Daiwa's View

FICC Research Dept.

Meeting between PM Ishiba and BOJ Governor Ueda: Tone raised by one notch

- Explicitly mentioned that they "talked about forex"

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BOJ Governor Kazuo Ueda met with Prime Minister Shigeru Ishiba at the Prime Minister's Office at noon on 3 September. This meeting came at a time when super-long JGBs have plummeted and yen selling has accelerated due to heightened concerns about political instability. Following this meeting, Ueda explained to reporters, "We exchanged views on the economic situation, price trends, market developments, and other related matters." He reiterated his recognition that, "There is no change to our stance that the Bank will raise interest rates as economic and price conditions improve, and we will continue to monitor developments without any preconceptions."

First meeting: (rate hikes) "We can afford to spend time scrutinizing developments"

This marked the third official face-to-face meeting between Ueda and Ishiba. The first meeting took place on 2 October 2024, following the formation of the Ishiba administration. At that time, Ueda said to the press, "I conveyed two points to Prime Minister Ishiba. First, the BOJ's monetary policy is now highly accommodative and firmly supporting the economy. Second, if the economy moves as the Bank anticipates, we will adjust the degree of monetary easing. We believe there is ample time to determine whether this is truly the case and I stated that we intend to monitor the situation carefully."

According to Ueda, the Prime Minister did not talk about any specific requests regarding the conduct of the Bank's monetary policy. However, Ishiba's remarks to reporters after the meeting are still fresh in our minds. At that time, in regards to an additional rate hike, Ishiba said, "Personally, I do not believe that we are in an environment that would require raising interest rates further." That became a major talking point (impacting the market).

However, just three months later (Jan 2025), after the BOJ stated it had "ample time to determine" its interest rate decision, the Bank raised its policy rate to 0.5% amid such conditions. This was its highest level since 2008, roughly 17 years ago.

Second meeting: "Did not talk about rise in long-term yield"

The second meeting between the two men took place on 20 February 2025. In light of the upcoming G20 Finance Ministers and Central Bank Governors Meeting in Cape Town, South Africa, they exchanged views on economic and financial conditions at home and abroad. Following this meeting, Ueda said to reporters, "I plan to attend next week (G20 meeting), so I requested a meeting with the prime minister ahead of that."

This meeting occurred at a time when there were rising expectations for a BOJ rate hike, which significantly pushed up the 10-year JGB yield. When asked whether he had exchanged views with Ishiba regarding the rising 10-year JGB yield, Governor Ueda stated, "We did not talk about that today."

However, speaking before the Diet (Lower House Budget Committee) on the following day, Ueda said that under exceptional circumstances where the 10-year JGB yield rises sharply, we will flexibly increase our purchases of JGBs. This was interpreted as a move to curb the rising 10-year JGB yield, which had been steadily climbing day after day. As a result, the 10-year JGB yield pulled back.

Third meeting: "Talked about forex"

Following the third meeting on 3 September 2025, Ueda explained to reporters that, "We occasionally meet. As in the past, we exchanged views on general economic and price conditions, market trends, and other matters." However, Ueda went onto say, "We discussed every aspect of the economy. The topic of foreign exchange also came up during our discussions, but I will refrain from commenting on specific details." Here, Ueda specifically stated that the topic of foreign exchange also came up.

Furthermore, Ueda explained in regards to exchange rates, "We believe it is desirable for the exchange rate to move stably in line with fundamentals. We intend to monitor market trends while maintaining contact with the government."

As mentioned above, regarding the decision to raise interest rates, Ueda stated, "If the economic and price outlooks materialize, our stance will remain unchanged. Specifically, we will raise interest rates as economic and price conditions improve." Here, he simply reiterated the current policy stance (as of July *Outlook Report*). He added, "We want to judge situations without any preconceptions."

This stance of "judging whether outlooks will be realized, without any preconceptions" was expressed in the BOJ's April *Outlook Report* and July *Outlook Report*, as well as during post-meeting press conferences. In a sense, a timeframe defined as "ample time to determine" has not been set.

