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All Signal, No Noise

MARKET ANALYSIS

MNI BoJ Preview – July 2025

Meeting Date: Wednesday July 30 to Thursday July 31, 2025.

Statement Release Time: N/a

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MNI Point Of View: Focus On Presser After Trade Deal

The two-day Bank of Japan (BoJ) policy meeting concludes on 31 July, with the central bank set to release its quarterly “Outlook for Economic Activity and Prices”, its monetary policy statement, and hold a press conference with Governor Kazuo Ueda.

The BoJ is widely expected to keep its policy rate unchanged at 0.5% for a fourth consecutive meeting, amid signs of easing trade-related uncertainty since its June meeting.

On 23 July, Japan and the U.S. reached a tariff agreement under which:

1. Reciprocal tariffs were set at 15% on imports from Japan.
2. The sector-specific 25% tariff on automobiles was reduced to 12.5%, effectively resulting in a 15% total rate.

This deal has been viewed by some analysts as a significant reduction in tariff-related uncertainty, which should help mitigate downside risks to the Japanese economy and inflation. Others remain more cautious, suggesting the BoJ is likely to maintain its current stance, emphasizing the continued need to assess the broader impact of tariffs on domestic prices and growth.

In his 23 July remarks, BoJ Deputy Governor Uchida called the deal a “huge step forward” in reducing uncertainty and noted it increased the likelihood of achieving the Bank’s economic outlook, including the 2% price stability target. Still, he acknowledged that uncertainty remains, particularly due to other ongoing global trade negotiations.

Given there is no immediate need to raise rates, the BoJ is expected to maintain a wait-and-see approach. Most analysts continue to see late 2025 / January 2026 as the likely timing for the next rate hike. However, timing remains fluid. A delayed hike could result if global uncertainties persist or if weaker exports put pressure on wages and prices. Conversely, a faster move could be triggered by yen depreciation or stronger-than-expected resilience in exports and corporate earnings.

In the upcoming Outlook Report, the BoJ is expected to revise up its FY2025 and FY2026 growth forecasts, reflecting lower auto tariffs and stronger global economic momentum. Inflation forecasts may also be raised due to larger-than-expected food price increases, though the Bank is likely to retain its view that core inflation will only reach 2% sustainably in the second half of FY2026 or into FY2027.

Markets will pay close attention to Governor Ueda’s tone during the post-meeting press conference. Ueda has maintained a cautious stance since May, but if the forecasts and risk assessments are revised higher, there’s a high likelihood his tone may shift. A less cautious tone could fuel speculation that the BoJ’s next rate hike may come as soon as September, rather than October as currently expected.

However, with OIS markets pricing in a 65% chance of a 25bp rate hike by end-2025, the bar for a hawkish surprise is high. As a result, even a mild shift in tone could be interpreted as dovish, relative to expectations.

Japan BoJ Meeting Times – 2024 / 2025

The table below presents the BoJ policy announcement times back to the start of 2024. This is local time but also other key time zones. The general rule of thumb is the later the meeting time announcement the greater the likelihood of either a policy shift or that something is being actively debated by the board.

	Local Time	BST	AEST	US EST
Jan 23 (2024)	12:09PM	03:09AM	2:09PM	10:09PM
Mar 19	12:36PM	03:36AM	2:36PM	11:36PM
Apr 26	12:22PM	04:22AM	1:22PM	11:22PM
Jun 14	12:23PM	04:23AM	1:23PM	11:23PM
Jul 31	12:56PM	04:56AM	1:56PM	11:56PM
Sep 20	11:52AM	03:52AM	12:52PM	10:52PM
Oct 31	11:48AM	02:48AM	1:48PM	10:48PM
Dec-19	11:52AM	02:52AM	1:52PM	9:52PM
Jan 24 (2025)	12:23PM	03:23AM	2:23PM	10:23PM
Mar 19	11:25AM	02:25AM	1:25PM	10:25PM
May 1	12:02PM	04:02AM	1:02PM	11:02PM
Jun 17	12:31PM	04:31AM	1:31PM	11:31PM

