

Daiwa's Economic View

Points of interest regarding Sep BOJ MPM: US economy and political situation in Japan will be key to next rate hike

- BOJ expected to maintain status quo, but we should keep an eye out for any changes in its assessment of US economy
- Strong corporate trends likely in Oct
- Of key importance going forward will be US economy and Japanese political landscape

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BOJ expected to maintain status quo at Sep MPM, but we should keep an eye out for any changes in its assessment of US economy

The BOJ is expected to keep its monetary policy unchanged at the Monetary Policy Meeting (MPM) scheduled for 18-19 September.

We believe assessing the following three points will be crucial in determining the next rate hike: (1) corporate trends, mainly in the manufacturing sector, which is susceptible to impact from tariff policies, (2) US economic conditions, and (3) the Japanese political situation. The BOJ Tankan and the results of the branch managers' meeting, which will both be released in October, will be crucial for determining corporate trends. Therefore, the BOJ is unlikely to make overly aggressive remarks regarding rate hikes at the September meeting. At the post-meeting press conference, we expect the BOJ to reiterate its policy of raising rates while also acknowledging that great uncertainty remains.

There has also been growing uncertainty recently regarding the weakening US labor market and the Japanese political situation. Regarding the political situation in Japan, in particular, the Liberal Democratic Party (LDP) presidential election is scheduled for 4 October, which could lead to an unstable political environment and potentially hinder an early rate hike by the BOJ. That said, as the BOJ is unlikely to comment on political matters at the post-meeting press conference, we will be paying particular attention to any changes in its assessment of the US economy.

Solid corporate trends very likely to be confirmed going forward

The second preliminary estimate of real GDP for Apr-Jun 2025, released on 8 September, showed q/q annualized growth of +2.2%, an upward revision from the first preliminary estimate of +1.0%, due to upward revisions to personal consumption and inventory changes. The strong growth in the Apr-Jun quarter was the result of a combination of several factors: (1) solid domestic demand, such as personal consumption and capex, (2) last-minute demand ahead of the implementation of tariffs, and (3) a special factor in which companies mitigated the negative impact on the volume of exports by lowering their export prices.

However, the impact of tariffs is likely to become more apparent from the Jul-Sep quarter onwards. Real exports to the US in July fell by 6.1% m/m (after seasonal adjustments). Total supply of capital goods (excluding transport equipment) for July—a coincident indicator for capex—was down 5.7% q/q. This suggests that the negative impact of tariffs on exports and capex is beginning to emerge.

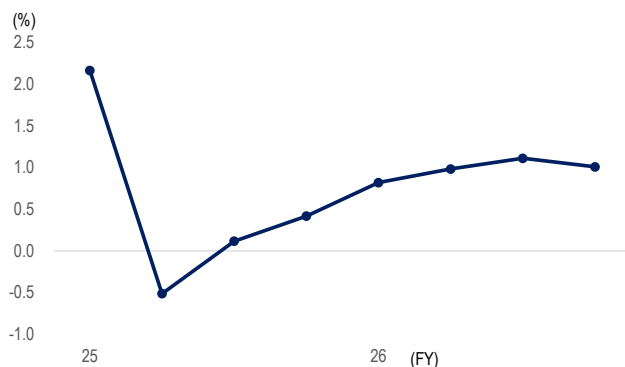
To determine whether this impact will be a greater shock than the BOJ anticipates, key indicators to watch are the Tankan (to be released on 1 Oct) and the results of the branch managers' meeting (6 Oct). At a press conference on 2 September, BOJ Deputy Governor Ryoza Himino stated that the impact of tariffs would become apparent from now on, citing information from corporate hearings as an important source of information.

We believe that there is a high probability that the BOJ Tankan (Sep survey to be released in Oct) will indicate solid corporate trends. The business conditions DI for manufacturers in the September QUICK Tankan rose sharply to +24 (from +15 in Aug), and the August Reuters Tankan also showed an improvement in the manufacturing business conditions DI to +9 (from +7 in Jul).

At [his press conference on 2 September](#), BOJ Deputy Governor Himino also commented that, if the BOJ could confirm that the impact was not that significant, it would, if anything, be a factor pushing in the direction of a rate hike. If the October Tankan and other data confirmed that the impact was not significant, the BOJ would very likely be able to take initial steps towards a rate hike.

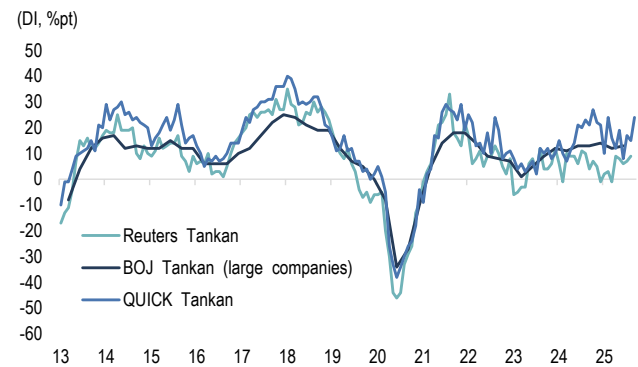
On the price front, in addition to labor shortages and changing thinking regarding price-setting behavior, there are increasing [structural upside risks](#), such as de-globalization and climate change. A 9 September Bloomberg article noted that "The US-Japan trade deal has removed a key source of uncertainty," and that the BOJ was continuing to consider the possibility that conditions could be met for a hike within the year. Given the current economic and price trends in Japan, we judge that there is a high probability of a rate hike within the year, including at the October MPM.

