

# Economic Commentary (Jun BOJ MPM)

## BOJ maintains stance on future rate-hike decisions

- BOJ raises policy rate to 1% on upside risks to inflation
- Board member Asada proposes remaining on hold; watch for dovish bias ahead
- BOJ continues to position faster rate-hiking pace as sub-scenario

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## Rate hike to address upside inflation risks

At its Monetary Policy Meeting (MPM) on 15-16 June, the Bank of Japan (BOJ) voted by a 7-1 majority to raise the uncollateralized overnight call rate (policy rate) from 0.75% to 1%, its highest in around 31 years. We note that Governor Kazuo Ueda was hospitalized for treatment of an infectious disease and did not take part in the vote, though he apparently gave his views in writing.

As the rationale for the hike, the BOJ cited a decline in downside risks to the economy alongside rising upside risks to prices, as well as the fact that monetary conditions remain accommodative even after the hike. Specifically, it noted that the risk of a major economic downturn has diminished, supported by high corporate earnings, improvement in employment and income conditions, various government policies, and progress in alternative procurement, and given the moderately rapid pass-through of rising costs into producer prices, it cited the risk of underlying CPI inflation deviating upward to a level above its 2% price stability target.

At the December 2025 meeting, the BOJ's rationale for raising rates was the increased likelihood of realizing its baseline scenario. By contrast, the latest decision reflects growing upside risks to prices, suggesting that the main driver of its policy decisions has shifted from realization of its outlook toward the balance of risks.

We would note that the hike at today's meeting had been largely priced in by the market ahead of time. The focus was rather on the signals the BOJ sent about the future pace of rate hikes.

## Signals about rate-hike pace (1): Dissenting vote against 25bp hike

Board member Toichiro Asada voted against the decision to raise rates on the view that "regarding the impact of the situation in the Middle East, downside risks to production and employment were greater than upside risks to prices, and it was desirable for the Bank to maintain the guideline for money market operations." We would note that there was no more hawkish dissent, such as a call for a 50bp hike, and the statement gives no impression that the balance within the Policy Board is shifting further in a hawkish direction.

If anything, the dissent from Mr. Asada, who joined the board on 1 April under the Takaichi administration, points to the possibility that the balance of views among the Policy Board could skew in a relatively more dovish direction in future. Ayano Sato is set to join the board at the end of June as Junko Nakagawa's successor, and Hajime Takata and Naoki Tamura will step down in July 2027.

## Signals about rate-hike pace (2): Monetary policy assessment

On the conduct of monetary policy, the BOJ revised its previous language stating that "real interest rates are at significantly low levels" to "financial conditions have been accommodative." The market had taken the phrase "real interest rates are at significantly low levels" as indicating the distance to the neutral rate, but we think the revision more clearly signals the BOJ's intention of judging the degree of accommodation based on macro-level monetary conditions, including corporate demand for funds, as well as the level of real interest rates.

That said, the wording that accommodative monetary conditions will be maintained even after the hike retains the language used at the time of the December 2025 hike. We think the BOJ continues to view the neutral rate as some way off.

Meanwhile, the BOJ retained the policy that "the Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions," along with the phrasing that "it will consider the timing and pace of adjustment, while closely monitoring the impact of the future course of the situation in the Middle East on Japan's economic activity and prices and examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook."

This follows the BOJ's existing stance of treating realization of its baseline scenario as the main driver of rate-hike decisions while allowing the pace of hikes to vary depending on risks. We therefore think it continues to position a faster pace of rate hikes as a sub-scenario in cases where upside risks to prices emerge.

## Conclusions on rate-hike pace

The BOJ's basic policy stance has not changed significantly from the April meeting. It maintains a framework of proceeding with rate hikes in line with its baseline scenario while securing flexibility on the timing and pace according to the balance of risks. Today's statement also gives no sense that the balance within the Policy Board is shifting further in a hawkish direction.

That said, the BOJ also referred to the "risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent." While this keeps the baseline for rate hikes at roughly once every six months, it also hints at the possibility of a faster pace.

However, this is as Governor Ueda hinted at his 3 June press conference. We do not think today's statement by itself was a clear signal that the BOJ plans to pick up the pace of rate hikes in future.

