Mizuho Brief: BoJ

Economics & Strategy | Asia ex-Japan

3 December 2025 |
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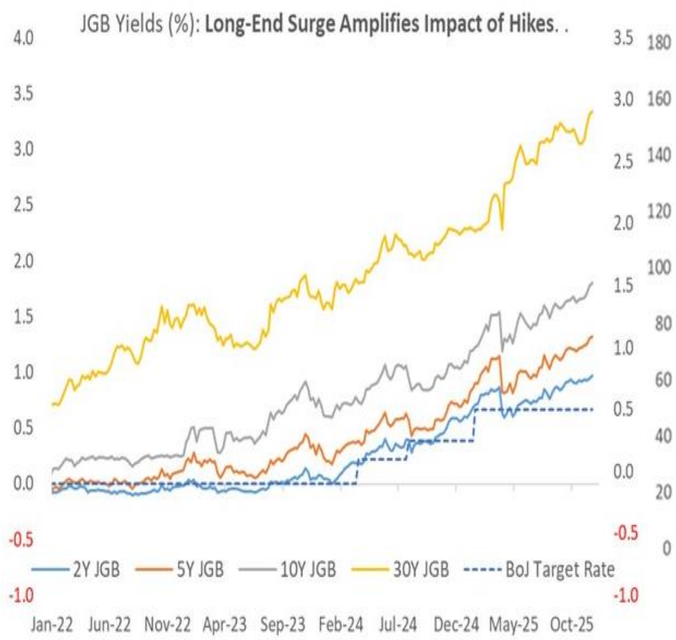
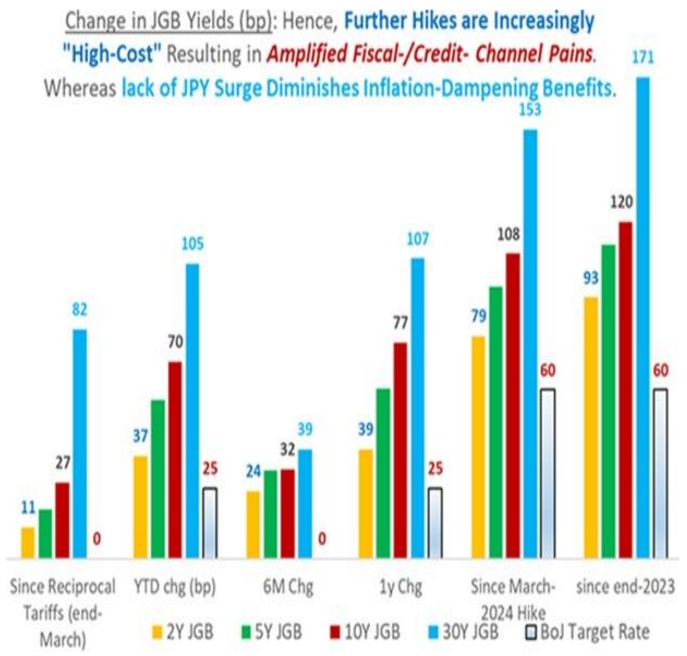
Is the BoJ Boxed Into Squandering a December Hike?





- Arguably, whether the BoJ will hike in December, is less pertinent than **whether the BoJ is painted into a bind that risks squandering a December hike**.
- For the record, **odds of a BoJ hike have surged from a coin toss** (~14bp of hike priced in late last week) **to a virtual guarantee** (~22 bp priced in) **after Governor Ueda's Nagoya address**, where he **suggested scope for more rate hikes**, ***possibly sooner***.
- With such high convictions of a hike priced in, **failure of a hike could see a sharp sell-off in JPY – an outcome the BoJ would prefer to desperately avoid** – and **long-end JGB yields** (potentially leaning into wider "Sell Japan" pressures").
- *Yet, delivering* **a "done deal" hike may perversely deny any appreciable JPY gains**, *whilst boosting long-end yields higher*.
- **Ideally**, and *in line with gradualism on tightening*, **what the BoJ would like is** *more JPY (upside) sensitivity and diminished JGB long-end yield hyper-sensitivity to hikes.*
- **But tragically**, the BoJ risks **ending up with quite the opposite**.
- A ***costly tightening*** (from yield restriction via credit and fiscal channels) ***without the sought after payout of JPY strength*** **to fend off imported inflation**.
- This problem is exacerbated **if the BoJ's accompanying rhetoric is not aggressively hawkish**.
- And the **BoJ will likely be justifiably more balanced** (about risk assessments), *maintaining a gradualist and cautious approach to further tightening.*
- Consequently, **a squandered December hike** – if one indeed comes to pass – confronts the BoJ.

- The hallmarks of which will be defined by **JPY slippage risks despite JGB bear steepening**, with the *accompanying widening gap between JPY* and corresponding JGB-UST spread.