

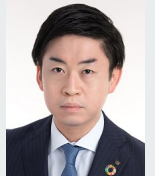
Daiwa's Economic View

“Summary of Opinions” at June BOJ MPM: Emergence of upside momentum and scope for front-loading the rate hike path

- AI-driven demand shocks are reinforcing inflation persistence
- Focus of monetary policy is shifting from interest rate levels to comprehensive assessment of financial conditions
- Rate hikes are expected to continue; while the pace is uncertain, front-loading is not ruled out

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Economic and price assessment: Declining downside risks and inflation pressures stemming from external demand

The Summary of Opinions from the BOJ's June Monetary Policy Meeting (MPM) indicates that [the Bank's assessment of the economy has shifted toward an upside bias](#), reflecting a decline in downside risks. A shared assessment is that, despite entering a deceleration phase, the Japanese economy is maintaining a virtuous growth cycle.

Concerns regarding energy supply constraints have receded, and the risk of amplified supply shocks has diminished due to progress in alternative procurement. As a result, the likelihood of a rapid slowdown scenario driven by exogenous shocks has diminished, and the certainty of the baseline scenario – “the economy is expected to maintain a virtuous growth cycle, albeit at a decelerated pace” – has increased.

Opinions on Economic Developments in Summary of Opinions at Jun MPM (24 Jun 2026)

Opinions on Economic Developments	
1	Japan's economy has recovered moderately, although some weakness has been seen in part, partly due to the impact of the situation in the Middle East. As for the outlook, while higher crude oil prices are likely to exert downward pressure on economic activity, Japan's economy is expected to continue growing moderately, albeit at a decelerated rate, supported by factors such as high levels of corporate profits, as well as the effects of various government measures and progress in securing alternative sources of raw materials.
2	Downside risks to economic activity have decreased , given developments such as robust corporate profits supported mainly by strong AI-related demand , solid wage increases, and progress in various government measures and in securing alternative sources of raw materials. Japan's economy has been developing in line with the baseline scenario presented in the April 2026 Outlook for Economic Activity and Prices, in which the economy is expected to maintain a virtuous growth cycle, albeit at a decelerated pace.
3	With overseas economies experiencing an upswing driven by the demand shock from the global expansion of AI-related demand , the deterioration in the terms of trade reflecting higher crude oil prices has been mitigated, and concerns over an economic slowdown have subsided.
4	Business performance remains favorable from a macroeconomic perspective , and a stable employment and wage environment and various government measures have been supporting private consumption despite price increases.
5	Although an agreement has been reached to end the conflict in the Middle East, looking at the supply shocks caused by the conflict, the downside risks to production and employment appear to be greater than the upside risks to prices. The downside risks to production and employment may disrupt the virtuous cycle between wages and prices, and in the worst-case scenario, this could potentially cause Japan's economy, which appears to have overcome a prolonged period of deflation and transitioned to an inflationary phase, to fall back into deflation again.

Source: BOJ; compiled by Daiwa.

Underlying this change in economic perception are “demand shocks stemming from overseas developments.” There was a shared understanding that [the expansion of global AI-related demand is pushing up economic activity and prices more than anticipated](#). It is important to note that the nature of inflationary pressure in Japan is changing from a conventional cost-push type, originating from import prices, to one that includes an external demand-driven demand-pull type. AI investments, semiconductors, and data center-related demand are boosting the output gap, and the assessment of inflation persistence is also changing.

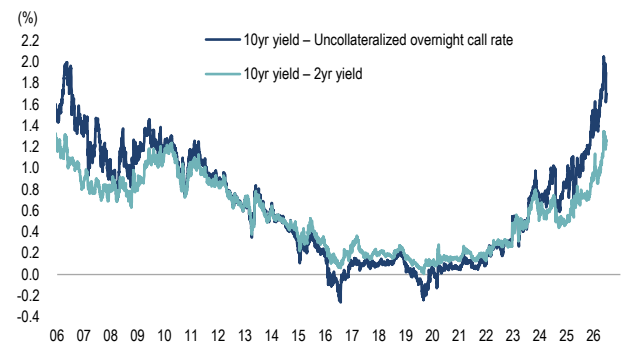
On the price front, upside risks have become more pronounced. In addition to the acceleration of price pass-through originating from import prices, “inflation expectations have shown signs of shifting as indicated by, for example, the break-even inflation (BEI) rate and the widening spread between short- and long-term interest rates.” With real interest rates remaining in negative territory, demand and asset prices are mutually reinforcing as increased lending, CP issuance, and higher asset prices overlap. In other words, there is growing awareness of a transition toward an inflationary phase accompanied by credit creation and asset price appreciation.

