mni

All Signal, No Noise

MARKET ANALYSIS

MNI BoJ Review – Oct 2025

Meeting Date: Tuesday 18 March - Wednesday 19 March 2025

Link To Statement: https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2025/k250319a.pdf

Contents

Business Address – MNI Market News, 3rd Floor, 1 Great Tower Street, London, EC3R 5AA

MNI POV (Point Of View): Focus Remains On Dec Versus Jan Hike Risks

The BoJ left rates on hold as expected. Once again there were two dissenters, board members Takata and Tamura voted in favor of a rate hike but this viewpoint is not shared by the majority of the board, leaving the decision to hold rates steady at a 7-2 vote. There had been a focus point prior to the meeting that we may see another board member join the dissenting camp, but this hasn't materialized. This coupled with little change in the forecast projections, has left BoJ hawks with little to focus on. In the aftermath of the meeting, USD/JPY has tracked higher, while BoJ hike odds were little changed.

- The forecast projections only saw minor adjustments, with core, ex energy, CPI nudged up to 2.0% for the 2026 financial year, from 1.9% prior. The 2025 and 2027 projections at 2.8% and 2.0% were unchanged respectively. The core CPI projects were all steady 2.8% for 2025 financial year and 1.8% for next and 2.0% for 2027.
- On growth, the current financial year projection was nudged up to 0.7% from 0.6%, while 2026 was unchanged at 0.7% and 2027 is at 1%.
- The central bank also noted inflation is likely to decelerate sub 2% in the first half of the 2026 financial year and that underlying inflation is likely to remain sluggish. On growth it said the economic risk balance for the next financial year is on the downside. This reflects likely slower offshore growth and the impact of trade policies.
- Still, it expects the price trend to be in line with the inflation target in the 2nd half of the outlook (no change on this point) and retains its bias to raise rates if the outlook is realized.
- This backdrop suggests the bar is quite high for the core board viewpoint to shift to a hike by the Dec meeting.

In his press conference, Ueda wouldn’t be drawn on hike timing, stating he wanted to see more data and get a sense around likely 2026 wage outcomes. He said at this stage it was still too early to judge the extent of wage hikes in fiscal 2026, though it seems that these would only be slightly higher or lower than last year’s. Japan’s economy could contract in the fourth quarter of 2025 or at the beginning of next year, given the lagged impact of trade policy, he said, pointing also to the risk of U.S. economic weakness. “There is a downside risk to the economy in fiscal 2026, though its scale is uncertain,” he said.

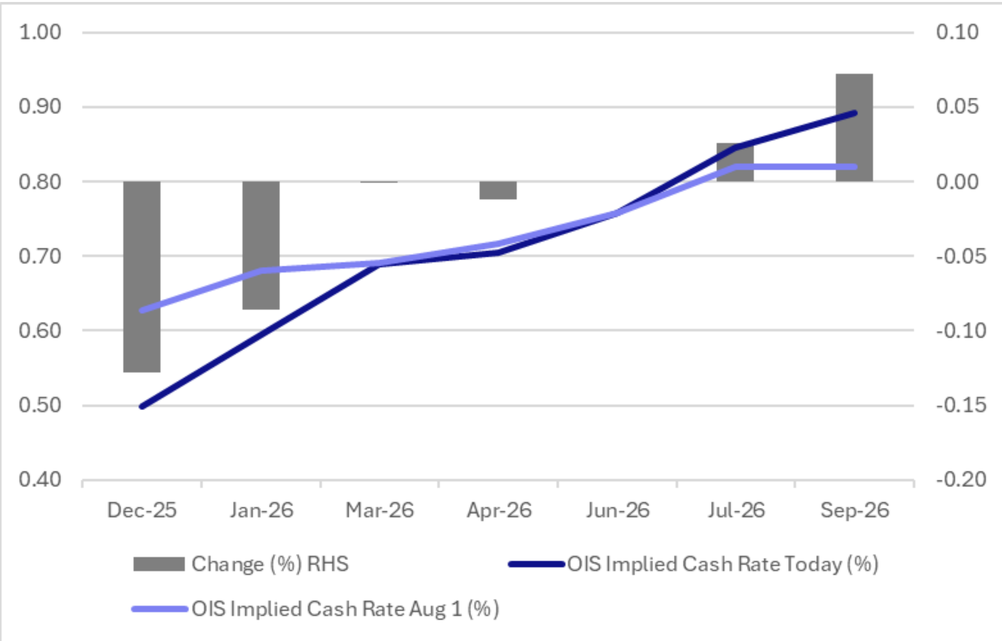
This leaves us expecting a Jan hike as the next move, rather than a Dec one. Still, this is a close call. Any upside surprises for Japan or US growth may enact a move (note Q3 Japan GDP growth is expected to contract). While wage intensions for 2026 will be the other clear focus point. The Q4 Tankan survey, which comes out on Dec 15, so ahead of the Dec 19 policy meeting will be eyed closely.

