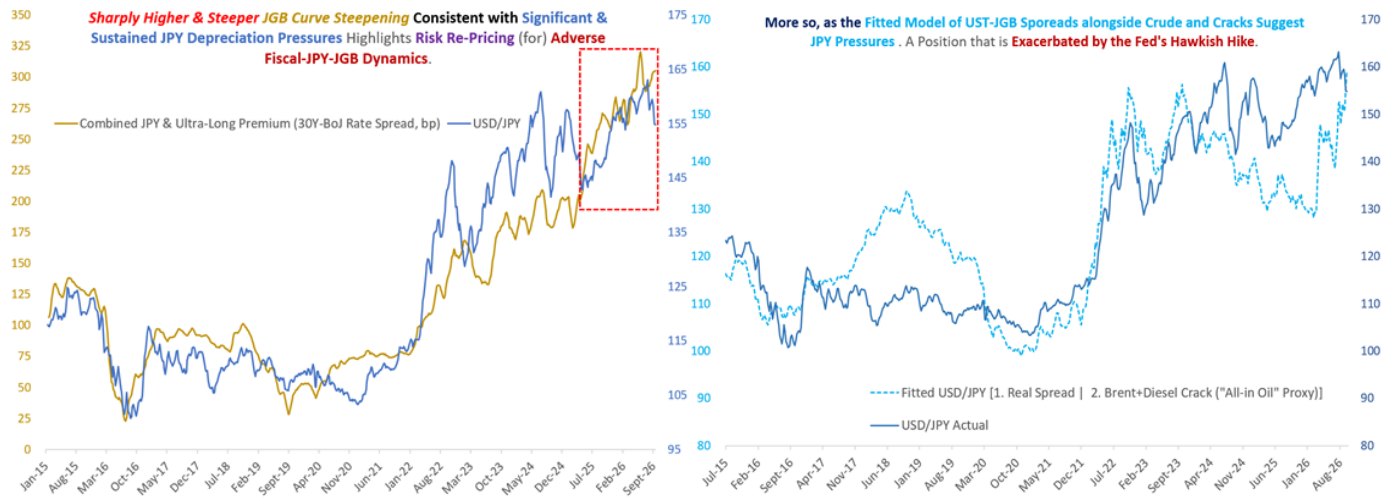


BoJ Watch: (The Risk of) Whistling into a Hurricane

- 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 pressures**.
- 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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