

PREVIEW: Bank of Japan Policy Announcement on Thursday 19th December 2024

- **Expectations and recent source reports have been increasingly leaning towards the BoJ holding rates at 0.25% at the upcoming meeting.**
- **The initial attention will be on the decision on rates, any clues on future policy, and any signals from Ueda about the distance to the next hike. Optimism or pessimism on wage trends will also be on watch.**
- **Announcement can occur anytime after the start of the Tokyo lunch break which will begin at 02:30GMT/21:30EST.**

OVERVIEW:

- **Expectations and recent source reports have been increasingly leaning towards the BoJ holding rates at 0.25% at the upcoming meeting**, with 58% of economists polled by Reuters (in a Dec 4-11th survey period) expecting such an outcome, up from 44% in the last poll. A survey of over 150 financial firms, conducted by Japanese money market brokerage Ueda Yagi Tanshi (in a Dec 12-16th survey period) saw 91% of respondents expect no move on rates on Thursday.
- **Market pricing currently points to a 77% chance of a hold vs a 23% chance of a 25bps hike at the upcoming meeting**, with the first 25bps hike not fully priced in until Q2 2025.
- **That being said, the BoJ's decision could be contingent on the outcome of the US Federal Reserve announcement and presser hours before, with Reuters sources suggesting the BoJ could hike if the FOMC decision triggers a JPY selloff.**
- **Sources via Kyodo on 13th December** said the BoJ is leaning toward deciding there is no need to rush hikes as it wants to confirm trends in the 2025 spring wage negotiations and Trump's plans - as tariffs are increasing uncertainty.
- **Bloomberg sources on 11th December**, however, suggested the BoJ sees little cost in waiting for the next rate hike, citing current prices, and noting that the next rate increase is seen as a "matter of time", with a view that there is less risk of a soft JPY boosting inflation.
- **Analysts at Oxford Economics** "now believe that the Bank of Japan will wait until January to hike the policy rate. We previously assumed a 60% chance of a hike at the meeting on December 19th, but recent media reports signal that more board members will likely prefer to wait to see more data to confirm the momentum of wage-driven inflation and US policy developments."

DATA:

- **Data since the prior meeting has been tilting higher vs forecasts.** Q3 GDP topped expectations on a Q/Q and Annualised basis, whilst the last Core CPI (Oct) and PPI (Oct and Nov) both topped forecasts. Note the November CPI report will be due in the APAC session after the BoJ.
- Add to that, the latest Japanese Flash PMIs suggested "average input prices rose markedly again, and at the steepest rate for four months, with anecdotal evidence placing particular emphasis on the impact of the weakness of the yen about inputs sourced from abroad. As such, the pace of selling price inflation also quickened on the month and was the fastest since May."
- On the flip side, a Reuters analysis piece on December 13th reported that Japanese small firms are spending more of their profits on wages than their larger counterparts and may struggle to keep raising pay, casting doubt on whether wage gains are broad enough for BoJ to keep hiking rates.
- Furthermore, the latest BoJ Dec Tankan corporate price expectations survey suggested no change as Japanese firms continue to expect consumer prices to rise 2.4% a year from now (prev. +2.4%), with the 3-year expectation +2.3% (prev. +2.3%) and the 5-year expectation +2.2% (prev. +2.2%)

RECENT COMMENTS:

- **(5th December) BoJ Board Member Nakamura** said the policy would be decided by examining data, and while he was not against a rate hike, he believed it should be data-dependent.
- **(29th November) BoJ Governor Ueda** said Yen weakness would be a risk to the outlook if the currency falls further after inflation starts rising, via Nikkei.
- **(18th November) BoJ Governor Ueda** said, "There are numerous factors we want to check, including on US economy but won't necessarily wait until there is clarity for all of them, will check at each policy meeting, data and factors available at the time in deciding policy". Ueda added they will continue to raise the policy rate and adjust the degree of monetary support if the economy and prices move in line with forecasts, adding no change to BoJ's stance to underpin economic activity.

PRIOR DECISION:

- **The BoJ in October provided no major surprises** as it kept the short-term policy rate at 0.25%, as expected, in-fitting with money market pricing which implied a 99% probability of such an outcome.
- **The central bank also refrained from any fresh policy clues** as it noted that it will conduct monetary policy from the perspective of sustainably and stably achieving the 2% price target and given that real interest rates are at very low levels, the BoJ will continue to raise the policy rate if the economy and prices move in line with its forecast.
- **BoJ's Governor Ueda also provided a hawkish tone at the press conference** where he noted that they did not need to use the language at this meeting that they can afford to spend time scrutinising risks, as well as stated that they will start to see the possibility of the next rate hike when the certainty of meeting the outlook heightens.

ANNOUNCEMENT:

- There is no exact scheduled time for the announcement which can occur **anytime after the start of the Tokyo lunch break which will begin at 02:30GMT/21:30EST.**
- **The initial attention will be on the decision on rates, any clues on future policy, and any signals from Ueda about the distance to the next hike.**
- **Optimism or pessimism on wage trends will also be on watch.**

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