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All Signal, No Noise

MARKET ANALYSIS

MNI BoJ Preview – June 2025

Meeting Date: Monday June 16 to Tuesday June 17, 2025.

Statement Release Time: N/a

Link To Statement: https://www.BoJ.or.jp/en/mopo/mpmsche_minu/index.htm/

Contents

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MNI POV (Point Of View): Focus On Future Rate Hikes & QT

The Bank of Japan (BoJ) is set to hold its Monetary Policy Meeting (MPM) on June 16–17, and although no changes are expected to the current policy rate of 0.50%, the meeting may still prove impactful for both domestic and global markets. The BoJ's focus will likely shift toward communication strategies and adjustments in its quantitative tightening (QT) operations.

Policy Rate and Outlook

Markets and analysts widely expect the BoJ to maintain its policy rate unchanged at 0.50%, with no dissenting views in the consensus. The meeting won't include updated economic forecasts, as the BoJ only revises its official outlook quarterly, with the next update scheduled for the late July meeting. Therefore, the excitement surrounding this meeting is not about immediate policy moves but about potential forward guidance.

The key area of interest will be Governor Kazuo Ueda's post-meeting press conference. Investors will closely examine his comments for any signals on the timing and likelihood of future rate hikes. In previous conferences, Ueda has maintained a cautious tone, largely aligned with published BoJ reports. However, markets are looking for more concrete signals, particularly now that CPI has remained above expectations and the BoJ's narrative of temporary food-driven inflation is being tested.

If the BoJ begins to hint at stronger underlying inflationary trends or shows greater optimism about the economy, it could stoke expectations of a rate hike in the autumn. In contrast, a continued emphasis on uncertainty—particularly related to the global trade environment and U.S. tariff policy—could reinforce a wait-and-see stance. While Ueda has recently acknowledged that some uncertainty has diminished, he is still expected to stress that risks remain elevated.

Communication Challenges

One challenge for the BoJ will be regaining credibility on the rate hike trajectory after its cautious tone in May. The Bank's downward revision to its economic outlook at that time was seen by some as overly reactive to external tariff risks. A stronger tone this time, or even subtle changes in language, could begin laying the groundwork for a possible rate increase later in the year, most likely in October. However, if past press conferences are any guide, Ueda may prefer to reserve clearer signals for the July outlook update.

JGB Purchases and Quantitative Tightening

The second area of market focus is on the BoJ's Japanese Government Bond (JGB) purchase program. In July 2023, the BoJ had announced plans to reassess its bond purchase strategy at the June 2025 meeting, with a goal of tapering from April 2026 onwards. This review is now due, and markets are eager to see how the BoJ plans to manage its balance sheet going forward.

Currently, the BoJ is reducing its JGB purchases by ¥0.4 trillion per quarter, aiming for a pace of ¥2.9 trillion. This reduction is expected to continue without change through the first quarter of 2026. The real uncertainty lies in what happens beyond that point. Most analysts anticipate the BoJ will continue reducing purchases, but the pace is up for debate.

Market expectations suggest a slower pace of reductions during fiscal year 2026—perhaps between ¥200–300 billion per quarter—given concerns about market functioning. According to a recent BoJ bond market survey, market conditions have deteriorated to their weakest level since August 2023. This could lead the BoJ to proceed more cautiously, particularly when dealing with ultra-long maturities.

If the BoJ chooses to maintain the current pace of ¥400 billion reductions per quarter in FY2026, this would be interpreted as a mildly hawkish move. Still, a more moderate reduction path remains the consensus expectation. The BoJ is unlikely to merge bond maturities or increase purchases of superlong JGBs at this meeting, sticking instead to its existing framework.

Conclusion

In summary, the BoJ is not expected to make any immediate policy changes at its June MPM, but markets will be closely watching for forward guidance from Governor Ueda. The tone of his comments may hint at the likelihood of a rate hike later in the year, especially if the BoJ appears more confident in underlying inflation trends. Meanwhile, decisions on the future pace of JGB purchase reductions will also be scrutinized, particularly in light of weaker bond market liquidity. While the BoJ's actions may appear modest on the surface, this meeting could set the stage for significant policy shifts in the months ahead.