BoJ Market Pricing: A BOJ Hike Not Fully Priced Until June 2026

Following last week's policy decision, BoJ-dated OIS pricing is softer across late 2025/early 2026 meetings compared to early August levels, but slightly firmer for mid to late 2026 meetings.

As far as the October 30 meeting was concerned, markets had been positioned for a cautious, wait-and-see approach from the BoJ. Current OIS pricing implies just a 9% probability of a 25bp hike in December, rising to 47% by January and 85% by March. A full 25bps hike is not fully priced until June 2026.

Figure 1: BoJ-Dated OIS – Today Vs. August 1



Source: MNI – Market News / Bloomberg

MNI BoJ WATCH: UEDA HINTS BANK CLOSE TO HIKE; WAGES KEY

By Hiroshi Inoue and Les Commons
Oct 30, 2025

TOKTO - Bank of Japan Governor Kazuo Ueda said on Thursday that the probability of achieving the BOJ's baseline scenario for growth and prices is gradually increasing, though he provided no guidance as to when the Bank would next raise its policy interest rate.

Speaking after the BOJ, as widely expected, decided to keep the policy rate unchanged at 0.50%, Ueda told reporters that he would like to see more data before deciding on any additional move, and added that it was still too early to judge the extent of wage hikes in fiscal 2026, though it seems that these would only be slightly higher or lower than last year's.

While the BOJ has repeatedly said that it will adjust the degree of easy policy if it achieves its baseline scenario, Ueda insisted that he had "no prediction" with regard to rate hike timing and added that he would like to see more data before the December meeting. (See MNI POLICY: BOJ Sees No Need To Rush Rate Hikes)

Japan's economy could contract in the fourth quarter of 2025 or at the beginning of next year, given the lagged impact of trade policy, he said, pointing also to the risk of U.S. economic weakness.

"There is a downside risk to the economy in fiscal 2026, though its scale is uncertain," he said. "I would like to see the outlook for wage negotiations for the time being, in addition to whether high food prices settle down as the Bank has predicted."

REAL RATES

Real interest rates remain at considerably low levels, fueling an overheated economy, and Ueda said that the Bank wants to carefully monitor the impact of real interest rates as it implements policy in an appropriate manner.

"I would like to see the beginning of the wage hikes, and I'm focused on whether there will be a negative economic shock from the U.S. at that time."

When asked about the impact of the weak yen on the economy and prices, Ueda said, "I don't comment on daily market movements, and forex should reflect economic fundamentals."

The yen weakened close to JPY154, its weakest since mid-February against the dollar, after the BOJ's seven-to-two vote for unchanged policy. The BOJ cited continued high uncertainties over the outlook for the economy and inflation.

Board members Naoki Tamura and Hajime Takata dissented for a second consecutive meeting, calling for a hike to 0.75%.

December's Tankan survey should provide more information about wage hikes in fiscal 2026 and the impact on Japan of the evolving U.S. economy before the next Dec 18-19 meeting.

The BOJ left its core consumer price index forecasts for fiscal 2025, 2026 and 2027 unchanged at 2.7%, 1.8% and 2.0% made in July.

