Mizuho Brief: BoJ

Economics & Strategy | Asia ex-Japan

4 September 2026 |
Vishnu Varathan | Head Macro Research, Asia ex-Japan

Why BoJ Hawks (Alone) Cannot Save the Day

"Circumstantial evidence is a very tricky thing. It may seem to point very straight to one thing, but if you shift your own point of view a little, you may find it pointing in an equally uncompromising manner to something entirely different" – **Sherlock Holmes**

In a Nutshell:

- **Hopes of BoJ hawks durably inspire ultra long-end JGB bulls** *(sustaining softer long-end yields)* are ***exaggerated by coincident sharp JPY squeeze***.
- Whereas ***until adverse Rates-Fiscal-JPY feedback dynamics are snapped***, **BoJ rate hikes may continue to disproportionately lift ultra-long JGB yields (**term premium").
- Admittedly, **in response to profoundly hawkish BoJ** pronouncements, ultra-long (30Y) yields have slumped, alongside *a surge in front-end (2Y) JGB yield* resulting in **emphatic JGB curve flattening**.
- So, to be fair, **JGB price (yield) action is *superficially* consistent with softer ultra-long JGB yields on sufficiently hawkish BoJ cues**.
- Nonetheless, it is **premature**, ***arguably even misguided***, **to presuppose unfettered and overarching narrowing in *"ultra-long, term premium"*** (30Y-2Y spreads) **from BoJ hikes**.
- Crucially as **adverse Rates-Fiscal-JPY feedback loop**, *amplified by an exceptional intersection of acute geo-political risks,* **tie higher ultra-long JGB yields** to a ***weaker JPY*** (and ***BoJ rate hikes***).
- All said, *despite promising circumstantial evidence of backstop*, **a hawkish BoJ alone cannot unequivocally reverse JPY-JGB weakness**.
- *In fact, a hawkish BoJ may perversely amplify JPY-JGB pain* amid *unprecedented geo-political pressures, fiscal/debt sustainability issues* and the *geo-economic stress from (forced) capital commitments.*

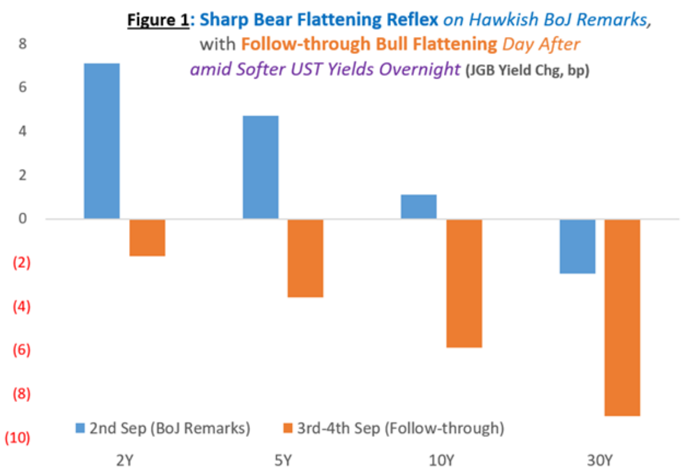


Figure 1: Sharp Bear Flattening Reflex *on Hawkish BoJ Remarks*, with Follow-through Bull Flattening *Day After amid Softer UST Yields Overnight* (JGB Yield Chg, bp)

