

## **PM Datanote: BoJ Policy Decision, Japan, Jan**

**In one line: The BoJ hikes policy rate and indicates readiness for further tightening at a measured pace**

**- Japan: BoJ policy rate rose to 0.5% this month from 0.25% in December. Consensus was 0.5%.**

The BoJ hiked the policy rate by 25bp to 0.5% today, as broadly

expected in the market and with just one dissenting vote out of nine. This followed signalling by Governor Ueda. After last month's BoJ meeting, he justified the decision to hold rates, by pointing to uncertainty over the incoming President Trump's economic policies and Japan's wage outlook. Both of those factors have since moved in favour of a rate hike decision, with overall positive news on employer-union wage talks and the absence of a Trump shock roiling the markets - so far. Governor Ueda

today noted that financial markets have been calm since Mr Trump's inauguration. The uncertainty of what the US might do before the Bank's next meeting in March is a reason for the BoJ to seize the day and tighten now. This was capped by a leak in the Nikkei Daily yesterday on today's rate decision.

Governor Ueda refused to be drawn on when the BoJ will next tighten, only saying the Bank would avoid falling behind the curve to

a significant degree. He said he expects solid results at the spring wage negotiations, in line with other recent BoJ comments. Deputy Governor Himino on January 14 said that surveys and reports from the BoJ's regional branches had boosted expectations for continued strong wage growth, and that it would "not be normal" to maintain negative real interest rates after Japan had prevailed over the shocks causing deflation.

The BoJ today raised its inflation forecasts - citing higher rice inflation and higher import costs on the back of JPY depreciation - while keeping its growth projections unchanged from the previous October outlook. The Bank increased its consumer inflation forecast by 0.5pp to 2.4% y/y for fiscal year 2025 and, by 0.1pp to 2.0% for fiscal year 2026. The BoJ expects GDP to rise 1.1% in fiscal year 2025 and 1.0% in fiscal year 2026, after just 0.5% growth in fiscal year 2024.

Governor Ueda today said the Bank will carefully study the impact of today's tightening on the economy, suggesting a measured pace of rate rises, and he also declined to give a view on the natural rate, only saying the range is broad. We expect two more 25bp hikes this year, in Q2 and Q3, bringing the policy rate to 1.0%, still below inflation. The growth outlook carries risks, notably whether SMEs or other weak sectors can sustain higher borrowing costs amid imported cost inflation and still

sluggish growth. The chart below shows short positions on JPY have been building again since Mr Trump's election victory, if only about half the peak levels in mid-2024, suggesting that risks have built up if the US goes ahead with an aggressive tariff policy.

— Net number of short positions on USDJPY, K (Right)  
— USDJPY (Left)

