

# Daiwa's View

FICC Research Dept

## Preview of Sep BOJ MPM

- BOJ to put rate hikes on hold this autumn
- Officials are not ruling out Dec or Jan 2025 rate hike at this point
- For now, we should monitor trends with market and other central banks, including the Fed

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In yesterday's [Daiwa's Economic View](#), we reported on our outlook for the BOJ's September Monetary Policy Meeting (MPM) and Japan's economy. In a word, the BOJ is expected to put rate hikes on hold this autumn.

### Taking stance of carefully monitoring economic conditions for the time being

The market has probably fully assimilated this point. News based on information from those in the know already emerged on 10 September with a headline stating that the BOJ was to maintain its policy at the September meeting, with the view that there was little need to hurry with rate hikes. The article said that, with the market still nervous, the BOJ needed to carefully monitor trends. This seemed to reconfirm that the BOJ was taking a stance of carefully monitoring financial market trends for the time being, something that was indicated in Deputy Governor Shinichi Uchida's speech on 7 August.

### Basic stance of continuing with rate hikes remains unchanged if economic conditions stay on track

Meanwhile, the same report also reconfirmed the BOJ's basic stance, saying that, at this point, there were no major changes to the BOJ's projections shown in the July Outlook for Economic Activity and Prices report (Outlook Report), and that, if the economy and prices moved in line with the BOJ's projections, there would be no change to its stance of proceeding with making adjustments to the degree of easing via rate hikes. Obviously, if the 2% price stability target were achieved, a real interest rate based on the current policy interest rate of 0.25% would be too low, so additional rate hikes would be implemented.

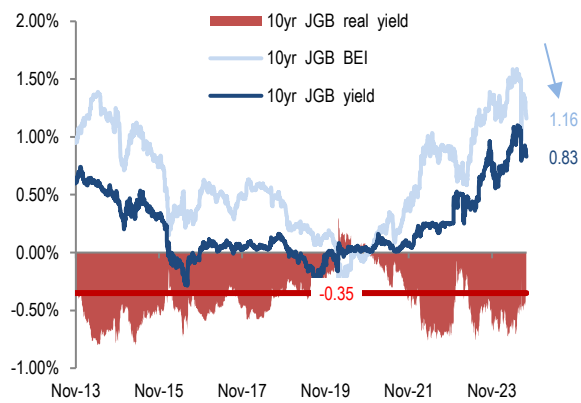
### Dec or Jan rate hike is not out of the question at this point

However, the same article included a subtle comment regarding the key issue of when rate hikes would be resumed, stating that officials were not ruling out another rate hike later this year or in early 2025 like the one expected by the market, depending on economic/price and financial market conditions. It also stated that, with the possibility of a surge in CPI low, there was no need to hurry with rate hikes. The article remained ambiguous regarding an additional rate hike in December or January, which is the consensus with economists at this point, stating that such a hike was not out of the question, but skillfully avoiding actively confirming the issue. While this could be regarded as an indirect affirmation, we kind of get the feeling that the BOJ might think that the current consensus has gone a little too far.

Of course, in this regard, due to the fact that the BOJ is currently in the extraordinary position of moving in exactly the opposite direction of other central banks, there may be concerns about a downside in which, if the BOJ's stance were regarded as excessively hawkish, lower JGB yields would not produce a cushion effect, which could easily amplify negative market fluctuations. The above-mentioned media report also stated that the BOJ would carefully monitor how the market reacted following the FOMC meeting, and confirm whether rate cuts in the US helped to restore stability in the market.

The 10-year JGB breakeven inflation rate has now declined to 1.16%, possibly casting a bit of a shadow on the credibility of achieving the 2% price stability target. If the BOJ is truly in no hurry regarding rate hikes, we should monitor trends with the market and other central banks, including the Fed, for the time being.

**10yr JGB Yield, Real Yield, Breakeven Inflation Rate**



Source: Bloomberg; compiled by Daiwa.

**Breakeven Inflation Rate in Japan, US, Germany**



Source: Bloomberg; compiled by Daiwa.

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