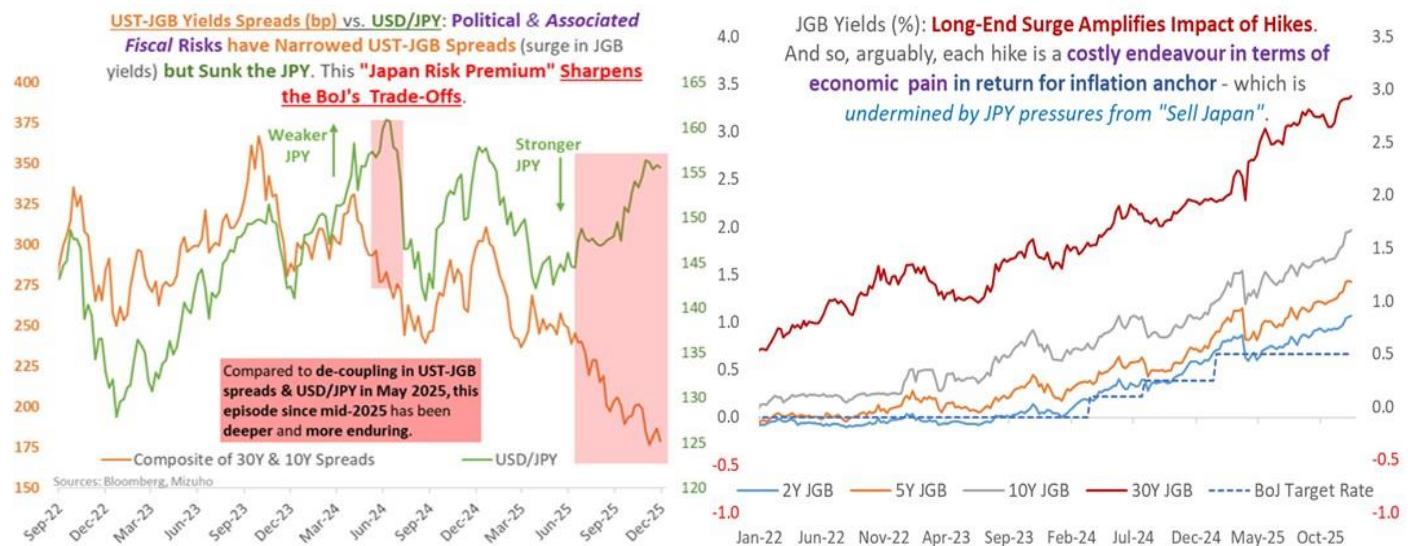


The BoJ's "Heads, You Win, Tails I Lose" Risk

"That's not how the Force works." – Han Solo, Star Wars, 'The Force Awakens'

- Earlier this month, we flagged the **risk** that the **BoJ could be painted into a corner** where it squanders a hike.
- That has not changed. If anything, this risk is **now amplified**.
- Specifically, this was in reference to the fact that the BoJ faces a *"damned if I do, damned if I don't"* situation.
- That is, predominantly **baked-in hike does little to prop up the JPY yet extracts steep economic costs** (*exacerbated by amplified long-end transmission of hike*) amid already fragile household confidence.
- **But failure to hike** inadvertently triggers a further bout of "Sell Japan" that not only **pressures JPY** but also **triggers a long-end JGB sell-off** (yield surge).
- Fact is, a 25bp hike by the BoJ is now **the baseline** – O/S markets suggesting it is 99% priced in!
- Hence, **accompanying BoJ rhetoric** is therefore **where the "action" arguably resides**.
- And this is **even more fraught**. With a **"heads you win, tails I lose"** outcome for the BoJ.
 - i. Either market hawks are disappointed by a far more **gradualist and contingent BoJ tightening guidance** – *therefore selling off JPY and bear steepening*.
 - ii. Or unrealistically hawkish guidance sets itself up for future disappointment as economic soft spots come homes to roost – *merely deferring JPY sell-off with interim bear flattening*.
- In any case, a **dovish Fed inflection surprise down the pike**, may be the **"Fed solution"** for the current **"BoJ problem"**.



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