

MNI BOJ Review – September 2025

Meeting Date: Thursday September 18 to Friday September 19, 2025.

Link To Statement: https://www.boj.or.jp/en/mopo/mpmdeci/mpr_2025/k250919a.pdf

Contents

- [Page 2](#): MNI Point Of View: Cautious But Signals Progress
- [Page 3](#): BOJ Pricing: 2026 Meetings Lead Firming
- [Page 4](#): MNI BoJ Watch: Ueda Says Rate Hikes Will Come; No Timing Hints
- [Page 5-7](#): Sell-Side Views

MNI Point Of View: Cautious But Signals Progress

The Bank of Japan's (BOJ's) September meeting reinforced its cautious approach to monetary policy while signaling progress toward eventual normalisation. The policy rate was left unchanged at 0.5%, but two board members dissented, favouring an immediate hike to 0.75%. As one dissenting member argued, the inflation target has been "more or less achieved," while another noted that rates should move "closer to neutral." These dissents highlight the growing presence of hawkish voices within the board.

Governor Kazuo Ueda maintained a balanced, data-dependent tone, emphasising that "underlying inflation is approaching 2%, but the 2% level has not yet been reached." He reiterated that uncertainties remain, particularly around tariffs: "Major negative impacts... have not yet emerged on the domestic economy, but uncertainties surrounding such impact remain high." At the same time, he played down risks spreading through the economy, stating there is "little sign of tariff having impact on Japan's economy" and that any weakness remains largely confined to manufacturing. He added that the "price trend is still below the goal but is progressing towards 2%."

Inflation dynamics remain central to the outlook. While headline inflation has eased due to subsidies, core inflation has held above 3%, and strong wage growth should keep inflation "floating above 2%." Policymakers also pointed to potential supports such as "Fed rate cuts," "AI-related investment," and "deregulation." The official statement noted that "inflation expectations have risen moderately, and underlying CPI inflation is generally consistent with the price stability target."

Market participants are divided on the timing of the next rate hike. Some expect October, contingent on the results of the Tankan Survey and the Liberal Democratic Party leadership election. Others project January 2026 as the likeliest window, arguing two conditions must be met: confirmation that tariff effects are limited and that wage momentum for next year's shunto negotiations is intact. A December 2025 hike is considered a secondary scenario if companies reveal wage intentions earlier, while an October move is possible if the yen weakens sharply—though the probability is seen as "quite low."

Political developments remain a key risk. The upcoming LDP election could influence the trajectory if a candidate with dovish views gains power. One contender, Sanae Takaichi, has signaled opposition to tightening, preferring to maintain policy easing and expand fiscal spending. Rapid yen appreciation could also complicate decisions, particularly if triggered by US Federal Reserve rate cuts.

Alongside the rate decision, the BOJ unveiled a long-awaited plan to reduce its ETF and J-REIT holdings. The annual pace—¥330 billion for ETFs and ¥5 billion for J-REITs—equates to only 0.05% of Tokyo Stock Exchange Prime Market trading value. At this speed, full disposal would take "more than 100 years." Policymakers stressed three guiding principles: "dispose at adequate prices," "avoid BoJ's loss," and "avoid financial market impacts." Ueda added there are "no plans to change the pace... at this time," though official documents suggest flexibility to accelerate if conditions permit.

This decision has both financial and political implications. By selling assets above book value, the BOJ hopes to "avoid losses as much as possible," which could strengthen its balance sheet and "create a buffer for proceeding with rate hikes." However, direct ETF sales surprised some observers given the BOJ's ¥1.4 trillion annual dividend income. Opposition lawmakers had even floated using those dividends for fiscal purposes, and comparisons were drawn with Hong Kong's model of distributing ETF stakes to retail investors.

