

JPY: BoJ Preview

FX impact to be limited

The Bank of Japan (BOJ) will announce the results of its monetary policy meeting on the 19th. It is almost certain that the policy interest rate will remain unchanged at 0.50% this time, and the focus is on whether Governor Ueda will reveal the important conditions for the additional rate hike, which will be crucial in determining the timing of the next hike, during the press conference. Considering the recent increase in information dissemination from the BOJ officials regarding upside inflation risks, [we believe](#) there is a possibility that a hike at the next meeting (rate announcement is on May 1st) might be suggested (our baseline is a rate hike in June).

Historically, there has been a relatively clear trend of yen depreciation on the day of the rate announcement when the BOJ keeps monetary policy unchanged (Figure 1). Particularly, with IMM's JPY long positions currently at a record high, there is a view that maintaining the monetary policy could trigger an unwinding of JPY long positions, leading to yen depreciation. However, we believe that, for several reasons discussed below, the reaction of the yen exchange rate in the case that the BOJ leaves policy unchanged is likely to be limited.

Figure 1: % change of USD/JPY and DXY on the day of BOJ's MPM

	USD/JPY d/d % change	DXY d/d % change	MPM outcome	IMM
20-Dec-22	-3.8	-0.7	YCC adjustment	-53,188
18-Jan-23	0.6	0.0		-22,961
10-Mar-23	-0.8	-0.7		-75,303
28-Apr-23	1.7	0.2		-68,744
16-Jun-23	1.1	0.1		-103,976
28-Jul-23	1.2	-0.1	YCC adjustment	-77,752
22-Sep-23	0.5	0.2		-101,619
31-Oct-23	1.7	0.5	YCC adjustment	-99,629
19-Dec-23	0.7	-0.4		-81,131
23-Jan-24	0.2	0.3		-56,560
19-Mar-24	1.1	0.2	NIRP exit	-102,322
26-Apr-24	1.7	0.3	dovish tone	-179,919
14-Jun-24	0.2	0.0	Slightly hawkish tone	-138,579
31-Jul-24	-1.8	-0.4	25bp hike/reduction of JGB purchases with hawkish statement and press conference	-73,460
20-Sep-24	0.9	0.1	dovish tone	1,070
31-Oct-24	-0.9	0.0		-37,588
19-Dec-24	1.7	0.4	dovish tone	25,752
24-Jan-25	0.0	-0.6	25bp hike with slightly dovish tone at press conference	-29,411
19-Mar-25				133,902

Source: Bloomberg Finance L.P., J.P. Morgan.

Firstly, the recent increase in JPY long positions is believed to be influenced by [the view](#) that the Trump administration is seeking normalization of the BOJ's monetary policy and the resulting yen appreciation. It is unlikely that this view will change as a result of the BOJ's decision tomorrow, and therefore, the JPY long positions based on this view are unlikely to be significantly unwound. From this perspective,

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if an early rate hike is suggested during Governor Ueda's press conference, it could be associated with political pressure from the United States, leading to further yen buying. [We believe](#) that, under the current circumstances, a large-scale unwinding of JPY long positions is unlikely to lead to a sharp rebound in USD/JPY, and that JPY long positions may persist, causing USD/JPY to continue to trade around the lower end of recent trading range for the time being.

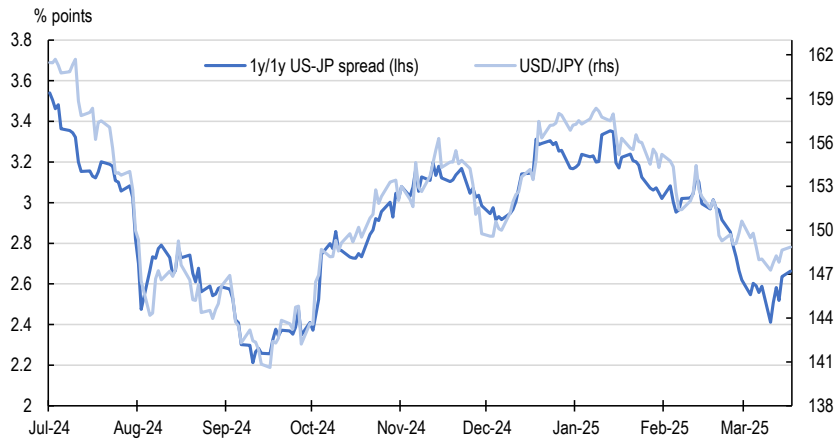
Secondly, the previous tendency for yen depreciation following the BOJ's decision to maintain monetary policy might have been due to the perception that both Japan's government and the BOJ found an accommodative monetary policy and the resulting yen depreciation favorable (from the BOJ's perspective of achieving its inflation target and the government's perspective of reducing the real burden of government debt). In this context, maintaining monetary policy was interpreted as a signal that there was no change in the government and BOJ's stance of tolerating yen depreciation, leading to yen selling. The fact that, in some cases, JPY was sold even without a particularly dovish surprise when monetary policy was maintained may support this view.