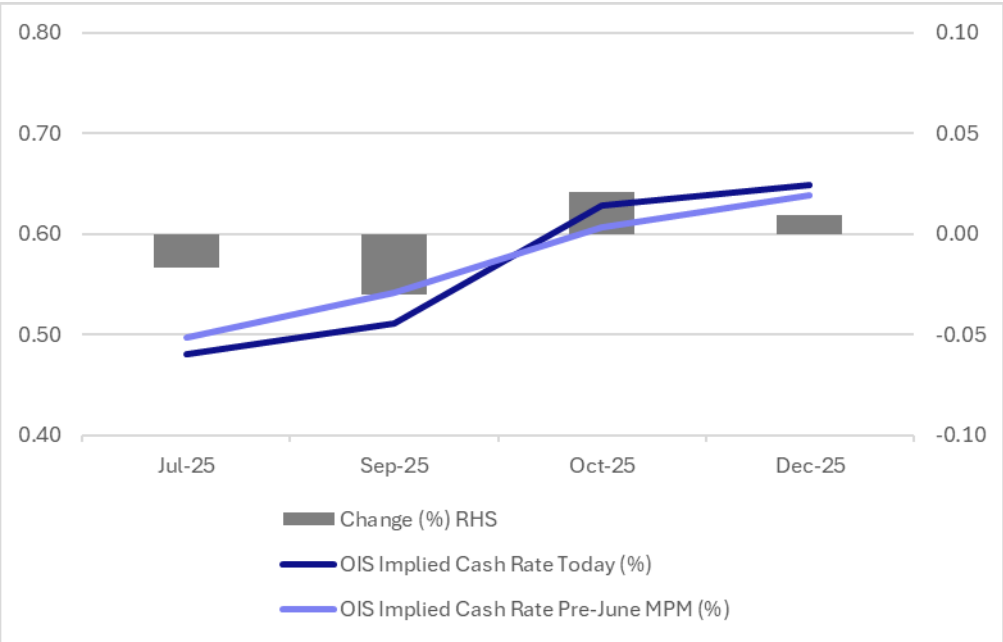
Source: Bloomberg Finance L.P/MNI

BoJ Market Pricing: Priced For BoJ Caution

At the time of writing, BoJ-dated OIS pricing was slightly mixed across meetings compared to pre-June MPM levels, reflecting continuing uncertainty regarding economic growth, driven largely by recent external shocks — particularly changes in US tariff policy.

- Markets are positioned for a cautious, wait-and-see approach from the BoJ at this meeting.
- Current OIS pricing implies just a 1% probability of a 25bp hike this week, rising to 13% by September and 64% by December — a notable shift from mid-February, when a hike by September was fully priced in.

Figure 1: BoJ-Dated OIS – Today Vs. Pre-June MPM



Source: Bloomberg Finance LP / MNI

MNI BoJ WATCH: Hold Likely As Tariff Impact Assessed

By Hiroshi Inoue
Jul 24, 2025

TOKYO - The Bank of Japan is likely to keep its benchmark rate unchanged at 0.50% at its two-day meeting ending on Oct 31 as policymakers continue to assess the impact of U.S. tariffs on activity and inflation, though the number of board members who see downside risks to prices this fiscal year may decrease from six in the BoJ's last Outlook Report.

The board is likely to raise its median inflation forecast from the 2.2% made in April after an increase in rice prices and the pass-through of high labour and distribution costs fed through to higher-than-expected consumer price data.

Nonetheless, bank officials see no need to hurry to raise the policy interest rate, as they maintain their view that the year-on-year increase in CPI is likely to slow, though their view of the timing of this deceleration has been pushed back. While tariffs are likely to crimp profits and reduce pressure for wage increases, a counterbalancing factor comes from a probable increase in government spending in the wake of the poor showing for the governing party in upper house elections. (See MNI POLICY: BoJ Expects US Tariffs To Pressure Japan Profits)

The next BoJ rate increase remains unlikely before December or January.

TARIFF IMPACT ON PROFITS

Officials' initial expectation is that U.S. tariffs will squeeze firms' profits, limiting the scope for wage increases next year despite this year's increase in inflation, the usual benchmark for determining pay. Japanese manufacturers, particularly carmakers, are mainly absorbing the tariff impact through profits.

The BoJ is likely to maintain its overall view that the risk to inflation is to the downside this fiscal year, and that underlying CPI inflation is likely to be at a level generally consistent with the price stability target in the second half of the projection period.