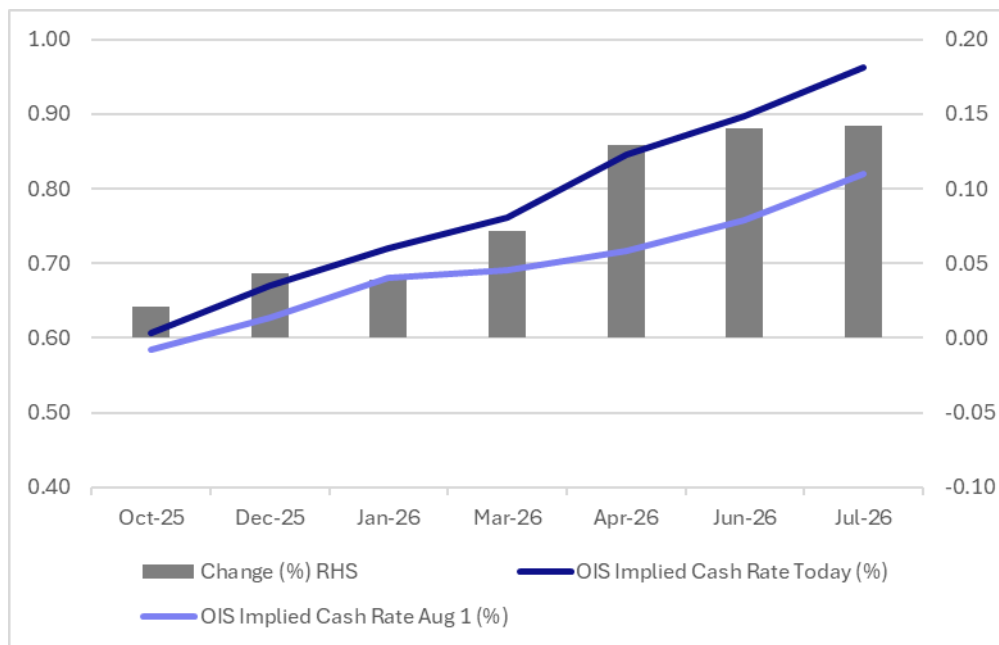
Overall, the September meeting underscored that policy normalisation is advancing, but at a deliberate pace. As Ueda summarised, "Board member Takata assessed that it has roughly reached around 2%, but I believe it is still slightly below that level." With inflationary pressures persisting and political and external risks in flux, markets have repriced expectations. Odds of an October hike have risen sharply, while further tightening is expected to eventually push rates above the 1% level currently priced in.

BOJ Market Pricing: 2026 Meetings Lead Firming

Markets had been positioned for a cautious, wait-and-see approach from the BoJ at this meeting. Nevertheless, at the time of writing, BOJ-dated OIS pricing was ~5bps firmer across meetings versus Friday's pre-MPM levels.

- Moreover, post-MPM moves leave 2026 meetings 4-15bps firmer than early August levels.
- Current OIS pricing implies just a 50% probability of a 25bp hike in October, rising to 62% by November and 86% by December.

Figure 1: BOJ-Dated OIS – Today Vs. August 1, 2025



Source: Bloomberg Finance LP / MNI

MNI BOJ WATCH: Ueda Says Rate Hikes Will Come; No Timing Hints

By Hiroshi Inoue
Sep 19, 2025

TOKYO - Bank of Japan Governor Kazuo Ueda insisted that rate hikes remain in prospect but provided no further hints as to timing on Friday after the BOJ voted to keep the policy rate unchanged at 0.5% with two dissenters calling for a 25-basis-point hike.

Uncertainty over the effects of U.S. trade policy and over the U.S. economy itself continues, and downside risks persist, Ueda told reporters.

“Real interest rates stay at considerably low levels. We will raise the rate to adjust the degree of easy policy. We continue to carefully monitor the impact of trade policy on global economy without any preconditions,” he said, after the seven-two vote to hold, with calls for a hike by Naoki Tamura and Hajime Takata.

While manufacturers’ profits are suffering due to U.S. tariffs, the impact on Japanese capital investment, and on its labour market and the pace of wage hikes, has so far been limited, Ueda said, adding that he sees no need to revise views on the economy and prices made in July. (See [MNI POLICY: BOJ 2025 Hike Chances Weak On Wages, U.S. Concerns](#))

Tamura warned of upside risks to prices and argued for the BOJ to set the policy rate a little closer to neutral, while Takata said the price stability target had been more or less achieved.

DISSENTERS

When asked about the gap between his views and those of the two dissenters, Ueda noted that underlying CPI inflation is approaching 2% but is still below it. The more difficult environment for exporters may also apply downward pressure to Japan’s economy and on inflation. (See [MNI POLICY: Tankan Key For Gauging Wage Growth; BOJ Cautious](#))

“We must be conscious of those risks,” he said, adding that the outlook for the U.S. is also difficult to predict, and that while its labour market is slowing, capital investment there remains solid, but that inflation could face upwards pressure if companies transfer the cost of tariffs to consumers.

