MNI BoJ Review – Dec 2025

Meeting Date: Thursday 18 Dec- Friday 19 Dec 2025

Link To Statement: https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2025/k251219a.pdf

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MNI POV (Point Of View): +25bps, But Uncertainty On Future Hike Timing

The BoJ hiked rates by 25bps to 0.75%, as widely expected by both sell-side economists and what was priced in by the market. As expected, the BoJ kept the bias for further rate hikes intact, by stating it will keep raising rates if the economic and price outlook is realized. Timing on further rate hikes wasn't provided though. Supporting the stance around further rate hikes, the BOJ stated that accommodative conditions will keep supporting the economy and that real rates remain at a significantly low level. This comes despite the 0.75% policy rate being at its highest point since the mid 1990s. BoJ Governor Ueda also outlined the differences between the current backdrop and that of the mid 1990s, particularly in terms of financial conditions.

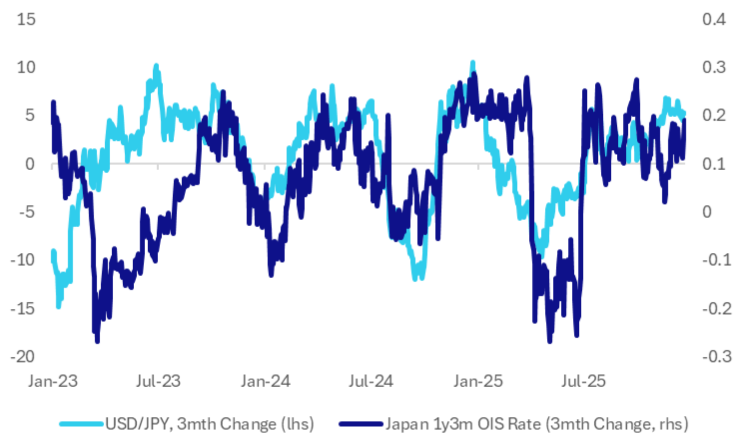
A still accommodative backdrop also fits with the BoJ still seeing policy rates under neutral levels (with the range being described in the 1-2.5% area for neutral). In the press conference, Ueda wouldn't be drawn any further on drilling down on the neutral range, stating: "It is difficult to identify any levels of neutral interest rates in advance, and the Bank will continue to determine the neutral interest rate after carefully monitoring the impact of the rate hike on economy and banks lending," Ueda said, in answer to repeated questions about the neutral setting.

While the decision was unanimous to raise rates, board members Tamura and Takata objected to the description of the price outlook. Takata stating that the rate of increase in CPI inflation, along with underlying CPI, was already around the price stability target. The core board view was that underlying inflation was likely to converge with the BoJ's target in the latter half of the 3yr projection period. On growth, the economy was seen as recovering modestly with some pockets of weakness.

Whilst the BoJ maintained a tightening bias, Governor Ueda wouldn't be drawn on the timing of further hikes. The approach to date has been very gradual, but the market arguably wants to see a faster pace, given reasonably elevated headline inflation pressures (although services prices remain sub 2% y/y), as well as further fiscal stimulus coming down the pipeline.

The market reaction was to take USD/JPY higher in the aftermath of Ueda's press conference, while JGB yields have continued to rise, with the10yr JGB yield now closing in on 2.10% (the 2/10s curve is pressing towards +100bps). One focus point for markets will be whether USD/JPY shifts and the BoJ pricing outlook maintain a positive correlation. The chart below plots the expected 3mth rate in Japan (1yr forward), against USD/JPY, with both series presented as a 3-month rate of change.