Policymakers are focused on upcoming data, particularly the September Tankan survey due on Oct 1, to determine the impact of the tariffs, though early analysis of the implications for corporate profits and inflation should be incorporated into the Outlook Report due on July 31.

While June's Tankan indicated only limited impact from U.S. tariffs on corporate profits and business plans, which are key for next year's wage rises, Japan and the U.S. have since reached a deal to lower "reciprocal" tariffs from 25% to 15%.

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Sell-Side Views

CBA: **"**We expect the Bank of Japan (BoJ) to keep its policy rate unchanged at 0.5%. Trade uncertainty has eased since the last meeting in June. The Japanese government has secured a 15% US tariff rate, including on autos. Financial markets will closely scrutinise the post-meeting communication to gauge the BoJ's appetite for interest rate hikes. The BoJ will also update their GDP growth and inflation forecasts at this meeting."

Daiwa: "On 23 July, Japan and the US reached an agreement on tariffs in which (1) reciprocal tariffs were set at 15% on imports from Japan and (2) the additional sectoral tariff of 25% on automobiles was halved to 12.5%, resulting in an effective tariff rate of 15%."

- "We view the following two points as important regarding requirements for the BoJ's next rate hike: (1) neutralization of downside risks to the economy and prices (i.e., reduced uncertainty about tariffs) and (2) careful assessment of the impact of tariffs on the Japanese economy and prices. The latest agreement is expected to significantly reduce tariff-related uncertainties in Japan and the US, which should mitigate the negative impact on the Japanese economy and prices."
- "Under the circumstances, the BoJ is likely to decide to maintain the status quo on the policy interest rate at the Monetary Policy Meeting (MPM) on 30-31 July. While it is likely to maintain its stance regarding raising rates in the future, the central bank will probably emphasize that there is a high level of uncertainty given the continued need to discern the impact of tariffs."
- "In the Outlook Report, the projection for the FY25 economic growth rate is expected to be revised upwards slightly from +0.5% to +0.6%, but forecasts for FY26 and FY27 are likely to remain unchanged. This upward revision reflects the fact that the impact from tariffs has not materialized as much as initially expected."
- "Price projections are also expected to be revised upwards, particularly due to rising food prices. Projections for core CPI are expected to be +2.5% for FY25 (previously +2.2%) and +1.8% for FY26 (+1.7%), but the projection for FY27 is expected to remain unchanged."
- "Regarding risk balance, the previous Outlook Report stated that risks to economic activity and prices were "skewed to the downside." In light of the progress made with the US/Japan tariff agreement, we forecast that the assessment will be revised to state that "risks are balanced" for FY25 and FY26."

Goldman Sachs: "The BoJ will hold its upcoming monetary policy meeting (MPM) on July 30-31, when it is also scheduled to release its July Outlook Report."

- "Since the April Outlook Report, hard data on Japan's economy has been firm, but micro data suggests the impact of tariff hikes is starting to be seen in exports and capital investment (e.g., a decline in overseas orders and postponement of capex). On the inflation front, price hikes have become more commonplace, notably for food products."
- "In the next Outlook Report, we expect the BoJ to revise up its FY2025 and FY2026 growth forecasts slightly, to reflect several factors including the reduction in auto tariffs and stronger-than-expected overseas economies. We also look for it to revise up its FY2025 and FY2026 inflation forecasts in view of larger-than-expected price increases for food products. However, we think the BoJ will maintain its scenario that underlying inflation will reach 2% in the second half of the BoJ's projection period (from 2H FY2026), and will take the view that while inflation in FY2026 will be below 2%, it will reach 2% in FY2027."
- "Having judged that uncertainties surrounding the central outlook are high, the BoJ is likely to maintain its assessment that downside risks to the economic and price outlook are large. We expect the BoJ to maintain its stance on gradual policy rate hikes, but we assume no change at the July meeting from the perspective of risk management."

- “While uncertainty is still high (although reduced somewhat), and with no particular need to urgently raise the policy rate, we expect the BoJ to maintain its wait-and-see stance as a precautionary measure. The January MPM remains our base case for the next rate hike.”
- “However, uncertainties surrounding the timing of the next rate hike are high. Depending on US tariff policy and overseas economic developments, we see risk of a delay. On the other hand, if the downward pressure on wages and prices via lower exports and exporter earnings is not as strong as the BoJ had anticipated, or if the yen were to depreciate, the next rate hike could be sooner than anticipated.”