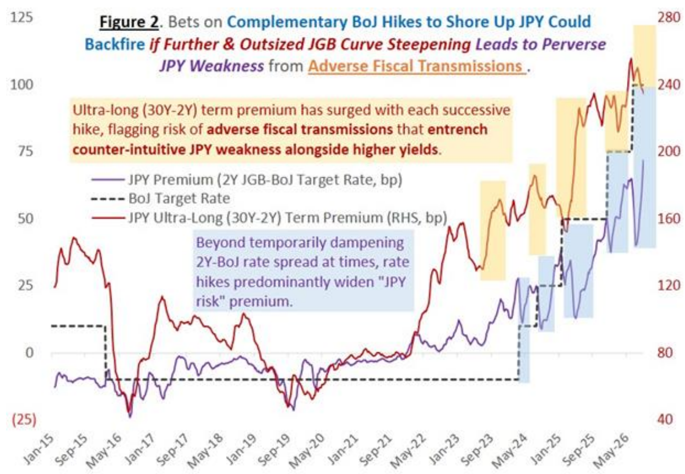


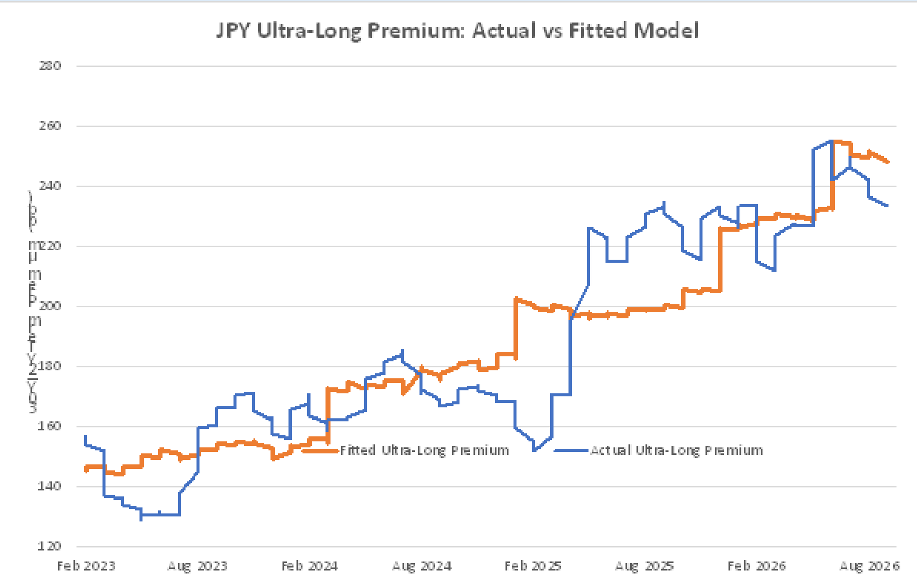
Figure 2. Bets on Complementary BoJ Hikes to Shore Up JPY Could Backfire *if Further & Outsized JGB Curve Steepening Leads to Perverse JPY Weakness* from Adverse Fiscal Transmissions.

- **The emerging narrative of BoJ hawks inspiring *ultra long-end* JGB bulls** (sustaining softer long-end yields) is **overly optimistic** as it is *obfuscated, if not* ***exaggerated, by the brutal, coincident, JPY squeeze***.
- Whereas ***until adverse Rates-Fiscal-JPY feedback dynamics are snapped***, **BoJ rate hikes may continue to disproportionately lift ultra-long JGB yields**, driven by *outsized corresponding increase in ultra-long "term premium".*

- For the record, **in response to profoundly hawkish* BoJ** pronouncements on Wednesday (2nd Sep), the **JGB curve has flattened emphatically** [Figure 1].
  - Driven initially by *a surge in front-end (2Y) JGB yield* (of 6-7bp), which may be ascribed to **dialed-up BoJ rate hike expectations**.
  - And remarkably, accompanied by a *slump in ultra-long (30Y) yields* (of 11-12bp). *Albeit,* likely exaggerated by softer UST yields.
- So, to be fair, **JGB price (yield) action is *superficially* consistent with softer ultra-long JGB yields on sufficiently** ** **hawkish BoJ cues**.
- Presumably, **from "virtuous inflation expectations dynamics"**.
- **Whereby marginal dis-inflation compounded into the long-end** – *from convincingly taming/anchoring inflation expectation* – **overwhelms the rate hike effects**.
- Nonetheless, it is **premature**, ***arguably even misguided*, to presuppose unfettered and overarching narrowing in *"ultra-long, term premium"***** (30Y-2Y spreads) **from BoJ hikes**.
- In fact, there is **compelling, empirical evidence to the contrary** – with ***BoJ hikes lifting "ultra-long, term premium"*** [Figure 2, Box 1].

Box 1. Model of Ultra-Long (30Y-2Y) JGB Term Premium based on BoJ Rates, USD/JPY & Nikkei-to-S&P500

- The bigger picture is that **empirical evidence** *(since BoJ started hiking rates in May 2024)* **suggests** that ***"ultra-long, term premium" will rise*** (likely lifting 30Y JGB yields with it) **on**:
  - *BoJ rate hikes*
  - *Weaker JPY*
  - *Relative Nikkei out-performance* (vis-à-vis S&P500).
- The former two (BoJ rate hikes and weaker JPY) via by **adverse Rates-Fiscal-JPY feedback loop**.
- Whereas **rising relative Nikkei Outperformance could drive ultra-long JGB yields higher**, **pressured by increasingly compelling reallocation to equities** (***out of long bonds***) [Figure 4].