Japan BoJ Meeting Times – 2024 / 2025

The table below outlines BoJ policy meeting outcome times since the start of 2024. The general rule of thumb is that the later the meeting announcement time, the greater the likelihood a policy will be announced (or is actively being debated).

Table 1: BoJ Meeting Release Times

	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

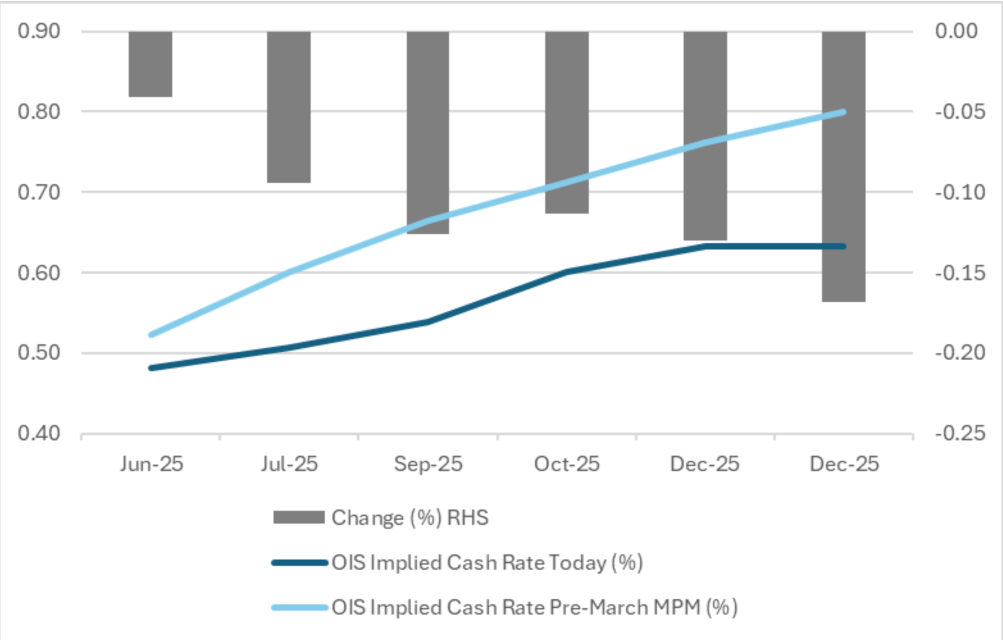
Source: Bloomberg Finance L.P/MNI

BoJ Market Pricing: Wait-And-See Approach Still Priced

At the time of writing, BoJ-dated OIS pricing was 4–17bps softer across meetings compared to pre-March MPM levels, reflecting growing concerns over 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 2% probability of a 25bp hike this week, rising to 24% by September and 62% by December — a notable shift from mid-February, when a hike by September was fully priced in.
- For comparison, the market had been assigning a 47% chance of a September hike and a 62% probability by October going into the May 1 MPM decision.

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



Source: MNI – Market News / Bloomberg

MNI BoJ WATCH: Board To Discuss JGB Taper, Hold Policy

By Hiroshi Inoue
Jun 13, 2025

TOKYO - The Bank of Japan is likely to keep its policy interest rate unchanged at 0.50% at its June 16-17 meeting, with focus shifting to whether it slows the pace of reducing JGB purchases.

The BOJ has held the rate steady since it last hiked it 25 basis points in January. (See MNI BOJ WATCH: Unchanged; Ueda Insists Rates To Rise Gradually) The market sees little risk of a move higher next week, pricing in only a 0.5% chance and a 0.62% policy rate by December.

While rate hikes are less likely, the Bank is expected to outline its JGB buying schedule through Q1 2027 to increase transparency, while retaining flexibility to maintain market stability. (See MNI POLICY: BOJ Wants To Keep Reducing Bond Purchases) Some board members see no need to slow the current pace of tapering – currently set at JPY400 billion per quarter – arguing the recent rise in longer-dated yields reflects improved market functioning, not something that should delay normalisation.

However, views remain fluid. Members are closely watching financial-market developments and will weigh “pros and cons” outlined by monetary policy officials during the pre-meeting blackout period. While no consensus has formed, a slower pace – halving the quarterly taper to JPY200 billion – is being seriously considered.

Officials are mindful of avoiding any decision that could trigger a disorderly rise in yields, even if government financing is not a factor in BOJ decisions.

