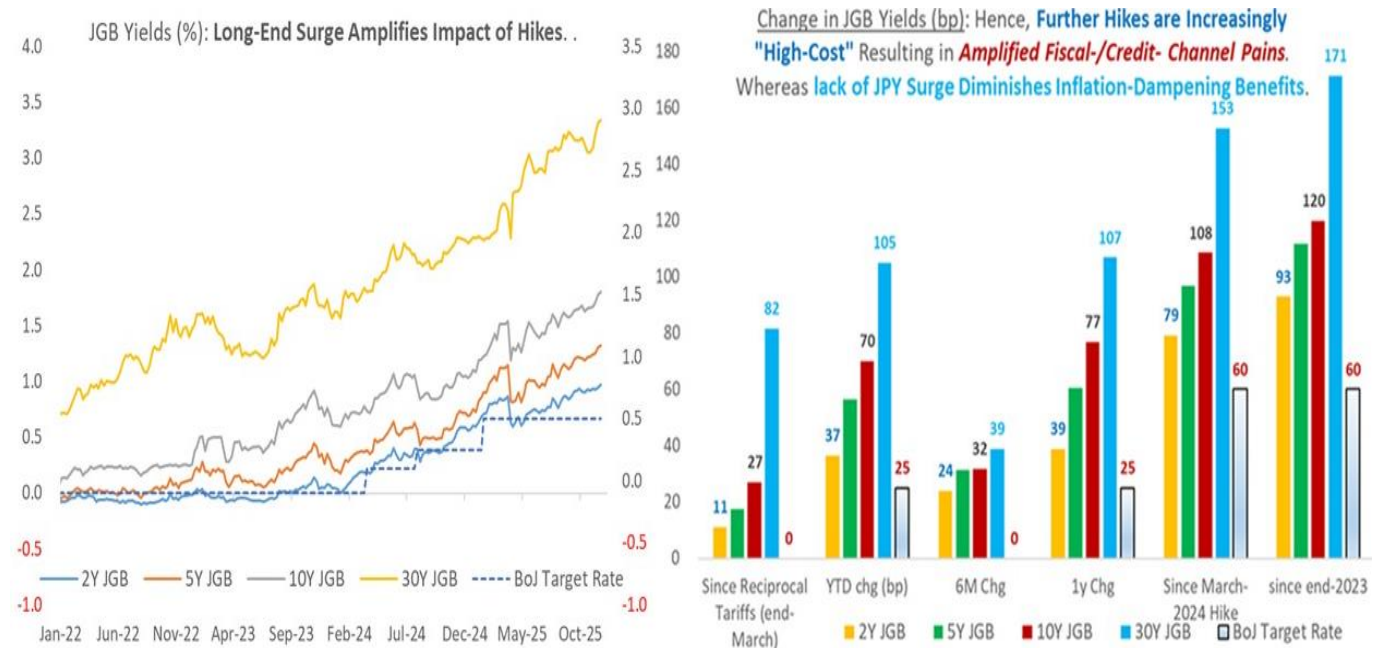


Is the BoJ Boxed Into Squandering a December Hike?



- 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*.



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