The BOJ also unveiled plans to offload its ETF and J-REIT holdings, with annual sales set at roughly JPY330 billion for ETFs and JPY5 billion for J-REITs, proportionate to their share in the central bank’s portfolio. The pace of sales may be adjusted in future meetings depending on market conditions, and Ueda noted that their disposal would take more than 100 years. The decision to dispose of the assets was not related to the record high in the Nikkei stock index, which reached 45,000 for the first time on Tuesday, Ueda said.

The BOJ said the disposal will begin early next year once preparations are completed.

For more information, please contact:

sales@marketnews.com
www.marketnews.com

Sell-Side Views

Goldman Sachs: Goldman Sachs interprets the Bank of Japan's September 18–19 Monetary Policy Meeting as confirmation of its cautious stance. The BOJ held its policy rate at 0.5%, though members Hajime Takata and Naoki Tamura dissented, calling for an increase to 0.75%. Goldman stresses that this does not shift the broader outlook: "Although two board members proposed a rate increase in the September meeting, we believe this would not bring the timing of the rate hike forward."

- Governor Kazuo Ueda reiterated that uncertainties remain significant, particularly around US tariffs: "Major negative impacts... have not yet emerged on the domestic economy, but uncertainties surrounding such impact remain high." On inflation, his view was unchanged: "Underlying inflation is approaching 2%, but the 2% level has not yet been reached." Goldman interprets this as evidence that "the stance of the majority of board members remains cautious."
- The bank continues to see January 2026 as the most likely timing for the next rate hike. Two conditions must be met: "(1) to confirm that the impact of tariff increases on the real economy is not that large, and (2) to confirm that wage growth momentum for next year's shunto negotiation has not been jeopardized." Wage data from the spring negotiations will be central, though Goldman sees a December 2025 hike as a "sub-scenario" if companies signal wage intentions earlier. An October hike is possible if the yen weakens sharply, though the probability is "quite low."
- The BOJ also announced a plan to gradually sell ETFs and J-REITs. Goldman highlights the slow pace: "If the pace decided at today's meeting is maintained, it would take more than 100 years to complete the sale."
- Overall, Goldman concludes: "We maintain our base case scenario for the next rate rise to be in January next year," while keeping alternative paths in view.

ING: ING interprets the September Bank of Japan meeting as confirming the central bank's cautious but advancing path toward normalization. As expected, the BOJ maintained its policy rate at 0.5%, but "the surprise came from the fact that two board members dissented, favouring a 25bp hike, which indicates that more hawkish voices are growing within the board." According to ING, the dissenters argued that "recent price trends indicated the BoJ's price stability target had been largely met and noted an increase in potential upside risks to prices."

- The BOJ's statement acknowledged that "inflation expectations have risen moderately, and underlying CPI inflation is generally consistent with the price stability target." ING concurs, noting that while headline inflation has eased due to subsidies, "core inflation remained above 3%" and firm wage growth should keep inflation "floating above 2%."
- Governor Ueda struck a balanced but confident tone at the press conference. He emphasized "little sign of tariffs having an impact on Japan's economy," highlighted that the US-Japan trade deal "reduced uncertainty quite meaningfully," and stressed that "the price trend is still below the goal, but is progressing towards 2%." ING reads this as an effort to remain data-dependent while building confidence in the outlook.
- Given that even after a 25bp hike rates would remain accommodative, ING expects "the BoJ to deliver a 25bp hike in October." However, risks remain. Political uncertainty around the October 4 LDP leadership election could delay tightening if a dovish candidate like Sanae Takaichi prevails. ING also flags Fed policy as a factor: "If the Fed cuts rates again in October, the yen could appreciate rapidly," potentially complicating BOJ decisions.
- On asset sales, ING notes the BOJ will gradually sell ETFs and J-REITs at 0.05% of market trading value, about ¥330bn and ¥5bn annually, with flexibility to adjust if markets weaken.

JPM: JPMorgan sees the September Bank of Japan decision as keeping the normalization path intact despite holding rates steady. While the policy rate was unchanged at 0.5%, JPMorgan highlights that “the surprises were the two dissenting votes calling for a rate hike and the announcement of a policy to dispose of its ETF and J-REIT holdings.” These signals suggest to JPM that the BOJ is moving steadily toward tightening. The bank maintains its forecast for “a rate hike in October,” underpinned by expectations that upcoming data will show “solid growth and inflation trends.”