## Interim assessment of planned reductions in JGB purchases

The meeting also conducted an interim assessment of planned reductions in JGB purchases, and decided to (1) maintain the current plan to cut purchases to Y2.1tn per month by the January-March 2027 quarter, and (2) conduct purchases of around Y2tn per month from April 2027. However, with redemptions exceeding purchases, the BOJ's JGB holdings themselves will continue to decline.

That said, the decision to maintain purchases at around Y2tn per month from April 2027 is dovish relative to prior expectations, and we read it as a decision that places relatively more weight on market stability than on improving the functioning of the JGB market.

In his 3 June speech, Governor Ueda likewise stated that "the functioning of the JGB market is steadily improving," while, in light of the increase in the amount outstanding in the market, he noted that "portfolio adjustment will take time." The latest decision is consistent with this view.

That said, if the dovish signal of maintaining purchases at around Y2tn per month from April 2027 becomes linked to concerns over fiscal financing or inflation, there is a risk it could lead to higher long-term yields and downward pressure on the yen. On this point, the BOJ stated that it will

review the pace of purchases as needed at future MPMs, in light of its basic thinking on JGB purchases and JGB market trends, leaving policy flexibility intact.

#### BOJ's Estimates for Amount Outstanding of Its JGB Holdings

	Amount outstanding of BOJ's JGB holdings	Percent reduction from end-Jun 2024 (compared to before reduction)
End-Mar 2027	Around Y480tn	Around 17%
End-Mar 2028	Around Y430-440tn	Around 24-25%
End-Mar 2029	Around Y390-400tn	Around 31-32%
End-Mar 2030	Around Y350-370tn	Around 36-39%

Source: BOJ; compiled by Daiwa.

Notes: (1) Figures are estimated assuming that the monthly purchase amount will be maintained at about Y2tn. Based on face value.

(2) The composition of purchases by residual maturity, etc. is assumed to remain broadly unchanged.

### Deputy Governor Uchida's press conference: High bar for hawkish read versus expectations

With Governor Ueda hospitalized, this press conference will be handled by Deputy Governor Shinichi Uchida rather than Deputy Governor Ryozi Himino, who chaired the MPM. Mr. Uchida was hospitalized for leukemia treatment last November and was discharged on 26 May, making this his first public press conference since his discharge. There are four points of interest in this press conference: (1) the message on the conduct of monetary policy, (2) the assessment of the balance of risks to prices, (3) whether there is a hawkish shift among Policy Board members, and (4) the assessment of the Middle East crisis.

First, judging by the meeting statement, we see no major change in the basic stance of the BOJ's leadership. It maintained the basic policy that "the Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions", and accelerating the pace of rate hikes is likely to remain only a sub-scenario for cases where upside risks to prices emerge.

Even after raising the policy rate to 1%, the BOJ maintained its view that "financial conditions have been accommodative", which suggests that it still sees the policy rate as well below the neutral rate. In terms of where the hiking cycle ultimately ends, the BOJ is likely to maintain its existing decision-making framework based on assessing economic, price, and financial conditions. The framework described in the meeting statement suggests that the press conference is also likely to stick with explanations consistent with the existing policy framework.

That said, Mr. Uchida is likely to signal vigilance toward upside inflation. With underlying inflation approaching 2%, domestic producer prices rose a strong +6.3% y/y in May, focusing attention on pressure to pass through rising costs into consumer prices. In line with the meeting statement, we expect him to mention concerns about underlying inflation exceeding 2%.

The press conference may also touch on the discussion at the MPM, and we will be watching for any signs of a change in the balance of views among Policy Board members. At the press conference after the April meeting, Mr. Ueda hinted at a heightened awareness of upside risks to prices within the Policy Board. That said, the latest statement did not signal a further hawkish shift among board members.

Even if Mr. Uchida strikes a hawkish tone on these points, given that the BOJ maintained its basic stance in the meeting statement, we think it would likely not be read as an immediate signal of a faster pace of rate hikes. We therefore see a high bar to Mr. Uchida's statements being perceived as clearly hawkish compared with expectations.

We would note that, while the previous April meeting positioned the outcome of the Middle East crisis as a key factor shaping the outlook, the provisional US-Iran ceasefire agreement announced on 15 June (formal signing scheduled for 19 June) has altered this premise.