Fig 1: USD/JPY & BoJ Market Outlook – 3mths Rate Of Change

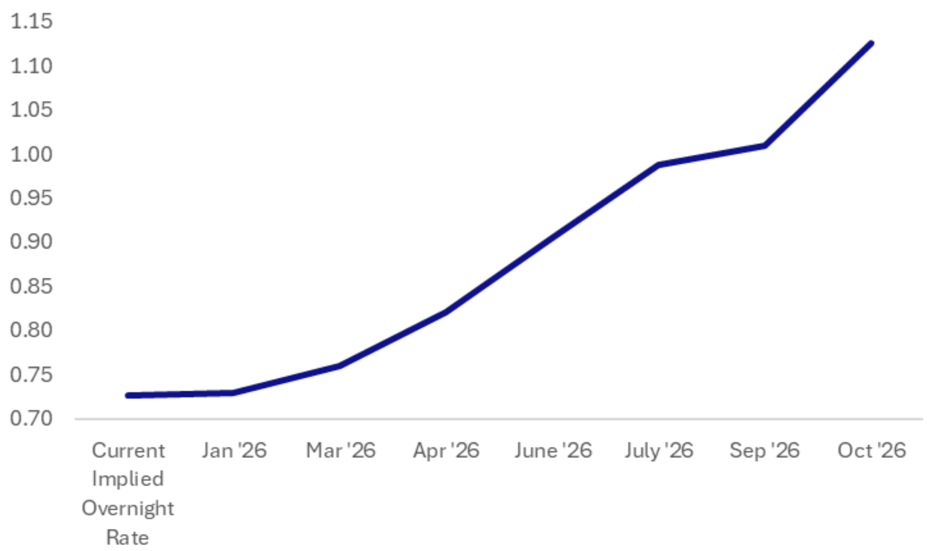


Source: Bloomberg Finance L.P./MNI

BoJ Market Pricing: Next Hike Priced By July 2026

Very little is priced for the BoJ outlook for the Jan meeting in 2026. A full further 25bps hike is around fully priced by July next year, while the end Oct implied rate is a touch above 1.12% at the time of writing.

Figure 1: BoJ-Dated OIS – Today



Source: MNI – Market News / Bloomberg

MNI BoJ WATCH: UEDA SIGNALS MORE HIKES, TIMING UNCLEAR

By Hiroshi Inoue
Dec 19, 2025

TOKYO - Bank of Japan Governor Kazuo Ueda laid the groundwork for further interest rate increases after the BOJ's board decided on a unanimous 25-basis-point hike to the highest level in three decades on Friday, but provided little clue as to timing and stressed that policymakers must examine the impact of higher rates on the economy, inflation and financial conditions.

The next increase in the policy rate, now at 0.75%, could be in sight if, as seems likely, wage increases next year continue to buoy inflation towards the 2% target on a stable and sustainable basis, Ueda told a press conference, but without saying when that might be apparent.

The policy rate appears to be slightly below the lower end of neutral settings, estimated by BOJ officials to be in a range between 1%-2.5%, the governor said, adding that there was no evidence that past rate hikes significantly reduced the level of financial accommodation.

"It is difficult to identify any levels of neutral interest rates in advance, and the Bank will continue to determine the neutral interest rate after carefully monitoring the impact of the rate hike on economy and banks lending," Ueda said, in answer to repeated questions about the neutral setting. (See MNI POLICY: Risk BOJ Accelerates Hikes Mid-2026)

DIFFERENT TO 1990s

While the policy rate is at its highest level since 1995, the governor noted that economic conditions now are significantly different from 30 years ago, while real rates remain at low levels.
The BOJ continues to monitor the probability of achieving its inflation target at each meeting as it considers whether to raise rates again, he said.

The Bank will also watch financial conditions, as evidenced by bank loans, the availability of corporate funds and bankruptcy data.

Some board members at this week's meeting pointed to the effect of the weak yen on import prices and the risk that this could drive underlying inflation higher, Ueda said.

The 10-year JGB yield rose to 2.000%, the highest level since May 2006, as the BOJ maintained its moderate hiking path, but Ueda said markets respond to multiple factors including fiscal policy and overseas news.

"I refuse to comment on daily moves, as the Bank leaves long interest rates to markets. But the BOJ will act flexibly should rates show exceptional moves," Ueda said.

He added that there is still downward pressure on yields from the stock-effect of the BOJ's huge JGB holdings, even if this may have been slightly reduced as it slowly reduces its balance sheet.

For more information, please contact:
sales@marketnews.com
www.mnimarkets.com

Sell-Side Views

Goldman Sachs: "The BOJ aims to stably achieve 2% inflation with both wages and prices rising. Therefore, in addition to confirming wage increase momentum in the shunto spring wage negotiations, which was cited as a reason for the December rate hike, it is placing importance on wage increases at small and medium-sized enterprises (SMEs), which are not covered by shunto. On this point, wage hikes at SMEs are decided toward the summer, with reference to the results of the shunto wage hikes and the wage hike trends of competitor companies. The BOJ can thus confirm SME wage hike trends through its surveys in July 2026, making it a candidate for the next rate hike. However, uncertainty regarding the timing of the next rate hike is high. Given the BOJ's caution regarding the upside risk to prices caused by the yen's depreciation at the press conference, the next rate hike could be brought forward if the yen were to depreciate further. That said, although it differs from our main scenario, the next rate hike could be delayed if there are disruptions in overseas economies."

