Mizuho Brief: BoJ

Economics & Strategy | Asia ex-Japan

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BoJ Watch: (The Risk of) Whistling into a Hurricane

- Painted into a Hawkish Hike: To be sure, ***even well before the Fed's hawkish hike***, the **BoJ was already painted into a tight hawkish hike corner** - *whereby a (25bp) hike alone is now necessary, but not adequate to avert adverse JPY (and JGB) outcomes.*

- The "Bessent House": To a large extent as *US Treasury Secretary Scott Bessent has declared himself "the house" on JPY,* with asymmetric information on what the BoJ is going to do. In so doing, strongly implying to markets (and arguably strong-arming the BoJ into) a hawkish hiking cycle with some way to go.

- The "... Sell the Fact" JPY Risk: Consequently, ***setting the JPY up for a "buy the rumour, sell the fact" post-BoJ tumble*** **if the BoJ's** accompanying **rhetoric fall short of high hawkish** expectations **bar**.

- The (Worst-Case) Bearish JPY-JGB Threat: The **worst-case scenario is that of defiantly bearish response in both JPY and JGBs** –with *one compounding the other via adverse fiscal channels* - **should markets perceive that the BoJ falls short** of conveying (perceptions of) a rapid series of hikes in the offing.

- Accentuated: And the **risk of** this outcome of **conspiring JPY-JGB bears** squandering the BoJ's hike is now getting **dangerously accentuated** amid a *noisy confluence of the Iran conflict brutally driving oil prices higher, Major Central banks getting more hawkish* and *bond vigilantes elsewhere* piling into this to drive UST (and European) yields higher.

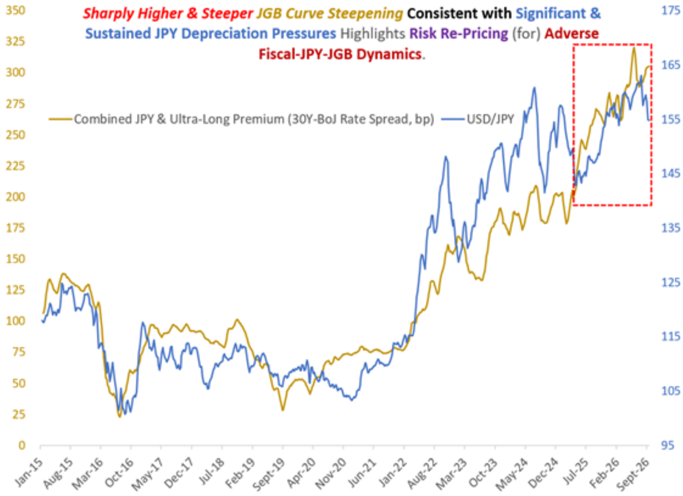
- Hawkish FOMC Bets: In particular, **hawkish FOMC bets**, *with the Fed Fund Futures pricing at least 4 hikes (including the Sep hike) by early 2027,* **erode the relative JPY support** that the BoJ might derive from rate hikes. **Similar pressure from Cross/JPY** dynamics are also notable given hawkish ECB hike, mounting bets of BoE tightening and RBA.

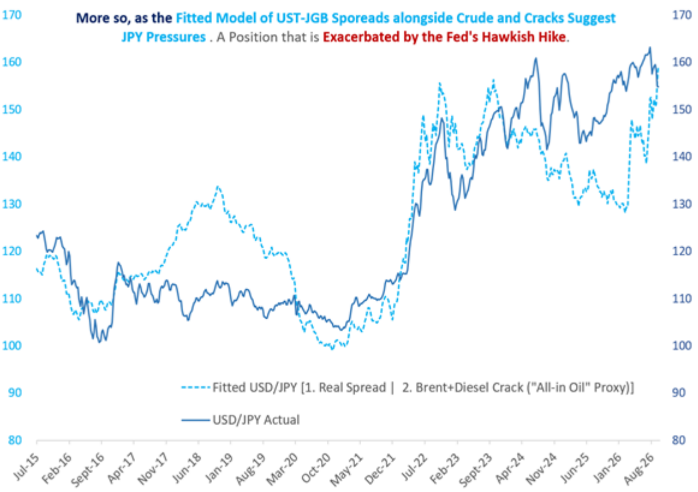
- Exacerbated by Oil: Especially **as Brent crude surges towards $110 whilst cracks widen to inflict more JPY** (and direct fiscal) **pain** via higher energy costs.

- Further threatened by USTs: What's more, **ascendant UST yields** (10Y above 5%) amid market **perceptions of the failed "Bessent Put" could add to the adverse circular loop of JPY-JGB pressure**s.

- Whistling into a Hurricane: And so, the **BoJ conundrum** now is that ***even with hawkish walk*** (25bp hike) and followed by ***all the right (hawkish) noises*** on more hikes to come, the **BoJ might be merely be whistling into**

a hurricane with regards to anchoring JPY and JGB yields. In turn, facing **risks of squandered hikes** and **sharper trade off from pressures to hike more and sooner than is ideal**.





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