The bank also maintained its assessment that “risks to prices are generally balanced.” (See MNI POLICY: BOJ Board Likely To Maintain Price View)

“Given that real interest rates are at significantly low levels, if the outlook for economic activity and prices is realized, the Bank, in accordance with the improvement in economic activity and prices, will continue to raise the policy interest rates and adjust the degree of monetary accommodation.”

Business Address – MNI Market News, 3rd Floor, 1 Great Tower Street, London, EC3R 5AA

Sell-Side Views

DAIWA: “Governor Ueda identified the initial momentum of next year's wage increases as the key focus, and said that the important point will be whether we see any larger-than-anticipated negative news occur in the US in the meantime. As such, the absence of any major downturn in the US economy will, of course, be a prerequisite. Furthermore, Governor Ueda commented on the recent weakness of the yen, stating that the BOJ wanted to carefully examine the impact on the economy and prices, including the factors causing forex fluctuations. Therefore, price trends, including forex rates, will also be an important point for deciding on the timing—December or January.

In other words, we expect that the timing of the next rate hike will be based on the following

conditions:

The US economy remaining solid

Corporate price-setting behavior remaining firm (initial momentum for Shunto)

Price trends, including forex rates”

Goldman Sachs: “As was widely expected, it decided to maintain its policy rate guidance at 0.5% (by majority vote). Only two members, Mr. Hajime Takata and Mr. Naoki Tamura, proposed a rate hike. Governor Kazuo Ueda noted that uncertainty over the outlook for the US economy remains high, and with insufficient data to confirm wage growth momentum for next year's closely watched shunto wage negotiations, the BOJ decided to keep interest rates on hold at the latest MPM.

However, he explained that the BOJ's confidence in achieving its baseline scenario is increasing, and implied the timing of the next rate hike is approaching. With that, he noted that prerequisites for a rate hike include evidence that there are no additional negative impacts on the US economy from tariff hikes by the time wage growth momentum can be confirmed in next year's shunto. We maintain our base case scenario of the next rate hike being in January next year. By the time of the January 2026 MPM, the BOJ would have accumulated information on how the US economy would evolve, and would have also accumulated sufficient information on next year's shunto wage negotiation, which the BOJ focuses on. That said, we see some risk that rate hike could come earlier, in December.”

ING: “We believe that recent developments will provide the Bank of Japan with more confidence over the coming months, and in turn, the chance to finally pivot to delivering a rate hike in December. Third-quarter GDP is expected to contract, mainly due to the unwinding of front-loading exports in the second quarter of this year. However, a gradual recovery should materialise in the coming quarters thanks to a de-escalation of the tariff issue and fiscal support from the new government.

Inflation is also expected to remain above 2% for an extended time, supported by strong wage growth. Headline inflation may decelerate due to government subsidies for energy and social welfare programmes, but core inflation is likely to hover around 2.5% for an extended time.

The elevated USD/JPY level is likely to add to inflationary pressures, and this should be a concern for the Bank of Japan.”

JPM: “. While domestic and global economic and price conditions continue to improve, we viewed this meeting—held just after the inauguration of the new Takaichi administration—as a test of the BoJ’s independence from political influence, and expected the BoJ to make decisions based on economic fundamentals. However, contrary to our expectations, the outcome of this meeting stood in stark contrast to both the movement of economic fundamentals at home and abroad and the various communications from the BoJ over the past months. Furthermore, the BoJ raised the conditions for an additional rate hike, signaling an even more cautious stance toward policy normalization. This shift by the BoJ suggests a policy approach that respects the intentions of the

Takaichi administration, which is seen as favoring reflation and a weak yen. The number of dissenting votes remained at two, unchanged from the September meeting.

Reflecting Governor Ueda's new condition for an additional rate hike—confirmation of developments ahead of the spring wage negotiations, as stated in his press conference—we believe the BoJ now sees the next rate hike as likely to come no earlier than January. The main risk lies in the movement of the yen. We continue to believe that the BoJ's policy adjustments are lagging behind the underlying inflation trend, which is likely to exert further downward pressure on the yen in the near term. If the yen continues to weaken and the administration expresses concern, this could ultimately lead the BoJ to bring forward a rate hike to December. Such a scenario would mean that, following two rate hikes since mid-last year, the BoJ would once again be seen to be forced to act by currency market pressures."