ING: "We believe that inflation, spring wage negotiations, and the Japanese yen are the most closely watched indicators for the BoJ.

Thanks to government subsidies on energy and falling rice prices, headline inflation is likely to drop below 2% in the first half of 2026. However, core inflation, excluding fresh food and energy, is expected to decelerate only marginally, in turn remaining well above 2%.

On wage growth, several labour unions have set wage goals similar to last year's above 5%, signalling that wage momentum should continue at a steady pace. We expect moderate JPY appreciation largely because the US dollar should pull back next year. If the JPY stays below 155 and heads toward 152, we don't believe the BoJ will rush into another rate hike. Currently, we expect the BoJ's next rate hike to emerge in October 2026.

However, unlike our base case of moderate JPY appreciation, if the JPY weakens against the USD and continues to drive up import prices, the timeline could be moved forward to 2Q26."

JPM: "The governor's reluctance to specify the timing and scale of additional rate hikes likely reflects a desire to avoid pushback from the Takaichi administration. While indirect hints at the press conference suggest the BoJ's policy of gradual rate hikes remains unchanged, the BoJ appears not to be fully confident about gaining the current administration's understanding. As a result, the press conference left a dovish impression, and USDJPY continued to rise during the event. Many reporters questioned whether the continued yen depreciation was due to delays in the BoJ's policy adjustments, and the governor acknowledged that some board members had expressed concerns about the impact of yen depreciation on future inflation. Consequently, we believe the BoJ is likely to proceed with rate hikes supported by yen depreciation, and we expect two rate hikes in April and October 2026, with the policy rate reaching 1.25% by year-end. However, we do not see this as a terminal rate, and continue to expect rate hikes to continue about every six months into 2027."

MUFG: "We project the BoJ will raise the policy rate to 1.00% at the July 2026 MPM and to 1.25% at the April 2027 meeting, at which point it will suspend further tightening. Downside risks to the economy from US tariffs have faded, and the government's intention to pursue "responsible fiscal stimulus" is expected to support private demand through tax cuts and other measures. Household and corporate inflation expectations remain elevated, and employers are expected to grant meaningful wage hikes at next spring's wage negotiations. We believe the Bank is likely to carry out a few more gradual rate hikes while carefully monitoring their impact on the economy, prices, and financial conditions. Scenarios in which the pace of rate hikes might accelerate include a further decline in the yen against the dollar, rising inflation expectations in response to the government's proactive fiscal policy, and more frequent wage and price hikes by businesses."

Societe Generale: "Going forward, we expect the BoJ to raise its policy rate to 1% in July next year. The key focus for next year's inflation rate is whether underlying inflation will also decline, given the possibility that headline inflation will fall to the mid-1% range. However, at this point, we believe this is unlikely for following three reasons:
− The decline in headline inflation is due to the base effect of food prices and the abolition of the provisional gasoline tax rate.
− Underlying inflation is determined by medium- to long-term inflation expectations in the nonmanufacturing sector.

− Wage increases next year are likely to be at the same level as this year, and real wage growth could turn clearly positive, leading to a recovery in personal consumption.”

TD: “The BoJ delivered as we and the market expected, lifting the target rate 25bps from 0.50% to 0.75%, in a unanimous 9-0 decision. Despite the hike, the Bank emphasized that real interest rates remain "significantly negative", meaning monetary policy is still supporting the economy. That said the Bank provided clear hawkish guidance, stating that if economic and price projections are met, it "will continue to raise the policy interest rate" to further adjust the degree of accommodation. There is no commitment on the timing of the next hike, other than noting future moves will remain data-dependent, responding to developments in economic activity, prices, and financial conditions. Governor Ueda mentioned in the press conference that if the pass-through from wages to prices is confirmed, further interest rate hikes could be in sight. There was nothing explicitly mentioned on the neutral rate in the statement but the Governor did note that the target rate is some distance from the lower end of neutral. Yields are higher, 2yr JGBs +1.5bps, the 10s have traded above 2%, the 2s10s JGB curve is 2.5bps steeper while the Yen is reversing some of the initial weakness following the hike. We retain our call for the next 25bps BoJ hike in April to 1%.”