



PREVIEW: BoJ due Friday 19th December 2025 from 02:30GMT/21:30EST

- BoJ is expected to hike its short-term rates by 25bps when it concludes its 2-day meeting on Friday.
- 90% of economists surveyed by Reuters expect a 25bps hike, and money markets are pricing an 86% probability of such a move.
- Recent hawkish source reports and BoJ rhetoric were seen to pave the way for a hike.

OVERVIEW: The BoJ will conclude its two-day policy meeting on Friday, where the central bank is expected to hike its short-term rates by 25bps to 0.75% from the current 0.50% as a recent Reuters poll showed 90% of economists surveyed are forecasting such a move, while money markets are pricing an 86% probability of a 25bps hike and just a 14% chance for rates to be kept unchanged.

HAWKISH BOJ RHETORIC SPURRED BETS OF A DECEMBER RATE HIKE: The BoJ has kept rates unchanged throughout most of the year after last hiking in January. Although, there has been a recent ramp up in rate hike bets and expectations following a slew of hawkish source reports beginning with a source report late last month that BoJ messaging is said to be preparing markets for a possible interest rate hike as soon as December with a tweak to communication. This was evident in comments less than a week later from BoJ Governor Ueda who opened the door for a rate hike as he stated that at the December meeting, the BoJ will examine and discuss economic activity and prices at home and abroad, as well as market developments, based on various data, and consider the pros and cons of raising rates. He also stated that adjusting the degree of accommodation appropriately, without being too late or too early, will be necessary to smoothly achieve the price stability target. Ueda also noted that raising interest rate under accommodative financial conditions is a process of easing off the accelerator as appropriate towards achieving stable economic growth and price developments, not about applying the brakes on economic activity, and he wants to make a policy decision in December looking at wage information as well as other data. He also noted that delaying a rate hike too long could cause sharp inflation and force a rapid policy adjustment. The slew of hawkish comments from Ueda resulted in a shift of money market pricing, which now leans heavily in favour of a hike at this month's meeting.

OTHER SOURCE REPORTS AND TANKAN DATA ALSO SUPPORT CALLS FOR A RESUMPTION OF POLICY NORMALISATION: Other source reports also noted that the central bank is likely to raise interest rates in December, which is a decision Japan's government will likely tolerate, and that key members of Japanese PM Takaichi's government would not try to prevent a hike this month. Another report noted that the BoJ is to likely hike this month and leave the door open to more, with the central bank to check the data and market moves up to the final decision. The BoJ was also said to likely begin selling its ETF holdings as soon as January, which follows the announcement in the September meeting that it decided it will begin selling holdings of risky assets in which it would sell ETFs to the market at a pace of about JPY 330bln per year and sell J-REITs to the market at a pace of about JPY 5bln per year. Furthermore, the recent quarterly BoJ Tankan survey showed all components either matched or improved from the prior quarter, and that sentiment among Japan's large manufacturers rose to a four-year high of 15 (prev. 14), which was seen to all but solidify a hike for the upcoming announcement.

ANNOUNCEMENT: As usual, there is no exact schedule for the decision on Friday, which tends to be announced any time after the start of the Tokyo lunch break from 02:30GMT/21:30EST, while the longer it takes to be announced could be a signal of greater deliberations and an increased likelihood of a policy adjustment. Aside from the decision on rates, participants will also be on the lookout for any announcement on ETF sales for clues on the pace of future rate normalisation, as a recent poll showed 69% of economists anticipate rates to be further lifted to at least 1.00% by September next year.

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