- Instead, a **sharp contemporaneous JPY surge** amid **amplified JPY intervention fears** [Figure 3] is **likely to have helped dampen 30Y yields – notably,** *by narrowing the "ultra-long, term premium"*.
- *Admittedly* **correlating a stronger JPY** with **lower ultra-long JGB yields** is **counter intuitive**.

- But **adverse Rates-Fiscal-JPY feedback loop** *amplified by an exceptional intersection of acute geo-political risks* **tie higher ultra-long JGB yields** to a ***weaker JPY*** (and ***BoJ rate hikes***).
- And ***insofar that a stronger JPY mitigates pressures for more aggressive BoJ hikes***, this adverse **Rates-Fiscal-JPY feedback may be alleviated**.
- All said, ***despite promising circumstantial evidence of BoJ backstop***, **a hawkish BoJ alone cannot unequivocally reverse JPY-JGB weakness** amid;
    - unprecedented geo-political pressures *via* **energy, shipping** and **wider supply chain shocks**;
    - fiscal/debt sustainability issues **as "fiscal dominance" risks linger**, and;
    - the overarching *geo-economic stress from (forced) capital commitments,* **led by large**, **"post-Liberation Day" capital investment commitments**.
- In fact, **a hawkish BoJ may perversely exacerbate JPY-JGB vulnerabilities**, *as exceptional geo-economic stress factors entrench adverse Rate-Fiscal-JPY dynamics.*

* Notably, with Governor Ueda's hint of an imminent hike being amplified by hawkish board member Takata's allusion to scope for an upsized (>25bp) hike and/or quick succession of hikes.
** Sufficiently in the sense of being able adequately and appropriately timely enough to anchor inflation expectations
*** The 30-2Y JGB premium is a far better determinant of whether a hawkish BoJ may anchor (cap/lower) ultra-long JGB yields as the BoJ rate hike impact/expectations are excluded from.

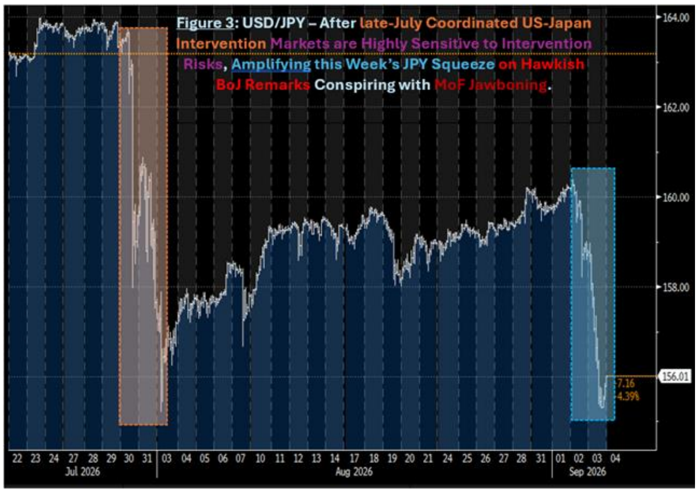


Figure 3: USD/JPY – After late-July Coordinated US-Japan Intervention Markets are Highly Sensitive to Intervention Risks, Amplifying this Week's JPY Squeeze on Hawkish BoJ Remarks Conspiring with MoF Jawboning.

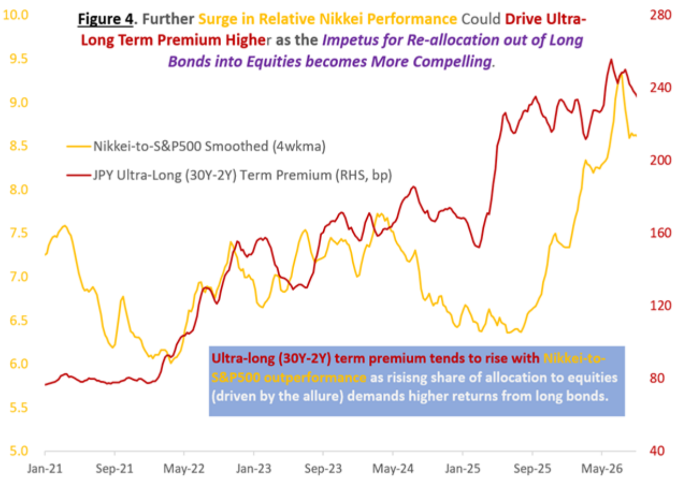


Figure 4. Further Surge in Relative Nikkei Performance Could Drive Ultra-Long Term Premium Higher as the Impetus for Re-allocation out of Long Bonds into Equities becomes More Compelling.