PREVIEW: BoJ Policy Announcement due 31st July 2026 during the Tokyo lunch break

- **BoJ is expected to keep rates unchanged at 1.00% on Friday.**
- **Expectations for a pause follow the hike at the last meeting.**
- **Attention will turn to the statement and latest Outlook Report forecasts.**

OVERVIEW: The Bank of Japan is widely anticipated to keep rates unchanged at its upcoming meeting, with money markets currently pricing around a 96% probability rates will be kept at the current level of 1.00%, which follows the central bank’s decision to hike at the last meeting, while it will also be releasing the latest Outlook Report containing board members’ median forecasts for Real GDP and Core CPI.

JPY VOLATILITY: Adding complexity for traders heading into the announcement, a sudden, aggressive drop in USD/JPY from near 164.00 down to 158.00 during Thursday's session - strongly signalling that Japanese authorities may have directly stepped into the FX market. The timing of this could be strategic ahead of the BoJ, potentially as a warning to traders looking to short the JPY.

BOJ HIKED RATES AT THE LAST MEETING: As a reminder, the BoJ raised the policy rate by 25bps to 1.00% at the last meeting on June 15th-16th, which was as expected and represents the highest level in 31 years. The decision was made by a 7-1 vote in which board member Asada dissented, while the central bank decided to pause its tapering of monthly bond purchases, which will be kept at around JPY 2tln from April 2027, but left its existing JGB tapering plan unchanged through to Q1 2027. There was also dissent on the bond-buying decision as board member Tamura proposed continuing reductions of JPY 200bln per quarter beyond April 2027, although this was rejected by a majority vote. Nonetheless, the BoJ retained a tightening bias, signalling scope for additional rate hikes depending on economic, inflation and financial developments, while reserving the option to adjust bond-buying plans if needed. Furthermore, Deputy Governor Uchida, who stood in for hospitalised Governor Ueda at the press conference, said the economy is recovering moderately, financial conditions have been accommodative, and that there is a risk of underlying inflation deviating upward to a level above the price target, while he also noted that economic risks have eased since April.

EXPECTATIONS ARE FOR A PAUSE FOLLOWING THE PREVIOUS HIKE: Given the proximity of the last rate hike and the recent major earthquake in Japan, it is very unlikely that the central bank will be so quick to hike again, with a prior Bloomberg source report noting that the BoJ sees little need for consecutive rate rises, but is likely to raise its growth forecast for this year from the current 0.5% view, and officials may revise their downside-risk assessment as AI-related demand supports exports, profits and incomes, while faster cost increases pass-through keeps underlying inflation risks elevated above the 2% target. A more recent source report also noted that the BoJ was widely expected to leave rates unchanged in July following its June hike and was approaching a stage where inflation expectations were becoming anchored. Officials were also said to be open to raising rates more frequently than every six months, while some believed it was important to scrutinise upside inflation risks and saw evidence that companies were passing higher costs on to consumers more quickly than in the past.

ANNOUNCEMENT: The announcement is scheduled for Friday with no exact time, but tends to be anytime after the start of the Tokyo lunch break, which begins at 03:30BST/22:30EDT. As a hold is widely seen as a forgone conclusion, the attention will turn to the central bank’s language to gauge any urgency to resume hiking rates, while the BoJ will also release its latest projections for core inflation and real GDP.

PRIOR OUTLOOK REPORT

Real GDP:

- Fiscal 2026 median forecast at 0.5%.
- Fiscal 2027 median forecast at 0.7%.
- Fiscal 2028 median forecast at 0.8%

Core CPI:

- Fiscal 2026 median forecast at 2.8%.
- Fiscal 2027 median forecast at 2.3%.
- Fiscal 2028 median forecast at 2.0%.

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