STICKIER INFLATION

BOJ officials see slightly stronger inflation than they projected in April, driven by cost-push factors including high labour and transport costs, along with elevated rice prices.

While CPI growth is still expected to moderate, the timing may be later than initially forecast as second-round effects could keep goods and service prices elevated even if rice prices decline. Persistently strong CPI will likely keep real wages negative until later this year, delaying a recovery in household purchasing power as wage gains lag inflation.

TANKAN AND TARIFFS

BOJ economists are focused on the upcoming June Tankan survey, due July 1, to gauge the impact of U.S. tariffs on corporate profit and capital investment plans.

But interpreting the results will be challenging, as responses are often based on provisional forecasts, some of which include the effects of tariffs, while others do not. The uncertain and shifting nature of the tariffs makes it difficult for firms to forecast profits and investment plans with confidence. As a result, economists must assess not just the data, but also the probability and reliability of business plans behind them.

BOJ officials expect it will take months to gauge fully the impact of the tariffs on exports and production, which have been distorted by front-loaded demand and are likely to decline as the reaction sets in. Unlike the one-time hit from a consumption tax hike, tariffs are expected to have more sustained negative effects after the initial reaction, adding downward pressure on both exports and production.

Sell-Side Views

ABN Amro: "We expect the Bank of Japan (BoJ) to keep its target rate at 0.50% on Tuesday, in line with consensus, as Governor Ueda will likely wait for further clues on the development of trade talks with the US and the trajectory for growth and inflation. We still foresee a very gradual rate hike path, with one 25bp rate hike scheduled later in 2025 in and another one in the course of next year. The BoJ is expected to also present further details about the trajectory of its tapering plans; markets generally expect the reduction in the monthly buying of government bonds by the BoJ to slow next year."

BofA: "We expect the BoJ to keep its policy rate unchanged at 0.5%. The BoJ turned dovish at its 1 May MPM, amid concerns over US tariff policy, and we think the BoJ will likely retain the cautious stance on the next rate hikes. The focus at this MPM will likely be 1) the announcement of its interim assessment of the reduction plan of JGB purchases and 2) the BoJ's assessment of developments in domestic and global economies and financial markets since their last meeting, including the recent rise in superlong JGB yields."

- "In its interim assessment, we continue to forecast the BoJ to maintain its current plan, announced in July 2024, to reduce JGB purchases through March 2026, and to extend the plan by one year from April 2026, but at a slower pace of reductions."
- **"**Recent media reports align with our forecasts, though they indicate a broad range for the reduction pace of ¥200-400bn per quarter from April 2026 (our forecast: ¥300bn). In addition to the plan from April 2026, the key focus will be whether the BoJ plans another interim assessment in 2026 and whether the BoJ expresses its view on the appropriate "terminal" purchase amount."
- "We expect the BoJ to slow its reduction pace of JGB purchases to ¥300bn per quarter starting in April 2026 and extend the reduction program by one year (implying a monthly purchase amount of around ¥1.7tn in Jan-Mar 2027). Based on our forecasts, the BoJ's balance sheet would shrink from about 118% of nominal GDP today to around 97% by end-2026. However, the BoJ's balance sheet would still be larger than that of the Fed and ECB, and yen liquidity would remain extremely high relative to other currencies."

Daiwa: "The BoJ will hold its next Monetary Policy Meeting on 16-17 June amidst uncertainty, including the developments of the US/Japan tariff negotiations. Under such circumstances, the BoJ will likely decide to maintain its existing rate-hiking policy, while taking a wait-and-see approach that includes maintaining the monetary policy status quo."

- "As for tariff policy trends going forward, the direction of tariff policy may become clearer to a certain extent in July and August. This is because the deadline for the suspension of reciprocal tariffs is 9 July and the deadline for suspension of the US/China tariff agreement is 12 August. Still, in addition to the possibility of a further tariff escalation, a high degree of global uncertainty stemming from tariff policies is expected for the time being. For example, inflation pressures could mount in the US due to tariff policy resulting in downward pressure on consumption after a certain time lag."
- "The BoJ's June meeting will include an interim assessment of its plan to reduce its purchases of JGBs. This will be the main focus of attention. As for this interim assessment, if we take into consideration the content of recent media reports and previous statements by senior BoJ officials, it is highly likely that the following decisions will be made at the June meeting: (1) maintain current JGB reduction plan through March 2026, (2) continue to reduce JGB purchases from April 2026, (3) determine a reduction plan through March 2027, one year ahead of the current plan (to ensure predictability), and (4) formulate a framework that allows for flexible operations and changes to the plan itself in the event of a sharp rise in long-term yields (to ensure flexibility)."

