Daiwa Securities

Daiwa's View

Benefits vs costs of waiting: Re-examining December rate-hike argument

- Building momentum for Oct rate hike; want to maintain balanced perspective by deliberately examining benefits of waiting until Dec
- While Dec argument has at least five benefits, none are decisive in this case
- High likelihood of additional rate hike (to 0.75%) decided at Oct MPM provided upbeat Tankan, hearings; additional speech by BOJ Deputy Gov Himino announced on 30 Sep (slated for 21 Oct) likely another step toward improving BOJ communication regarding interest rate hikes

FICC Research Dept.

Eiichiro Tani, CFA
81-3-5555-8780
eiichiro.tani@daiwa.co.jp

Daiwa Securities Co. Ltd.

Tankan

The BOJ's Tankan survey (Sep) was released at 8:50 a.m. on 1 October. Of course, the Tankan survey is always important, but even more so with the BOJ currently pausing interest rate hikes due to concerns about downside risks. The Bank has also repeatedly stated that the Tankan survey is a key indicator for resuming rate hikes. As such, the September survey is particularly important.

◆ **Summary of Opinions at 18-19 Sep MPM (30 Sep 2025)**
- An examination of the Tankan (Short-Term Economic Survey of Enterprises in Japan) and anecdotal information from firms is required to determine whether firms have maintained their active business stance.

On 16 September we released a report presenting our outlook for the September BOJ Tankan survey. Following the US/Japan tariff agreement, we anticipated an improvement in the business conditions of large manufacturers and we expected capex plans to remain at high levels. We expect solid corporate performance confirmed by the data to further increase momentum for a BOJ rate hike in October.

At this juncture, the current rate hike probabilities factored in by the OIS market are 67% for the October Monetary Policy Meeting (MPM), 12% for the December MPM (cumulative 79%), and 24% for the January 2026 MPM (cumulative 103%). It is highly likely that an additional rate hike will be implemented at the October MPM, provided that solid data is confirmed and the high probability of rate hikes persists, from the perspective of avoiding a dovish surprise (we expect rate hike in Oct). On 30 September, a speech by BOJ Deputy Governor Ryozo Himino, slated for 21 October, was added to the Bank's schedule of speeches. This means that a total of three speeches/press conferences by the BOJ Governor and deputy governors will take place before the October MPM. As such, the BOJ is fully prepared to enhance communication ahead of a possible rate hike.

Reviewing benefits of waiting until December

That said, under these circumstances, it is important to deliberately set aside the October argument and re-examine the benefits of waiting until December, in order to maintain a balanced perspective. So, what could be the benefits of waiting until December?

(1) The biggest benefit to come from waiting until the December MPM is that the BOJ would have one more opportunity to review a Tankan survey before making a rate hike decision. The BOJ's December Tankan survey is scheduled to be released on 15 December, with the full survey results scheduled for release on the 16 December. This Tankan schedule was designed to come out just before the December MPM scheduled for 18-19 December. As such, if there are any remaining concerns from the September survey (released on 1 Oct), the benefits of waiting until the December MPM, when the December survey can be confirmed, may become more apparent.

(2) The BOJ can also check the first and second preliminary estimates for the Jul-Sep GDP. If the September Tankan survey or information from hearings is weak, the benefit of confirming the Jul-Sep GDP would become more significant.
(3) This would allow the BOJ to take more time to confirm the situation surrounding domestic politics.
(4) Likelihood of avoiding any overlap with the Fed's rate cuts increases. The probability of a rate cut at the December FOMC meeting, currently priced into the OIS market, is around 37%. This means there is a 63% chance of avoiding an overlap (Japan rate hike at same time as Fed rate cut). Moreover, the December FOMC meeting is scheduled for 9-10 December, meaning it is more than a week apart from the BOJ's MPM.
(5) If the release of September US employment statistics is postponed due to a US government shutdown, the BOJ will have time to wait for the data to be released.

In this manner, the above five benefits can be taken into consideration for making a rate hike in December. Taking these points into consideration, it is also true that December is not such a bad option that it should be completely ruled out.

Cost vs benefits

That said, while acknowledging the existence of the above benefits, we believe there is no need for the BOJ to wait until December. For example, point (3) (domestic political conditions seen as leaning toward fiscal expansion (mitigating downside risks)) and point (4) (Fed rate cut for risk management further enhancing likelihood of a soft landing for the US economy) are unlikely to be decisive factors constraining the BOJ from hiking rates in this case (see our 24 Sep *Daiwa's View "Will overlapping Fed and BOJ meetings and domestic political situation constrain rate hike by BOJ?"*).

Also, as for point (5), the risk of delayed release of jobs report due to a US government shutdown could also prompt the Fed, which is currently highly vigilant about downside risks to the labor market, to cut rates in October. Here, downside risks to the US economy are likely to ease. If that is the case, it is unlikely to be a decisive factor causing the BOJ to hold off on hiking rates in October.

Ultimately, if we believe that Fed rate cuts will sufficiently address downside risks for the US economy, the key factors for the BOJ (which is currently pausing rate hikes out of strong concern about downside risks for Japan/US economies) would become (1) and (2), both of which are domestic economic factors. Therefore, if the 1 October Tankan survey further "clears the fog," the benefits of waiting to hike rates would diminish, while the costs of waiting would steadily increase. From a cost-benefit perspective, the likelihood of an October rate hike would increase.

Instincts

The difference in timing between an October and a December rate hike holds little significance from a macroeconomic analysis perspective. One reason why our economists disclose their BOJ rate hike forecasts on a quarterly basis, such as Oct-Dec, is that they do not find any significance in terms of economic analysis in these slight differences in timing. The BOJ has already effectively signaled an interest rate hike for the period through January 2026. Furthermore, we think the economic analysis (≈ whether economy/prices on track) required for the decision to raise rates from 0.5% to 0.75% has been completed for the most part. If that is the case, the skill required for predicting the final, specific timing for rate hikes is the ability to assess the costs and benefits of waiting. Or in other words, good risk management instincts (fundamentally different from economic analysis skills).

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