- Governor Ueda avoided clear guidance on timing but acknowledged shifts in risk assessment. On the dovish side, he warned that “downside risks to the US economy may emerge going forward” and emphasized that “more information is needed to assess the impact of US tariffs on the Japanese economy.” Yet his tone was somewhat firmer than in July, softening the previous view that risks were skewed to the downside, saying instead that they “remain moderately.” He also pointed to potential offsets such as “Fed rate cuts,” “AI-related investment,” and “deregulation.” Importantly, he noted that there are “no signs that the potential negative impact of tariffs on corporate earnings is spreading to wages or other areas.”
- On asset sales, JPMorgan emphasizes the early announcement of a plan to sell ETFs worth ¥330 billion and J-REITs worth ¥5 billion annually. Although the pace is extremely slow—“well over 100 years” to unwind holdings—Governor Ueda left open the possibility of acceleration, saying there are “no plans to change the pace... at this time,” but documents suggest review remains possible. JPMorgan adds that the BOJ aims to “avoid losses as much as possible,” meaning disposals could strengthen its balance sheet and “create a buffer for proceeding with rate hikes.”
- JPM concludes that, assuming the economic cycle continues, BOJ rate hikes may “exceed the 1% level currently priced in by the market.”

Societe Generale: Société Générale interprets the September Bank of Japan meeting as maintaining continuity in policy, while leaving the door open for tightening in the near term. The BOJ kept its policy rate at 0.5%, but two members, Hajime Takata and Naoki Tamura, proposed a hike. The BOJ also announced plans to gradually reduce ETF and J-REIT holdings at the same pace as its prior stock disposals, which led to “little market reaction.”

- SocGen highlights the significance of Tamura’s dissent: he last dissented in December, and “just one month after that vote, the BoJ decided to raise its policy rate.” This precedent reinforces their base case: “We continue to predict a rate hike in October.” For such a move, four factors are critical: confirmation that tariffs’ negative impacts are limited, the new LDP leadership not ruling out hikes, the Tankan survey showing stability in manufacturing, and a “precautionary” rather than reactive Fed rate cut.
- At the press conference, Governor Ueda struck a balanced tone. He noted that while “the US economy has shown some weakness in employment and consumption,” Fed cuts, AI-related investment, and deregulation may offset risks. Domestically, “negative impacts have been mainly limited to the manufacturing sector, with no signs that it is spreading to the broader economy.” He added that “underlying inflation is gradually rising toward 2%.” On board member disagreements, Ueda explained: “Board member Takata assessed that it has roughly reached around 2%, but I believe it is still slightly below that level.”
- On asset sales, Ueda emphasized principles to “dispose at adequate prices,” “avoid BoJ’s loss,” and “avoid financial market impacts,” estimating it would take “more than 100 years” to fully unwind.
- SocGen expects tariffs’ GDP impact to be modest, especially after the Japan-US agreement, and believes political risks have eased as candidate Sanae Takaichi has softened her stance on extreme policy measures. As a result, they reaffirm: “We continue to predict a rate hike in October.”

TD: TD Securities interprets the September Bank of Japan meeting as a step closer to policy tightening. As expected, the BOJ kept the overnight call rate at 0.50%, but “there were two hawkish dissents.” Board member Hajime Takata argued that the price target is “more or less achieved,” while Naoki Tamura said the rate should move “closer to neutral.” TD sees Governor Ueda’s tone as shifting: his press conference was “more neutral, a deviation from his usual dovish tilt,” with remarks such as “little sign of tariff having impact on Japan’s economy” and “see price trend rising toward 2%.” Based on this, TD concludes: “We expect the BoJ to hike in October following the Tankan Survey release (Oct 1) and the LDP leadership election (October 4).”

- The main surprise was the announcement of a disposal framework for ETFs and J-REITs. The BOJ will sell ¥330bn of ETFs and ¥5bn of J-REITs annually, equivalent to around 0.05% of TSE Prime Market trading value. With holdings of ¥37.2tn in ETFs and ¥655bn in J-REITs, TD calculates that “the entire disposal will take 112 years for ETFs and 131 years for J-REITs (talk about a long time).” The bank expects sales to begin in April 2026, aligned with Japan’s fiscal year.
- TD notes that “direct sales of ETFs probably caught observers by surprise,” as the BOJ earns ¥1.4tn annually from dividends and some had speculated these could be used for government finances or distributed to retail investors, similar to the Hong Kong Monetary Authority’s approach.
- Overall, TD interprets the meeting as hawkish-leaning. “Markets have repriced the BoJ’s rate hike path as the odds of a hike at the Oct meeting have jumped from 34% to 54%,” while a January 2026 hike is already nearly fully priced in.