Japan's 10yr BEI, USD/JPY Rate



Source: Bloomberg; compiled by Daiwa.

Long-term/short-term Yield Spread (10yr yield, uncollateralized overnight call rate, 2yr yield)



Source: Bloomberg; compiled by Daiwa.

Furthermore, another board member pointed out that rising distribution costs have already begun to feed through into inflation. “While the wage-setting stance of small and medium-sized firms has not become cautious,” inter-company price increases are evident, and it was recognized that rising distribution costs, in particular, could push up underlying inflation. [Price increases are beginning to spread to a broader range of goods and services.](#)

Such movements also lead to secondary spillovers through corporate profits and asset prices. The “robustness of corporate earnings and stock prices” spills over into wages, consumption, and pricing behavior, acting to sustain upward pressure on prices. As a result, upward price pressure is strengthening across corporations, households, and financial markets.

Opinions on Prices in Summary of Opinions at Jun MPM (24 Jun 2026)

Opinions on Prices	
1	Underlying CPI inflation is likely to increase gradually, as the mechanism in which wages and prices rise moderately in interaction with each other is expected to be maintained. Underlying CPI inflation is expected to come to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027.
2	Although the year-on-year rate of increase in the CPI has recently been at a level below 2 percent, there is a risk of underlying CPI inflation deviating upward to a level above 2 percent , given the possibility that the relatively fast pace of price pass-through in business-to-business transactions could spread to an increase in consumer prices across a wide range of items, as well as the rise in inflation expectations.
3	The impact of the rise in crude oil prices is already spreading to midstream business-to-business prices. In this situation, more concern is warranted about the risk that this could lead to a rise in prices, given that firms' price-setting behavior is becoming more active.
4	While the wage-setting stance of small and medium-sized firms has not become cautious, the rise in business-to-business prices has already become evident, and the increase in distribution costs, in particular, could affect underlying inflation.
5	Price pass-throughs are highly likely to accelerate, driven by higher import prices. In addition, inflation expectations have shown signs of shifting as indicated by, for example, the break-even inflation (BEI) rate and the widening spread between short- and long-term interest rates, and the negative real interest rate has led to an increase in lending and CP issuance and a rise in asset prices.
6	If business performance and stock prices maintain a certain level of robustness, inflationary pressure is likely to continue with the effects of such robustness spilling over.
7	Procurement costs for crude oil are likely to remain elevated as the sources of crude oil are expected to be diversified over time to include the United States and other regions.
8	Global AI-related demand is pushing up economic activity and prices more than expected.
9	Even if crude oil prices decline in the future, it is highly possible that the upward deviation in prices will start to spread across a wider range of items, including to those other than petroleum-related goods, reflecting demand shocks stemming from overseas developments.
10	Government measures have the effect of influencing households' perceived inflation by adjusting the price levels of specific goods and services. However, such factors need to be excluded when assessing the level of underlying inflation..

Source: BOJ; compiled by Daiwa.

Financial conditions and policy framework: From real interest rates to comprehensive assessment

In the June “Summary of Opinions,” it was noted that “it is appropriate to revise the existing wording ‘real interest rates are at significantly low levels.’” With the progress of policy rate hikes, real interest rates are approaching the lower bound of the estimated range for the neutral interest rate, making the previous one-sided evaluation framework less suitable.

In addition, against the backdrop of rising long-term nominal interest rates, the state of real interest rates itself is changing. Consequently, the assessment of the degree of monetary easing is shifting from a single indicator of real interest rates to a framework that examines the overall financial conditions, including funding costs, availability, asset prices, and the volume of funding. This is also the conclusion of the Bank of Japan Review “Developments in the Natural Rate of Interest and the Assessment of the Degree of Monetary Accommodation,” published on 27 March 2026.

◆ Bank of Japan Review “Developments in the Natural Rate of Interest and the Assessment of the Degree of Monetary Accommodation (27 Mar 2026)

- When assessing the degree of monetary accommodation, the Bank -- similarly to the approach taken by central banks in the United States and Europe -- needs to make a comprehensive judgment. This involves not only looking at the relationship between the real interest rate and the natural rate of interest but also carefully examining economic activity, prices, and financial developments.
- In doing so, it is critical to examine a wide range of indicators related to financial conditions, which can be considered to serve as a transmission channel of monetary policy to the real economy. These include **funding costs, the availability of funds, asset prices, and funding volumes.**

Deputy Governor Shinichi Uchida's press conference is consistent with this change. The decision to raise rates this time was primarily attributed to the reduction of downside risks to the economy, indicating a shift in policy decisions from risk aversion to an assessment of the certainty of the baseline scenario. Furthermore, the BOJ clarified its stance that price assessments should account for upside risks, confirming an upward shift in the risk distribution.