JPM: “We expect no policy changes at this week’s BoJ policy meeting. The focus will be on the forecast changes in the BoJ’s Outlook Report and the tone of the Governor’s press conference regarding future rate hikes. Our expectation since the May meeting is that the BoJ will revise its inflation forecasts upward at this meeting, paving the way for a rate hike in October. The likelihood of this has increased with the agreement reached in the US-Japan tariff negotiations this week.”

- “We have consistently expected that the BoJ’s inflation forecasts, which were revised down at the May meeting, will be revised up again in July. In fact, data released since May has shown that corporate sentiment, which had temporarily deteriorated significantly, is recovering, and strong inflation momentum continues, clearly contradicting the BoJ’s May forecast. Furthermore, the US-Japan tariff deal announced last week should have significantly reduced the uncertainty that the BoJ has been emphasizing. While the BoJ will likely continue to assert that uncertainties related to the outlook for global demand - particularly from the US - and corporate responses to tariffs remain, it will also likely acknowledge that uncertainty has decreased significantly compared to the past few months.”
- “The main focus will be on Governor Ueda’s tone at the press conference. Governor Ueda has maintained a cautious tone since May, consistent with the May Outlook Report. However, if the forecasts and risk bias in the new Outlook Report are revised upward as we expect, we see a high possibility that Governor Ueda’s tone will change. We will pay attention to the degree of this change in tone to see if there is any risk of advancing our expected October rate hike to September.”
- “We do not believe that the recent rise in political uncertainty will be a major obstacle to the BoJ’s gradual policy normalization. Rather, we think the BoJ is likely to recognize that public dissatisfaction with prolonged high inflation and the weak yen has contributed to the recent political turmoil. We continue to closely monitor how the BoJ, which is known as the “guardian of prices”, will address this, as it will be a decisive factor in determining the future course of its gradual policy normalization.”

Mizuho: “The BoJ should be in a somewhat better position to contemplate further normalization of its policy rate now that uncertainty over the US-Japan trade situation has been dispelled to some degree. Uchida did in fact assert in his 23 July press conference that this easing of uncertainty has increased the likelihood of realizing the envisaged outlook, but also suggested that the central bank will be in no particular hurry to hike given that there are still big question marks vis-à-vis the trajectories of the Japanese and global economies.”

- “Governor Ueda has taken quite a cautious and generally dovish tone in each of his previous two post-meeting press conferences, insisting that the BoJ's intention is as yet to remain in normalization mode but meanwhile emphasizing the need to wait and see how US-Japan trade negotiations might pan out.”
- “This time around it is possible that he might echo Uchida's 23 July remarks by characterizing the US-Japan trade deal as a step in the right direction (pointing to an increased likelihood of achieving the BoJ's baseline scenario), but we do not expect him to hint at any urgency for a rate hike given that there is as yet still so much that needs to play out (including US negotiations with most of its other trading partners).”
- “Our macro team's main scenario is still for the next hike to come at the October meeting when the next Outlook Report update is due, with the next quarterly meeting of BoJ branch managers earlier that month likely to offer considerable insight into wage trends, hikes in services prices at the start of 2H FY2025, and the likelihood of Japan being able to maintain a "virtuous cycle between wages and prices" even after Trump tariffs have taken effect.”

MUFG: "We project the Bank will leave the policy rate on hold at 0.5% for a fourth consecutive meeting. The US-Japan trade agreement that was suddenly announced on July 22 (US time) reduces the uncertainty surrounding tariff rates and increases the likelihood of achieving the 2% price stability target in a sustainable and stable manner. That said, the 15% rate the two countries agreed upon is still higher than it was prior to "Trump 2.0," and assessing its impact on the real economy will probably take some time."

- "Additionally, the domestic political situation remains highly turbulent following the loss of the ruling coalition's majority in the Upper House election. While the BoJ was probably relieved by the announcement of a trade agreement, we expect it to maintain a cautious view on the outlook for economic activity and prices at this meeting."
- "We do not anticipate any major revisions to the BoJ's baseline scenario in the last Outlook Report, which was released at the April 30-May 1 MPM."

