Mizuho Brief: BoJ

Economics & Strategy | Asia ex-Japan

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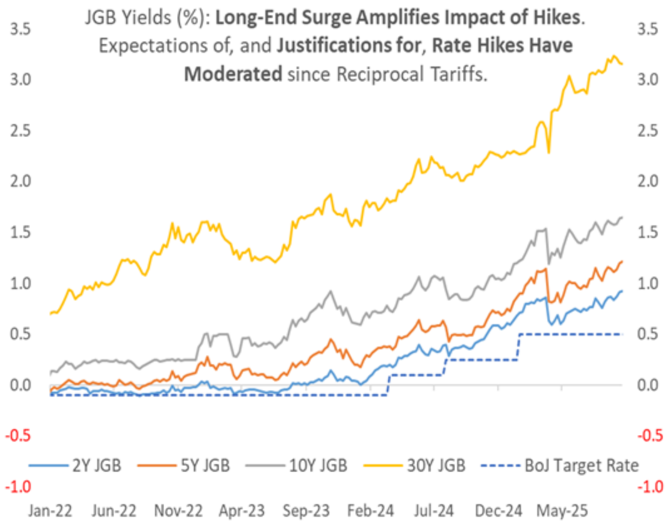
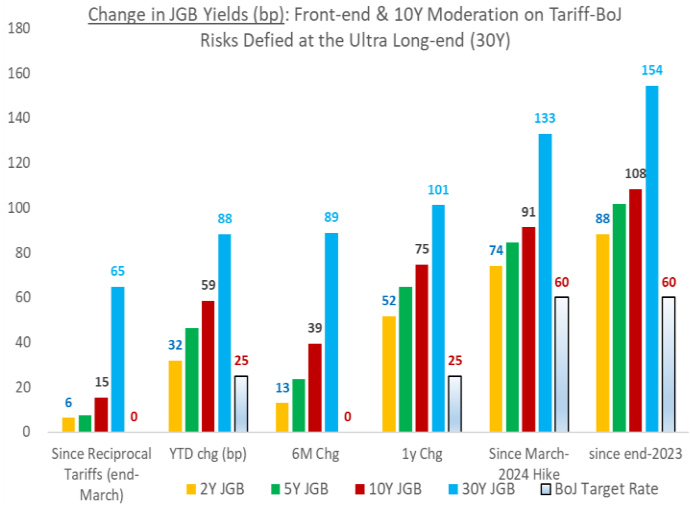
The Risks of Hawkish BoJ Aspirations

"Be careful not to choke on your aspirations." – **Darth Vader, Star Wars**

- Despite markets dialing back **odds of a October BoJ hike on the "Takaichi effect"***, remnant **hawkish BoJ bets may still be a bit too ambitious**; at least **too much too soon**.
- Fact is, in the near-term the **BoJ will retain a hawkish bias, inclined to express scope for rate hikes**.
- Crucially, the BoJ will also retain **higher neutral rate** *(estimated to be 1.0-1.5%)* **view**.
- *Whereas* there will surely be **neither urgency** for these hikes *nor a guarantee of sustained upside in the BoJ rate.*

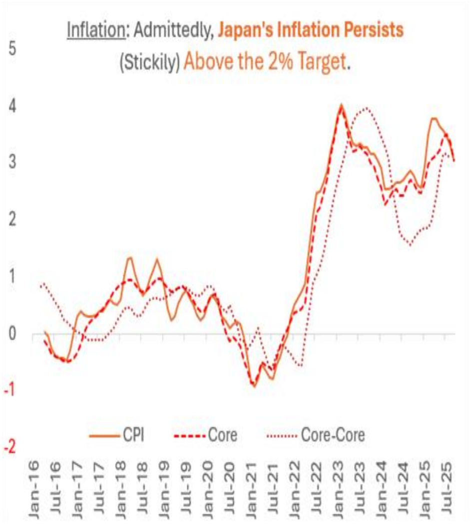


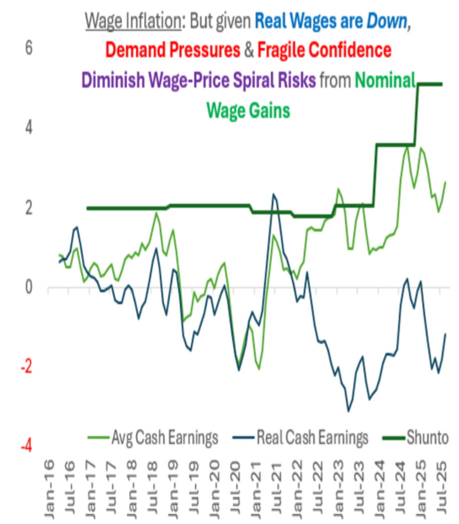
JGB Yields (%): **Long-End Surge Amplifies Impact of Hikes.** Expectations of, and **Justifications for, Rate Hikes Have Moderated** since Reciprocal Tariffs.