That said, the reopening of the Strait of Hormuz will not immediately normalize energy supplies, and restoring supply chains will take some time. Moves by various countries to secure alternative procurement are also expected to continue, and the associated cost increases could remain a source of upward pressure on prices.

As a result, developments in the Middle East greatly mitigate downside risks to the economy from a volume shock, but upside risks to prices look set to persist for the time being. The assessment of the Middle East crisis itself will be an important topic at the press conference, but uncertainty remains over the durability of the peace agreement. As the statement also cited "the future course of the situation in the Middle East" as a risk factor, we expect Mr. Uchida's press conference to hew closely to the BOJ's existing stance of remaining vigilant about an inflation overshoot while monitoring external risks.

#### Decisions at Jun 2026 BOJ MPM

##### Economic activity: developing generally in line with the baseline scenario

Japan's economy is expected to continue growing moderately, albeit at a decelerated rate.

##### Downward pressure on economic activity

- Higher crude oil prices reflecting the situation in the Middle East

##### Factors supporting economic activity

- High levels of corporate profits and improvement in the employment and income situation

##### Reduced risk of a significant slowdown in the economy

- The effects of the government's initiatives including measures to reduce the household burden of higher energy prices
- Progress in securing alternative sources of supply for raw materials that are highly dependent on the Middle East

##### Prices: risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent

##### Inflationary pressure stemming from the rise in crude oil prices

- Relatively fast pace of price pass-through in business-to-business transactions
- The price pass-through could spread to an increase in consumer prices across a wide range of items
- Continued rise in medium- to long-term inflation expectations

Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

#### Short-term interest rate : raised to "around 1.0%" (uncollateralized overnight call rate) (previously "around 0.75%")

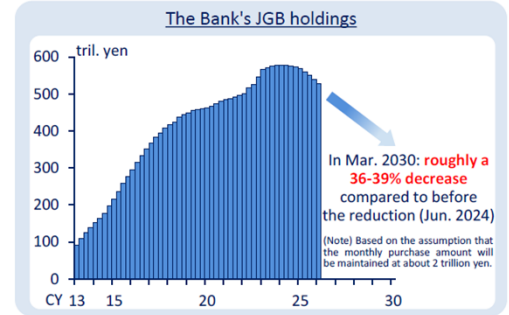
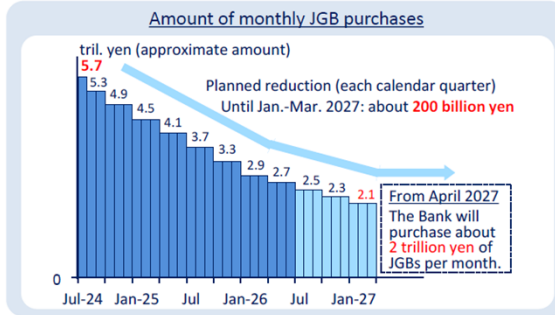
- Accommodative financial conditions are expected to be maintained, continuing to firmly support economic activity.
- The Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions.
- The Bank will consider the timing and pace of adjustment, while examining the likelihood of realizing the baseline scenario and the risks to the outlook.

Source: Reprinted from BOJ materials.

**Plan for Outright Purchases of JGBs (Jun 2026 MPM)**

1. In principle, long-term interest rates are to be formed in financial markets.
2. It is appropriate for the Bank to **conduct the purchases of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets.
  - Based on this thinking, with a view to **improvement of market functioning** and **stability of the JGB markets**, the Bank will conduct the outright purchases of JGBs as follows.
    - Until January-March 2027 : The Bank will reduce the planned amount of its monthly purchases of JGBs by, in principle, about **200 billion yen** each calendar quarter (the reduction plan decided in June 2025 will be maintained).
    - From April 2027 : The amount of its monthly purchases of JGBs will be about **2 trillion yen**.

**Purchases of JGBs in a Predictable Manner**



**Allowing Enough Flexibility**

1. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
2. The Bank is prepared to amend the pace of its JGB purchases at the MPMs, if deemed necessary, taking into account the basic thinking on the purchases of JGBs and other factors such as developments in the JGB markets.

Source: Reprinted from BOJ materials.

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