Real GDP Forecasts (q/q annualized)



Source: Compiled by Daiwa.

Business Conditions DI (manufacturing sector)



Source: BOJ, Reuters, QUICK; compiled by Daiwa.

Of key importance going forward will be US economy and Japanese politics

US economic trends and Japanese politics will be greater key factors to when the next rate hike takes place. The US jobs report for August, released on 5 September, showed that non-farm payrolls (NFPs) increased by only 22,000 m/m, significantly below the market consensus of +75,000. The number of NFPs for the previous two months were also revised down by a total of 21,000. Furthermore, the annual benchmark revisions to the jobs data on 9 September lowered the number of employees during April 2024-March 2025 by 911,000, making the weakening of the labor market even more apparent.

The 9 September Bloomberg article also said that "The BOJ is also closely watching the course of the US economy including whether it can achieve a soft landing." If the US unemployment rate continues to rise in October and the Fed signals significant concern about downside risks to employment, the BOJ will be forced to become increasingly cautious regarding the US economy. This could become a factor preventing a BOJ rate hike within the year.

[Political uncertainty in Japan following the announcement of Prime Minister Ishiba's resignation could also hinder an early rate hike.](#) Voting and vote counting for the LDP presidential election, which will be a full-scale election involving votes by rank-and-file party members, are slated for 4 October. The period between the election and the October MPM (29-30 Oct) is extremely short. It is conceivable that political instability could make it difficult for the BOJ to decide to implement an early rate hike.

Who becomes the new LDP president will be crucial from the standpoint of the continuity of policy between the government and the BOJ. If the new president's stance on monetary policy does not differ significantly from the Ishiba administration, the start of the new administration may not necessarily become a factor preventing an early rate hike.

Expected Schedule Regarding Political and Budgetary Issues

	Date	Events
2025	20-Jul	27th House of Councillors election (ruling coalition lost majority)
	7-Sep	Prime Minister Shigeru Ishiba announced his resignation
	9-Sep	Decision on rules and procedures for LDP presidential election
	~Mid/late Sep	Candidates announce their candidacies
	4-Oct	Day of LDP presidential election (voting and ballot counting)
	Mid-Oct	Convening of extraordinary Diet session, and election of new Prime Minister
	Late Oct-Nov	Formulation of economic measures
	Early Dec	Compilation of supplementary budget, and revision of JGB issuance plan
	Around end-Dec	Cabinet decision on initial FY26 budget and tax reform outline, and revision to JGB issuance plan
2026	Jan	Convening of ordinary Diet session
	Around Mar	LDP Convention

Source: Various media reports; compiled by Daiwa.

Factors behind article based on sources from those in the know

The 9 September Bloomberg article also said that “Bank of Japan officials are of the view that it may be possible to raise the benchmark interest rate again this year regardless of domestic political instability” (following the announcement of Prime Minister Shigeru Ishiba’s resignation). Since the resignation was announced on 7 September, market pricing for a rate hike within the year has receded rapidly. Factors behind this article probably include: (1) communication with the market based on the aforementioned economic and price conditions in Japan, (2) concerns about forex rates and consideration for the US administration, and (3) securing the BOJ’s credibility.

On 13 August, [US Treasury Secretary Scott Bessent](#) expressed strong concerns about the impact of the BOJ’s monetary stance on the financial market, saying “They’re behind the curve. So they’re going to be hiking... (In the context of higher US yields) there’s definitely leakage from — the Japanese have an inflation problem.” Subsequently, [at a meeting between Prime Minister Ishiba and BOJ Governor Kazuo Ueda on 3 September](#), Governor Ueda explicitly stated that the topic of exchange rates also came up, indicating that the BOJ was also heightening its vigilance regarding currency risks. Given this, we see it as highly likely that the 9 September article was influenced by concerns about forex rates and considerations for the US administration. An intention to reduce concerns about being “behind-the-curve” in the market seems to have also been another factor behind the article.

We also think the BOJ intended to send a message that it would not be overly swayed by political factors, including pressure from the government. The article quotes an official pointing to the possibility that fiscal expansion could create upside potential for the economy and prices, making it clear that the BOJ would base its policy decisions on economic and price conditions. This clearly demonstrates the BOJ’s position that central bank independence and credibility are prerequisites for its policy judgments.

Given that downside risks indicated by domestic economic indicators are diminishing, as the Bloomberg article suggests, it is highly likely that the key factors for monetary policy decisions—such as corporate behavior in response to US tariffs and the programs of the new administration—will become available this autumn. If these new factors reduce uncertainty, the conditions for a rate hike within the year will likely be in place.

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