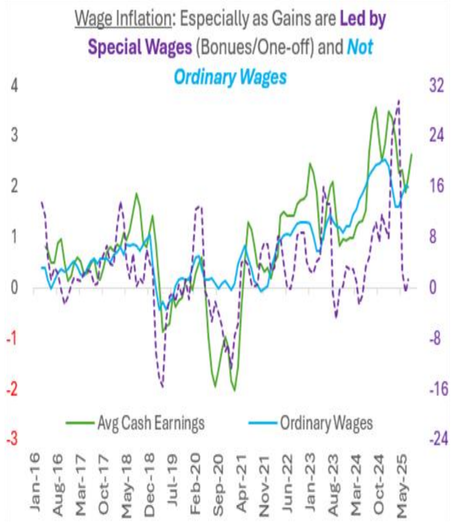


Change in JGB Yields (bp): Front-end & 10Y Moderation on Tariff-BoJ Risks Defied at the Ultra Long-end (30Y)

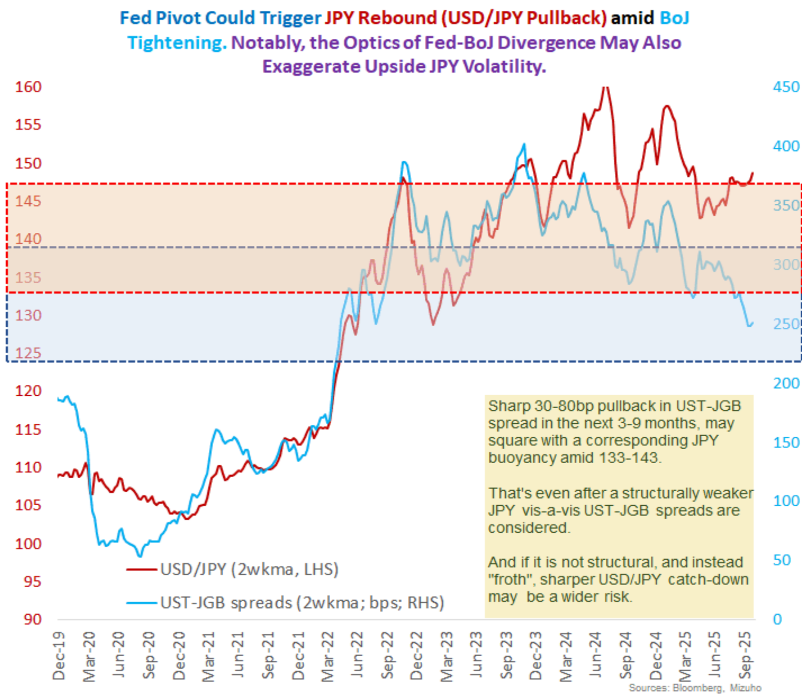
- For one, the **limited 60bp of hikes have already delivered *outsized tightening in the transmission to longer yields***.
- And now **more so**, **as markets presume** that the *"Takaichi effect" will be looser fiscal policy* that has **sent long-end yields even higher**.
- 30Y (10) yields are up a staggering 130-140bp (90bp) since rate hikes began in March 2024.
- Hence, the BoJ **ought to be careful not to overly constrict the economy**.







- Second, ***household confidence is still fragile***, and despite worse-case averted thus far, the eventual *demand-destruction impact of tariffs yet to be determined.*
- And so, the risk is that a *hawkish BoJ risks aborting nascent (positive) reflation dynamics with excessive hikes.*



- Finally, and most importantly, ***the dangers of potential adverse shocks from abrupt JPY appreciation from accentuated by Fed-BoJ divergence***.
- Specifically, **growing risks of a significantly more dovish Fed suddenly could catch BoJ hawks wrong-footed**.The **consequent jolt of sharp JPY appreciation** that follows will pose serious threat of an **adverse feedback loop of economic pain** *via exports and asset market channels.*
- Point being, **with the risk of non-linear dovish Fed pivot, the BoJ has more reasons to be measured**.
- The upshot is, **the structural case for higher rates is being assessed**, and ***contingent on durable recovery***.
- Meanwhile, **geoeconomic/cyclical threats counsel patience**, if not cautious reassessment.

*This is a short-hand reference for markets expecting in-coming PM Sanae Takaichi to assert influence for looser monetary (anchoring policy/front-end rates) and fiscal policies (pressuring long-end yields higher).

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