Scotiabank: "The Bank of Japan delivers its latest policy decisions with updated projections on Thursday. Markets are priced for no move and consensus unanimously expects no change to the 0.5% target rate. Markets only begin to raise pricing for another rate hike by the October and December meetings and even at that fall shy of full cut pricing."

- "Key will be the forecasts and Governor Ueda's guidance. Ueda may continue to generally guide openness toward eventual further policy tightening. Whether he should or not is another matter. One issue is whether past forces that contributed toward raising inflation that justified tightening will persist or not."
- "Are Shunto wage gains not really filtering through to more of the workforce than the under 20% of workers who benefit from the union agreements? Perhaps, but the BoJ will need more evidence than two reports as it refreshes forecasts and guidance at next week's decision when it is expected to remain on hold."
- "A second issue is how the BoJ views the recent trade 'deal' with the US. It certainly won't criticize the government's deal, but will it sound more upbeat on reduced uncertainty or still cautious and circumspect? You could argue both ways."
- "Third, political uncertainty is hanging in the air. After losing both the lower house election last October and the upper house election this month, PM Ishiba is walking a fine balance in terms of support within his weakened coalition. That could carry implications for other policy arenas, like fiscal policy and immigration particularly as an antiimmigration far right party ascends."

Societe Generale: "The Bank of Japan is likely to decide to keep the status quo on monetary policy at its July meeting. Deputy Governor Uchida said on 23 July that the Japan-US agreement is a huge step forward, and that it would reduce uncertainty surrounding tariff policy for the Japanese economy. He went on to say that the certainty of achieving the 2% price stability target has increased."

- "He also said that it is necessary to look at future risks in both directions, and that while the Japan-US agreement will lead to less uncertainty, the BoJ also needs to continue to look at these downside risks. Taking these comments into consideration, we believe the BoJ is likely to decide to keep policy rates unchanged at its July meeting."
- "In addition, the BoJ will release its Outlook for Economic Activity and Prices, i.e. its Outlook Report, alongside the July meeting. We expect the outlook for inflation and economic growth to be revised upwards. Given that food prices are currently performing better than expected and crude oil prices are rising due to the worsening situation in the Middle East, the inflation forecasts will be revised upwards, especially for FY25. At the same time, given that an agreement has been reached in the Japan-US tariff negotiations, the growth forecasts may also be revised slightly upwards."
- "Going forward, we continue to believe that the BoJ will raise its policy rate to 0.75% in October. The key factor for the October rate hike will be whether the FY26 growth rate forecast indicated in the October Outlook Report will return to the 1% level it was at in January. The background to this is that Governor Ueda mentioned in the May and June meetings that even if there were no improvement in the current data,

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if the BoJ judges that some event had increased the likelihood that the underlying inflation rate will reach 2% in the future, it will decide to raise the policy rate."

UniCredit: "The BoJ is expected to keep its policy rate at 0.50% on Thursday, and inflation forecasts will probably be revised upwards. The tariff deal with the US – which includes a 15% tariff on imports from Japan – and its impact on the Japanese economy, as well as political uncertainty after the outcome of the upper house election and PM Shigeru Ishiba denying reports of his resignation, suggest that the central bank is not in a rush to resume tightening. BoJ Governor Kazuo Ueda's press conference will be an important means of gauging the BoJ's intentions. We expect another 25bp rate hike to 0.75% to be delivered later this year, as Japanese inflation is still high."

TD: "A US-Japan trade deal was struck, but we expect the BoJ to stand pat as Japan enters a phase of political uncertainty after the poor showing of the ruling coalition in the Upper House elections. That said, Gov. Ueda may signal a hike in Oct is still on the table since inflation is running at a 30-year high and we will have more clarity on both trade and politics by then."

Westpac: "The Bank of Japan is anticipated to hold rates steady at its July meeting this week. While it is expected that the BoJ will revise its inflation outlook upwards, this should not be interpreted as a signal for an imminent rate hike."

- "Policymakers are expected to remain cautious, waiting for clear evidence that inflation is translating into sustained wage growth before taking action and that the economy is on track to grow as anticipated. Much of the current inflation is being driven by supply-side shocks which won't promote rate rises in the near term. Against a backdrop of political uncertainty, the BoJ is likely to maintain a dovish stance, reaffirming its commitment to supporting the economy. We continue to expect a March 2026 hike."