Moreover, the idea that the financial conditions should be assessed as a whole, not just by the policy rate, was presented. [Policy operations are transitioning from mechanical adjustments of interest rate levels to a stage of expeditious adjustments while examining the consistency between the economy, prices, and the financial conditions.](#)

Implications for monetary policy: Continued rate hikes and scope for front-loading

Many board members emphasized the need for continued policy rate hikes even after [the June hike](#). However, as this meeting simultaneously conducted a rate hike and an interim assessment of the plan to reduce JGB purchases, a significant portion of the "Summary of Opinions" was devoted to explaining this. As a result, discussions on the pace and specific timing of rate hikes were limited. While the board maintained its baseline scenario of continued rate hikes, it avoided explicitly stating the pace and maintained flexibility for situation-dependent judgments.

That said, opinions are divided among the board members. It is highly probable that the political environment influenced opinions against rate hikes and the decision to halt JGB purchase reductions to some extent. The government side also expressed the view that the relationship between supply/demand conditions and prices should be carefully examined.

◆ Summary of Opinions at Jun MPM (24 Jun 2026): Cabinet Office

- **It is important for the Bank to fulfill its accountability regarding the policy interest rate hike at this MPM, while taking proactive and appropriate action in the event of excessive fluctuations in economic activity.** The transition to a growth-oriented economy is crucial, and it is necessary to carefully examine the relationship between macroeconomic supply-demand conditions and price developments.

However, [with persistent upside risks to prices, market pressure through exchange rates and long-term interest rates is gradually strengthening](#). In such an environment, the forces calling for an adjustment in the degree of monetary easing are likely to intensify. Some views suggest that the policy rate should be brought closer to the neutral level, and there are also opinions implying rate hikes at relatively short intervals. Considering these points, it can be interpreted that [while the board maintains continued rate hikes as its baseline, it is also positioning itself not to rule out front-loading depending on conditions, even as it avoids explicit statements on the pace](#).

Opinions on Monetary Policy in Summary of Opinions at Jun 2026 MPM

Opinions on Monetary Policy		Speaker (our surmise)
1	Given that Japan's economy has been developing generally in line with the baseline scenario and that there is a risk that price increases stemming from high crude oil prices will spread across a wide range of items, and a risk that underlying CPI inflation will deviate upward to a level above the price stability target of 2 percent, it is appropriate for the Bank to raise the policy interest rate and adjust the degree of monetary accommodation.	Ueda
2	Since the previous MPM, the risk of heightened supply-side constraints has abated, owing to progress in securing alternative sources of supply and to the agreement bringing the conflict in the Middle East to an end. However, the future course of the situation in the Middle East remains uncertain and the impact of the situation on logistics persists. Taking into account the risk of price increases, it is appropriate to adjust the policy interest rate at this MPM.	Himino
3	Import prices have also been driven up by exchange rate developments. Such price increases are considered to place a burden on the business of a considerable number of firms, including small and micro firms. Against this backdrop, it has become more appropriate than before to adjust the degree of monetary accommodation.	Masu
4	Raising the policy interest rate could suppress aggregate demand by curbing firms' business fixed investment, potentially inducing simultaneous declines in inflation and in production and employment. The Bank should therefore hold the rate steady at this point.	Asada
5	As for the future conduct of monetary policy, given that underlying CPI inflation has been approaching 2 percent and financial conditions have been accommodative, it is appropriate for the Bank to 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.	Nakagawa
6	Financial conditions are expected to remain accommodative after the policy interest rate hike at this MPM. Therefore, if economic activity and prices develop in line with its outlook, the Bank should maintain its stance to continue to raise the policy interest rate.	Koeda
7	Given the policy interest rate adjustment at this MPM and factors such as the dispersion in estimates of the neutral interest rate, it is appropriate to revise the wording "real interest rates are at significantly low levels" in the description regarding the future conduct of monetary policy.	Uchida
8	Unlike in the United States and Europe, Japan's policy interest rate remains below the estimated range of the neutral interest rate. It is necessary to bring the policy rate closer to the neutral rate as soon as possible and thereby ensure the flexibility needed to swiftly adjust the policy rate in either direction.	Tamura
9	To avoid rapid and significant policy interest rate hikes, the Bank should bring the policy rate closer to the neutral rate sooner. The neutral interest rate appears to be at around 2 percent, and taking this into account, it is desirable to assess economic activity and prices as well as financial developments and to consider whether to raise the policy interest rate as appropriate with intervals of a few months in mind.	Takata
10	With progress in reducing the Bank's purchase amount of Japanese government bonds (JGBs), the functioning of the JGB markets has been steadily improving. On the other hand, it will likely take some time for investors in Japan to smoothly increase their JGB holdings. If the current pace of reduction were to be continued, this may have an unforeseen impact on market stability. Taking these points into account, it is appropriate to halt the reduction of the Bank's purchase amount of JGBs from April 2027.	Ueda
11	Even if the reduction of the Bank's purchase amount of JGBs were to be halted, the purchase amount would be below 20 percent of the issuance amount. It is therefore unlikely that this would hamper market functioning whereby long-term interest rates are formed freely in the market.	Masu
12	Supply pressure in the JGB markets has been at historical levels with the reduction of the Bank's purchase amount of JGBs. With market functioning rapidly recovering and real interest rates in the long- and super-long-term zones being at a level comparable to those overseas, it is appropriate to halt the reduction of the purchase amount of JGBs from April 2027.	Takata
13	The Bank should discontinue the current framework for the reduction of its purchase amount of JGBs at the end of this fiscal year, and from the next fiscal year, it should enter a phase of stably proceeding with the redemption of its JGB holdings while keeping the scale of JGB purchases at levels lower than in the past. Even in this case, for the next several years, the amount of redemption will remain at least double the amount of purchases. From a somewhat long-term perspective, as the amount of redemption decreases, the maturity of the JGBs the Bank purchases will likely become more important.	Koeda