Goldman Sachs: “Economic activity and price indicators released since the April Monetary Policy Meeting (MPM) continue to show a strengthening domestic virtuous cycle, but the impact of tariff increases is likely to materialize going forward. We expect the BoJ to leave its policy rate unchanged at the June MPM from a risk management perspective amid high uncertainty, while maintaining its gradual rate hike stance.”

- “We maintain our base case scenario for the next policy rate hike to be at the January 2026 MPM. As regards the BoJ's interim assessment of its current plan for JGB purchase reductions until March 2026, we look for the current plan to be maintained. Thereafter, we expect the BoJ to continue reducing purchases, albeit at a slower pace, over the course of one year to a level of around ¥2 tn per month, which is within the range of responses to a survey conducted in advance by the BoJ of market participants and is also in line with the level before the start of QQE.”

JPM: “Following the dovish shift in the BoJ’s May outlook report, the possibility of a rate hike at next week’s meeting has almost disappeared. The focus of this week’s meeting will be the scheduled QT review. We maintain our long-standing forecast that the BoJ will decide on further reductions in the gross JGB purchases beyond 2Q26 to ensure that the extraordinarily large balance sheet does not hinder future rate hikes. Regarding the rate policy, we expect the governor to reaffirm the rate hike policy, but we do not expect a message indicating that this is imminent.”

- “At the QT review, the BoJ plans to decide on two points: whether to continue the already announced reduction in JGB purchases until 1Q26 (JPY0.4 trillion per quarter reduction to JPY2.9 trillion) and plans for JGB purchases beyond 2Q26. Regarding the former, the BoJ will almost certainly conclude that no change is necessary. The focus is on the latter, where we expect further reductions to accelerate the runoff, but the issue will be the pace. Media reports since last week suggest that the BoJ may present a plan covering about a year until 1Q27, with internal opinions divided on whether to maintain the current reduction pace of JPY0.4 trillion per quarter or to opt for a slightly slower reduction.”
- “If aiming for policy normalization, it is undesirable for the BoJ to maintain the balance sheet at about 120% of GDP, and if it is to be on par with other central banks, it needs to be reduced to at least less than one-third. This is expected to take a very long time, but with inflation showing no sign of abating, there is no time to continue postponing.”
- “At this meeting, attention will also be on the extent of hints regarding future rate hikes. We view the message through the downward revision of the BoJ’s May outlook report as an overreaction to tariff risks, and we expect an upward revision in July. However, the BoJ may not find it easy to rebuild rate hike expectations after having communicated its cautious stance on rate hikes. Furthermore, in Governor Ueda’s press conferences so far, there have not been many statements that significantly deviate from the outlook presented in the published reports. If this past experience is followed, we will likely have to wait for the revision of the outlook in the July report for a clear change in the governor’s tone. We expect the BoJ’s outlook revision to take time and lead to an additional rate hike in October, with some groundwork for this possibly beginning at this meeting.”

Scotiabank: "The Bank of Japan might be more interesting and impactful to domestic and global markets than the FOMC and just ahead of it this time. The excitement won't come in any forecast revisions, however, since the last one for the April round (here) won't be updated again until the late July meeting. Nor will the excitement come in the form of policy rate changes. Markets are priced for no change to the 0.5% target rate. Consensus is unanimously aligned with markets."