However, since the rate hike in July last year, this trend may have weakened as the BOJ consistently sent clear messages about normalizing monetary policy. The fact that USD/JPY fell by 0.9% despite the BOJ maintaining monetary policy as expected at the October 2024 MPM can be seen as a sign that the market perception for the BOJ policy inaction has changed. Additionally, as mentioned above, even if the government and BOJ desired an accommodative monetary policy and the resulting yen depreciation, if market participants increasingly believe that the United States will not tolerate it, the BOJ's maintenance of monetary policy is unlikely to lead to yen depreciation, different from the past.

Since the beginning of this year, USD/JPY has declined in line with the narrowing of the U.S.-Japan spread on one-year forward one-year interest rates (Figure 2). Until mid-February, the increase in BOJ rate hike expectations was leading the narrowing of the spread, but since mid-February, as the pricing in of rate hikes in Japan over the next year has plateaued around 1%, the increase in Fed rate cut expectations has been leading the decline in USD/JPY (Figure 3). Given that many believe the BOJ's rate hike pace is limited to about once every six months, it is unlikely that the market will price in rate hikes significantly above 1% over the next year.

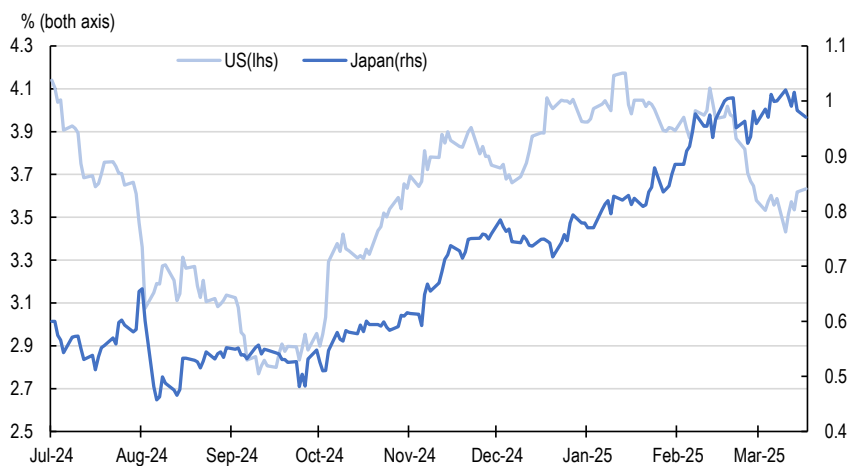
On the other hand, since only small rate hikes are priced in from 2Q26 onwards (the JPY's two-year forward one-year interest rate remains at 1.09%, far from our forecast for the BOJ policy rate at 1.5% as of 4Q26), there is room for increased rate hike expectations over a longer span to push up the JPY. However, it is unlikely that long-term rate hike expectations will significantly increase as a result of communication at tomorrow meeting. Therefore, we expect FX impact of tomorrow's BOJ decision to be limited. Meanwhile, considering the aforementioned increased influence of the United States on the U.S.-Japan spread on one-year forward one-year interest rates, from the perspective of short-term impact on USD/JPY, the results of the FOMC, announced in over ten hours after the BOJ rate announcement, may be more important.

Figure 2: U.S.-Japan 1y/1y rate spread and USD/JPY



Source: Bloomberg Finance L.P., J.P. Morgan.

Figure 3: 1y/1y rate in the U.S. and Japan



Source: Bloomberg Finance L.P., J.P. Morgan.

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