

Daiwa's Economic View

Ueda's Dec press conference: BOJ needs a little more data

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Ueda's Dec press conference: Need for a little more data as reason for no rate hike

The BOJ decided by majority vote to maintain the status quo at its 18-19 December Monetary Policy Meeting (MPM)¹. During BOJ Governor Kazuo Ueda's post-meeting press conference, the questions focused on (1) why the Bank did not hike rates this time and (2) the decision process for its next rate hike. The BOJ is currently on track with its outlook for Japan's economic and price trends and the Bank's basic policy of raising interest rates has not changed. It is ready to make comprehensive assessments by confirming various data at each meeting. Of note, during the press conference, the yen depreciated sharply into a USD/JPY156-157 level. Following the press conference, the yen briefly traded just beyond the USD/JPY157 level, as the market interpreted the BOJ's statements as not strongly suggesting a rate hike in January. The 10-year JGB yield also declined. In this report we want to briefly comment on the answers to important points provided by Ueda at his press conference.

First, when asked about the reasons for the decision not to raise interest rates this time, Ueda said, "We need a little more information, such as the degree of momentum from next spring's labor-management wage negotiations. The future for overseas economies, including the US, is uncertain and there is a great deal of uncertainty about the policies of the next US administration. In light of these points, we have decided to maintain the status quo." When asked about the most important factor preventing an additional interest rate hike, he said "We would like one notch more of information in order to believe we can raise interest rates. That includes the sustainability of wage increases. That's why we want to scrutinize the momentum of next year's wage negotiations more." As with his 30 November *Nikkei* interview, we were left with the impression that Ueda has reiterated wages and the US economy as factors for determining a rate hike.

Full picture for spring labor-management talks in Mar or April, can potentially grasp wage momentum even earlier

Ueda said, "We won't know the full picture for either the spring labor-management wage negotiations or the policies of the incoming Trump administration until we've had a chance to study them for a considerable length of time." He also said, "We will make comprehensive assessments based on any additional information obtained up to that point and on the usual economic data analysis." Ueda said in regards to the spring labor-management wage negotiations, "We expect to have a full picture in March or April." He went on to explain, "We use the expression 'spring wage negotiations momentum,' taking into account the possibility of being able to gauge the extent of that momentum even earlier." Between the end of this year and the start of next year, business executives will start to communicate more their wage-setting stances ahead of the spring labor-management wage negotiations. Based on the experiences this year, the author feels that the degree to which wages will be hiked can be felt to some extent.

¹ [Daiwa's Economic View: BOJ's final answer in 2024 and broad-perspective review of monetary policy](#) (19 Dec 2024).

Meanwhile, the incoming Trump administration's tariff policy has already called for an additional tariff of 10% on Chinese goods, as well 25% tariffs on imports from Mexico and Canada. We do not know when or if other countries will be targeted for higher tariffs. Over time, the BOJ should be able to gather a little more information, but it is unclear when that would lead to "one notch more of information." Conditions regarding a rate hike may be difficult to grasp as of the 23-24 January MPM, which falls immediately after Trump's inauguration on 20 January.

Striving to make best policy decisions as humanly possible; policy management swayed by human emotion

The author, as a long-time observer of the BOJ, believes that policy management is very much a human endeavor. This time, Ueda explained the same implications, which became something relatable to the author. When asked by a reporter about the way information should be disseminated, Ueda talked about the hardships of trial and error. He specifically said, "At each point in time, we are forced to make the best decisions we can with the insufficient knowledge and tools we have. In this kind of situation, we take an approach of exploring the best way by adding a little bit of new information and new methods each time. The result, unfortunately, tends to be very discretionary or unpredictable or unclear." Then he explained, "If we can mechanically calculate the optimal policy interest rate from the given information and just follow it, then in a sense, that might be a bit of an extreme argument. I think there is the possibility that our existence will become meaningless and that the world will become one where AI can do everything. In that respect, I think we are doing the best we can as human beings right now." Policy decisions are not mechanical and the expression "the best we can be as human beings" is very weighty.

BOJ exploring possibility of raising rates within FY24, but has not decided on timing

Despite the fact that the data is currently on track and the probability of achieving the Bank's forecasts has increased somewhat, the BOJ did not raise interest rates at its December meeting because it wanted to first ascertain the momentum heading into the spring labor-management wage negotiations, as well as the policies of the incoming Trump administration. The Bank simply wanted a little more data. For this reason, it is hard to expect any new catalysts from Ueda's speech before the Japan Business Federation (Keidanren) on 25 December. On 27 December, the BOJ will release its "Summary of Opinions" for the December MPM. We need to use this document to confirm opinions expressed among the members regarding board member Naoki Tamura, who proposed an interest rate hike. We also need to confirm whether Tamura's proposal is intended to pave the way for an interest rate hike sometime in Jan-Mar 2025. The BOJ will have more opportunities to disseminate information to the market soon after the start of the new year. Such opportunities include the BOJ branch managers' meeting report (information on wages from hearings) on 9 January and the speech by BOJ Deputy Governor Ryoza Himino (in Yokohama) on 14 January. Meanwhile, against the backdrop of the Fed's slowing pace for interest rate cuts, there is a high possibility that the dollar will continue to strengthen and the yen will weaken. If the exchange rate leads to the risk of higher prices, the BOJ will have an opportunity to further normalize policy. There is also the possibility that fresh information regarding the policies of the new Trump administration will emerge. With the domestic economy on track, the BOJ is looking for an opportunity to raise interest rates within the current fiscal year, but it seems like the timing has not yet been determined. We will need to keep an eye on the Bank's information dissemination, while confirming future data.

Author participated in year-end gathering of economists

On the evening of 19 December, the author attended a year-end gathering of economists sponsored by the *Nikkei*, the Japan Center for Economic Research, and TV Tokyo Holdings. Since receiving the invitation in early October, the author was concerned that if there were any policy changes at the meeting, she might be unable to participate as she would need to scramble to cover the new policy, which would have been a disappointment. There are many business executives (people she meets at economic forums) and professors that she can only meet once a year at this event. Last year, as the event was held during the BOJ's pre-meeting blackout period, hardly any BOJ officials participated. However, this year's meeting was very significant as the

author could speak with many BOJ officials and other participants. Even though Ueda did not participate, there were always people gathered around former BOJ Governor Haruhiko Kuroda. It can be said that the BOJ made steady progress over the past year, not only in terms of ending negative interest rates, but also in terms of raising interest rates and planning to reduce its purchases of JGBs. Still, the Bank is only half way towards its goal of policy normalization. Prime Minister Shigeru Ishiba also rushed over to join this event. Despite being very busy with policy discussions and Diet deliberations, Ishiba spoke of his passion for regional revitalization. He also touched on the Osaka/Kansai Expo, one of the major topics for Japan in 2025. As an economist, the author would like to express her gratitude as this event has inspired her to continue making policy proposals for Japan.

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