◆ **Jul BOJ *Outlook Report* (31 Jul 2025)**

- As for the conduct of monetary policy, given that real interest rates are at significantly low levels, if the aforementioned outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.
- In this regard, considering that high uncertainties remain regarding the future course of trade and other policies in each jurisdiction and the impact of these policies, it is important for the Bank to carefully examine factors such as developments in economic activity and prices as well as in financial markets at home and abroad, and judge whether the outlook will be realized, without any preconceptions.

Cautious tone regarding financial market trends (including forex) raised one notch

During a speech on 2 September, BOJ Deputy Governor Ryozo Himino said, "Without any preconceptions, we will continue to monitor the economy closely to see if the baseline scenario unfolds as expected." During his press conference following this speech, Himino said regarding the future conduct of monetary policy, "Rather than focusing solely on the certainty of the outlook, we make decisions by considering the certainty of the baseline scenario alongside risks in both upward and downward directions."

◆ **BOJ Deputy Governor Ryozo Himino (2 Sep 2025)**

- If the baseline scenario described earlier is realized, it would be appropriate for the Bank to continue, in accordance with improvement in economic activity and prices, to raise the policy interest rate and adjust the degree of monetary accommodation. That said, as previously noted, there are risks to economic activity and prices in both directions. Without any preconceptions, we will continue to monitor the economy closely to see if the baseline scenario unfolds as expected.

At this stage, when the minimum data (BOJ's Tankan survey, others) needed to assess whether the baseline scenario will actually unfold has not been confirmed, it was unthinkable for one of BOJ leadership, specifically a Deputy Governor, to make definitive statements about the future policy path, including the timing of additional rate hikes. However, ultimately, the fact that Himino's speech was perceived as dovish seems to have led to a return to trends mindful of falling "behind the curve." Naturally, a weaker yen directly entails bigger-than-expected upside risks for the BOJ's price outlook. There is no change to the BOJ's recognition that, "With firms' behavior shifting more toward raising wages and prices recently, exchange rate developments are, compared to the past, more likely to affect prices."

◆ **Jul BOJ *Outlook Report* (31 Jul 2025)**

- The second risk is **future developments in foreign exchange rates and import prices, including international commodity prices, as well as the extent to which such developments will spread to domestic prices.** This risk may lead prices to deviate either upward or downward from the baseline scenario. There are high uncertainties over the outlook for the global economy, including the future course of trade and other policies in each jurisdiction, which could lead to a rise in import prices from the supply side or to significant fluctuations in foreign exchange rates and international commodity prices.
- In this regard, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments are, compared to the past, more likely to affect prices.

Moreover, given the current political trends, Himino needed to be cautious about adopting a hawkish tone that could be interpreted as provoking interest rate hikes amid such instability. That is precisely why the Bank carefully described the "upside and downside risks" associated with its "baseline scenario." Meanwhile, as the decline in real wages (household take-home pay) becomes a political issue, there is also strong concerns about a weak yen worsening inflation.

During the second meeting, since the 10-year JGB yield rise occurred during a period for correcting yen depreciation, it was appropriate to remain silent and just observe while saying, "We haven't discussed that today." However, this time, with super-long JGBs falling sharply and yen selling also increasing, the BOJ finds itself in a difficult situation. Simply extending the timeline for interest rate hikes will not solve the problem. The BOJ governor's explicit mention that they "talked about forex" suggests, at the very least, that the tone of caution regarding financial market trends, including foreign exchange, has been raised a notch.

◆ **Opinions on Prices in Summary of Opinions at Jul MPM (8 Aug 2025)**

- During the time of the deflationary norm, temporary factors that push down prices had a large impact. More recently, however, while the impact of factors that push down prices -- such as a decline in import prices -- tends not to become widespread, temporary factors that push up prices tend to have a large impact. Developments that lie behind this change may include the following: increasing labor shortages, the changing mindset of firms and consumers with regard to price and wage setting and to cost pass-through, and rising inflation expectations.

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