14	Regarding the plan for the outright purchases of JGBs, it is appropriate to halt the reduction of the Bank's purchase amount from the perspective of maintaining downward pressure on long-term interest rates through the stock effect as much as possible.	Asada
15	The purpose of the Bank's past large-scale JGB purchases was monetary easing, and there is no need for such purchases under the current circumstances. No disruptions have occurred in the JGB markets, and there is no reason at all to halt the reduction of its purchase amount. <u>If the intention behind its JGB purchases is perceived by the market as fiscal financing or as an attempt to lower long-term interest rates, this could lead to bias in the market and undermine the credibility of the Bank.</u>	Tamura
16	Even if the reduction of the Bank's purchase amount of JGBs is halted, in the case where the average maturity and other conditions of its JGB purchases remain unchanged, the Bank's share of JGB holdings relative to the aggregate amount outstanding will eventually be considerably compressed due to redemption at maturity.	Himino
17	Even in the case where the reduction of the purchase amount of JGBs is halted, the size of the Bank's balance sheet will steadily decrease mainly because redemption will continue every month, and it is desirable to clearly explain this to the public.	Nakagawa

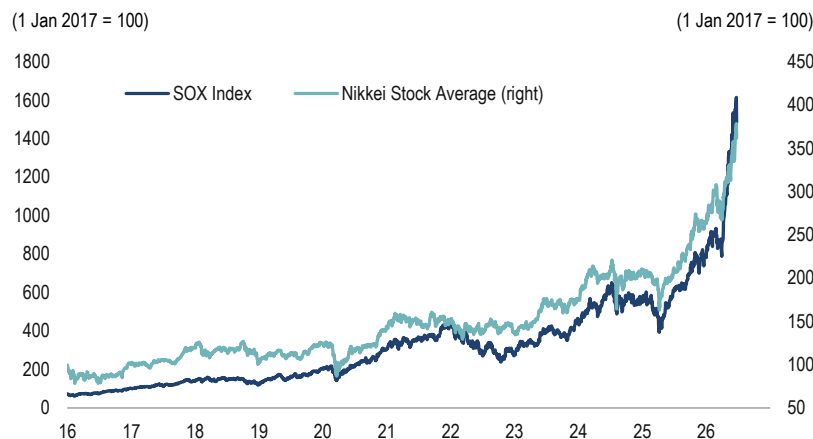
Source: BOJ; compiled by Daiwa.

Conclusion: Shift in risk distribution and another rate hike path

Based on the above, the June "Summary of Opinions" indicates that the momentum of the economy and prices is leaning towards an upside direction due to a combination of factors: reduced downside risks to the economy, external demand shocks originating from AI demand, the rise in inflation expectations due to price pass-through, and secondary spillovers through corporate and asset markets.

As a result, the key question in monetary policy has shifted from "whether rate hikes can continue" to "how much and how quickly they can be front-loaded." Therefore, in addition to the baseline scenario of gradual rate hikes, it is necessary to prepare for another path involving rate hikes at shorter intervals if external demand expansion and upside price risks persist. The June "Summary of Opinions" indicates that such conditions are already coming into place.

SOX Index, Nikkei Stock Average



Source: Bloomberg; compiled by Daiwa.

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