- "The excitement may come in two forms. Will Governor Ueda's press conference offer refreshed guidance on the future potential path for policy rate adjustments? A case for teeing up a hike as soon as the July meeting could be based upon the fact that Tokyo core CPI inflation has been on a tear for several months now. At issue, however, is whether Ueda sticks to prior guidance that he wants to evaluate further developments in the US and knock-on effects on world markets and economies before deciding on a near-term course of action. At present, markets are priced for no action at the July meeting with minimal pricing for a rate hike through the end of the year."
- "Will the BoJ alter its purchase pace of Japanese government bonds (JGBs)? This may be the most impactful part of the outcome. Ever since abandoning the 'around 0%' target for the 10-year JGB yield, the BoJ has been reducing the pace of monthly purchases of JGBs on a quarterly profile and particularly in the high frequency purchases in the ten-year bucket. The aim here has been primarily driven by a desire to reduce market dysfunction that was previously arising and partly driven by the fact that the BoJ owns just under half of the Japanese government bond market."
- "Weaker recent JGB auctions have contributed to the volatility in long-term yields across other countries through the arbitrage and carry effects out of Japan. This has fed speculation that the BoJ may back off somewhat on planned reductions to the pace of JGB purchases. Bloomberg survey respondents indicate expectations for this pace to be reduced in half (ie: relatively more JGB buying than the previous schedule). They may be simply going with the opinions of a former BoJ official. It's uncertain whether a) there will be a fresh and reduced purchase plan laid out at this meeting, and b) by what amounts if so."

Societe Generale: "The Bank of Japan is likely to decide that it will maintain the status quo at its June monetary policy meeting. On the other hand, in July of last year, the BoJ announced that it would conduct an interim evaluation at its June 2025 meeting and present a new tapering policy after April 2026. We expect that even with the recent sell-off of ultra-long-term JGBs, the BoJ will maintain its current tapering pace of reducing monthly purchases by JPY400bn every quarter until at least March 2026. The background to this is that since moving away from an unconventional monetary policy, the BoJ has made it very clear that long-term interest rates should be determined by the market, not the bank."

- "However, according to the bond market survey released by the BoJ, the functioning of the bond market has deteriorated to its lowest level since August 2023. It is conceivable that the pace of reductions will slow from April 2026, with the BoJ giving some consideration to the ultra-long-term zone although not explicitly. We expect that the BoJ will reduce its tapering pace from JPY400bn to JPY200bn each quarter from April 2026."
- "Going forward, we still expect the BoJ to raise the policy rate to 0.75% in October or December. The factors behind this forecast include: 1) the fact that May monetary policy meeting was less dovish than most people had thought it would be; 2) the price pass-through in the service sectors has gradually been increasing of late; 3) economic measures in the autumn may push up growth forecasts by around 0.2%; 4) the negative impact of tariffs on growth and inflation may be more limited than most people expect; 5) as a result of the Japan-US tariff negotiations, a 10% tariff export quota may be set on some automobiles exported to the US, boosting growth by an additional 0.2%; 6) wage growth is expected to remain resilient due to structural labour shortages; 7) demand for digitalisation and labour-saving investments is structurally strong; and 8) the sensitivity of inflation to a strong yen may be decreasing."

UniCredit: “We expect the BoJ to remain on hold at 0.50%, with focus on whether it might further cut the pace of its bond purchases from April 2026. The BoJ currently plans to cut its bond buying by JPY 400bn (USD 2.8bn) per quarter until its holdings fall to JPY 2.9tn in 1Q26. BoJ Governor Kazuo Ueda has recently hinted at slowing the central bank’s pace of JGB purchases. If the BoJ decides to do so, probably by reducing quarterly purchases to JPY 200-300bn, the strengthening of the JPY that we expect to occur over time, due to the weaker USD and the BoJ starting to tighten later this year, might receive fresh support.”

TD: “We expect the BoJ to stand pat on the target rate though the bigger debate is if the Bank will tweak its QE taper plan after the relentless climb in long-end JGB yields. Given the various media leaks, we expect the BoJ to announce it will reduce its QE taper, with consensus anchoring that the Bank will cut it to ¥200bn/qtr (prior:¥400bn/qtr) from April 2026 (next fiscal year).”

Westpac: “The Bank of Japan is anticipated to hold rates steady at its June meeting this week, but focus will be on its plan for tapering asset purchases. Recent auctions on ultralong government bonds have come in weak stoking rumours that the BoJ may walk back on its plan to purchase fewer government bonds.”

- “The BoJ remains committed to normalising policy and part of that will be reducing its balance sheet. It is also firmly committed to supporting a functioning market and adjusting the pace of tapering purchases will be part of that. We anticipate there could be some changes to the ultralong end of the market to help stabilise yields there but overall the BoJ will reinforce its commitment to reducing its balance sheet.”