MUFG expects the BOJ to leave the policy rate on hold at 0.75% at the January 22-23 Monetary Policy Meeting, alongside the release of the latest Outlook for Economic Activity and Prices. The Bank recently raised rates in December, when Governor Ueda stated that "We intend to proceed while carefully observing the response of the economy, prices, and financial conditions to adjustments in interest rates." With the effects of the December hike only coming into play from February and spring wage negotiations just starting, MUFG sees it as too early for another tightening move. Recent yen weakness is attributed largely to election-related speculation, or the "Takaichi trade," which the BOJ is expected to monitor calmly.

- Key points to watch include any revisions to the baseline scenario in the Outlook Report, Ueda's comments on yen weakness at the post-meeting press conference, and potential BOJ statements of solidarity with the Federal Reserve. MUFG does not anticipate major changes to the baseline scenario, though it expects subtle adjustments in language around the timing for achieving the 2% price target, possibly changing "in the second half of the projection period" to "from around the middle of the projection period onward."
- MUFG projects upward revisions to real GDP growth in FY25 and FY26 due to reduced US tariff uncertainty and the effects of the government's economic package, estimating growth around 0.9% for FY25 and 1.0% for FY26, with FY27 held at 1.0%. Core CPI forecasts are expected to remain broadly unchanged, though FY26 may be nudged slightly higher to 1.9% in light of yen weakness and proactive corporate pricing. For the balance of risks, MUFG expects the BOJ to consider risks to prices "generally balanced" while revising risks to economic activity from "skewed to the downside for FY26" to "generally balanced."

Scotiabank: Scotiabank expects no policy rate change at the upcoming BOJ meeting, noting that the Bank “tends to act in measured, gradual ways” and that guidance may be more important than action. With new forecasts being issued, coupled with Governor Ueda’s comments, markets may gain clues on the policy path, with the next hike priced in by summer.

- Political developments complicate the backdrop. Prime Minister Takaichi is widely expected to dissolve the Lower House and call a snap election in early February, aiming to secure a single-party majority for the Labour Democratic Party. A disciple of former PM Shinzo Abe, Takaichi favours aggressive fiscal stimulus, which puts upward pressure on yields given Japan’s high public debt.
- Scotiabank notes that the BOJ will “stay out of the politics for now” but will remain attentive to economic signals, including a weakening yen and its potential pass-through to inflation, as well as the upcoming Shunto spring wage negotiations. These wage talks are expected to continue the pattern of strong gains for less than 20% of Japanese workers, providing additional context for the Bank’s cautious, measured approach to policy.

Société Générale: Société Générale expects the BOJ to maintain its current policy stance at the January meeting, following the December rate hike from 0.5% to 0.75%, the highest in 30 years. The Bank is likely to focus on assessing “the impact of the rate hike on the economy, prices, and financial affairs,” making a near-term change unlikely.

- The January meeting will also feature the release of the Outlook for Economic Activity and Prices. Société Générale expects upward revisions to the growth forecasts for FY25 and FY26, reflecting ¥21.3 trillion in economic measures, lower uncertainty regarding the US economy, and easing US tariff concerns. For the price outlook, temporary policy measures such as the abolition of the provisional gasoline tax and electricity subsidies may put downward pressure on core CPI for FY25 and FY26. However, the Bank is expected to consider these temporary, noting that “underlying inflation…will remain in a gradual upward trend,” with core-core CPI forecasts likely unchanged from October.
- Looking ahead, Société Générale expects the BOJ to raise rates to 1% in June or July, as underlying inflation approaches 2% by mid-year. Headline inflation may fall to the mid-1% range due to base effects and policy measures, but underlying inflation is supported by medium- to long-term inflation expectations in nonmanufacturing sectors, stable real wage growth around 1%, and gradually recovering consumption.
- A key risk is further yen weakness. Société Générale notes that if the BOJ judges that a weaker yen is beginning to affect underlying inflation and inflation expectations, “the timing of the next rate hike may be brought forward to April.” Overall, the BOJ is expected to maintain policy for now while monitoring economic and financial developments closely.

TD: TD expects market focus at the upcoming BOJ meeting to be on the Bank’s new economic forecasts, which could provide hints about the timing of the next rate hike. The combination of Prime Minister Takaichi’s stimulus measures and recent yen weakness may lead to upward revisions in both the economic and inflation outlook.

- However, TD notes that Governor Ueda is “unlikely to give clarity on the timing of the next hike” at this stage. The bank views any near-term tightening as premature, arguing that unless USD/JPY moves toward 170, a rate increase as early as April 2026 would be unlikely.

Wells Fargo: Wells Fargo expects the BOJ to keep rates on hold at 0.75% at its upcoming meeting, following two hikes last year that brought policy to its highest level since 1995. When delivering the December 25 bps increase, policymakers signaled that further rate rises were likely “assuming the economic outlook unfolded in line with the bank’s forecasts.” Since then, data have been mixed: inflation remains above target, but November wage growth “surprised to the downside,” potentially complicating further normalisation if weaker trends persist.

- The yen has also weakened recently amid speculation that Prime Minister Sanae Takaichi may call a snap election, which could enable aggressive fiscal stimulus. Wells Fargo notes that “a weaker yen could feed through to higher imported inflation, weighing on consumption.”
- For now, the BOJ is expected to remain on hold, but Wells Fargo’s baseline forecast anticipates “one additional 25 bps rate hike in Q3-2026.” The bank sees the balance of risks tilted toward an earlier move, with the possibility of another 25 bps hike thereafter, potentially bringing the policy rate to 1.25% by year-end.

Westpac: Westpac expects the BOJ to keep policy on hold as it continues to assess economic conditions. Recent comments suggest that if the economy evolves as expected, “a further rate hike could occur this year,” potentially as soon as Q2 2026, supported by a sustained “virtuous cycle of wages and prices” and evidence of demand-driven inflation pressures.

- A key risk is yen weakness, which recently reached a 12-month high of 159.14 against the US dollar. Officials have highlighted that “a weak yen could feed through to imported inflation,” which in turn may prompt consumers to curb spending, thereby muting demand-driven inflation.

UniCredit: UniCredit expects the BOJ to keep its key rate unchanged at 0.75% following the December 25 bps hike, the highest in about three decades. The Bank is likely to want to confirm that “the upward pressure in the wage-price cycle is sustainable” before considering further increases.

- The focus of the meeting will be on the updated inflation and growth forecasts in the BOJ’s outlook report. Financial markets will also pay close attention to Governor Ueda’s press conference for any language indicating that “rate hikes could resume.” Key factors to watch include the yen and its potential inflation pass-through, as well as the March Shunto wage round, Japan’s annual economy-wide pay negotiations.