MIZUHO: "• Timing of next rate hike: December most likely, but January also possible If the BOJ ultimately decides to hike at one of the next few policy-setting meetings, we do not think—given the time lag until monetary policy decisions affect the real economy— that the medium-term economic impact would differ significantly. We therefore suspect the BOJ is not rigidly committed to hiking at a specific meeting and is likely to weigh the pros and cons to determine the optimal timing. This is, of course, predicated on the resilience of the US economy and stable conditions in financial and capital markets, but the domestic criteria for a rate hike appear to have been satisfied, and with indirect pressure coming from the Trump administration, we think the BOJ will at least consider raising rates at the December meeting. If that proves difficult, it will probably postpone a decision to January 2026 and continue to assess the situation at each meeting. We still anticipate terminal rate of 0.75% in this cycle"

MUFG: "The timing of the next rate hike will depend on the rationale for leaving policy on hold at this meeting. The decision will also be influenced by underlying price trends, the pace at which tariff-related uncertainties fade, forex market developments, and progress (or the lack thereof) in "communications" between the government and the central bank. Given the tight year-end political schedule -- including formulation of a supplementary budget for FY25 and an initial budget for FY26 as well as a blueprint for tax code revisions -- coupled with the ongoing lack of US economic data due to the government shutdown (leaving insufficient data for assessing tariff impacts), we still see January 2026 as the most likely timing for a rate hike."

Societe Generale: "Going forward, we continue to believe that the BoJ will raise its policy rate to 0.75% in December. At the press conference, Governor Ueda emphasized that he would like to confirm the initial momentum of next year's spring wage negotiations before deciding on the next rate hike. We think that the initial momentum of next year's spring wage negotiations means the results of corporate earnings for 1H25, which will peak in mid November, and the BoJ's Tankan survey in December. On the other hand, given Takaichi's Dovish stance, it cannot be ruled out that the rate hike may be postponed until January next year, when the outlook report will be released. However, it is believed that measures to combat rising prices, the intentions of the US, and the intentions of the Japan Innovation Party (JIP) will ultimately lower the hurdle for the government to accept a rate hike."

TD: "BoJ keeps rate on-hold in a 7-2 decision at 0.5% (cons: 0.5%) as widely expected, albeit with the same two dissenters back in Sep calling for a hike. The Bank's characterization of the economic outlook looks like a copy-paste from its last July update even with the minor upgrade to 2025 GDP and 2026 FY core CPI. JPY weakens as Governor Ueda's press conference remarks suggest little urgency for any policy moves in the near-term. However, Ueda remarked that it is possible for the BoJ to move while the government compiles the budget which makes a Dec hike still "live" in our opinion. By the next BoJ meeting in Dec, Ueda will have more info on wage trends from the branch managers and we still stick to our call for a Dec BoJ hike."

Unicredit: "As expected, the BoJ remained on hold overnight, leaving the unsecured call rate steady at 0.50%, with two dissenters in favour of an immediate rate hike, as was the case in September. Notably, in his press conference BoJ Governo Kazuo Ueda remained vague about the timing of the next rate hike, reiterating that the bank will raise rates if the economic outlook is met. His remarks have lowered the likelihood of a move at the next meeting on 19 December, with forwards increasing the likelihood of a rate hike at the meeting on 23 January 2026. Yet, inflation remains high compared with the bank's 2% target but recent political developments in Japan suggest some prudence on the part of the BoJ, waiting for first fiscal-policy decisions by Prime Minister Sanae Takaichi. We remain convinced that the floor of the estimated natural rate for Japan of 1.00% would be reached quite rapidly once the BoJ starts hiking. Meanwhile, USD-JPY is set to remain above 153, with rising risks of it getting closer to the 155 area, which is viewed as a possible threshold for a response by the BoJ, at least verbally."