

BoJ Monetary Policy Decision (18-19 March)

Policy on hold as energy shocks delay tightening, pushes next hike into late-2026

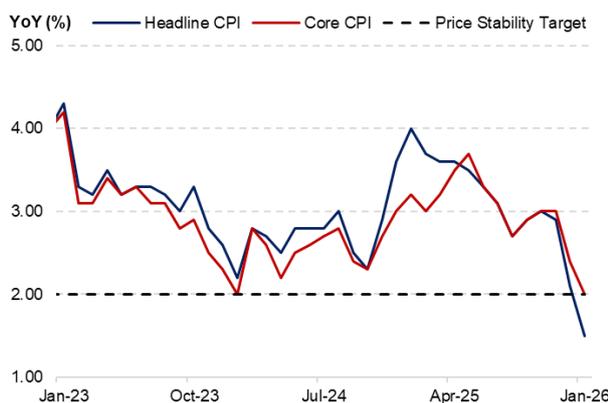
- Hold steady:** The Bank of Japan (BoJ) kept its overnight call rate (OCR) unchanged signalling patience rather than retreat.
- Short-term rate (8-1 vote):** The BoJ left the policy rate at 0.75%, citing heightened uncertainty, particularly from the Middle East conflict, which clouds the outlook. The board reiterated it will raise borrowing costs if inflation evolves in line with its projections. Hajime Takata dissented, arguing that price risks are tilted to the upside and called for an immediate increase to 1.0%.
- Long-term rate:** The BoJ will continue to taper bond purchases. It plans to reduce monthly Japanese government bond buying by JPY400.0b/quarter, slowing to around JPY3.0t by March 2026.
- Asset purchase guidelines (unanimous):** The BoJ has begun selling its ETF and J-REIT holdings in February, shrinking its balance sheet at a deliberately measured pace to avoid market disruption, in line with guidance agreed in September. Based on book value, annual sales will total about JPY330.0b. At this pace, a full exit would take decades, though the bank retains the option to pause sales during periods of market stress.
- Economic growth outlook:** Japan's economy is recovering moderately but unevenly. Exports and industrial production remain broadly flat amid trade headwinds. Corporate profits stay high despite tariff pressure on manufacturers. Business investment continues to rise on strong earnings and easy financial conditions. Private consumption remains resilient on improving employment and income, though high prices cap spending. **Growth should stay moderate as external demand improves, but geopolitical tensions in the Middle East and oil price volatility pose downside risks.**
- Inflation outlook:** Core CPI has eased to around 2.0% as food pressures moderate and energy subsidies cushion households. Inflation may dip below target temporarily before rising again, driven by higher oil prices and wage pass-through. **Tight labour conditions should sustain a gradual wage-price cycle, lifting underlying inflation and expectations toward the target later in the projection horizon.** Key risks include energy costs tied to geopolitics, global growth uncertainty, exchange rate moves, and changes in firms' pricing behaviour.
- BoJ stays cautious as energy shock clouds policy path; yen weakness keeps intervention risk alive**
 - Policy rate outlook:** The BoJ remains cautious and data dependent. Governor Kazuo Ueda said policymakers cannot yet gauge how energy shocks will affect underlying inflation and will reassess after spring wage talks and the April Tankan. He stressed policy will respond if risks intensify, reflecting a flexible approach amid the Iran conflict. **This signals a prolonged pause, with tightening contingent on clear domestic inflation momentum. We see a June move as unlikely and shift our next rate hike call to September–October.**
 - FX outlook (USDJPY):** Yen weakness should persist as higher energy prices worsen Japan's terms of trade and delay policy normalisation. Verbal support has intensified, with levels near 160.0/USD seen as intervention territory. Any unilateral action would likely produce only a brief pullback, with a durable yen recovery requiring lower energy prices, Fed easing and BoJ tightening. **We therefore expect USDJPY to remain elevated, revising our end-2026 forecast to 150.0 from 145.0 previously (2025: 156.7), with uncertainty driving sustained FX swings.**

Table 1: Policy Rates in Selected Countries

| Rate (Last Change) | Country | Central Bank Interest Rate | Date |
|------------------------|-------------|----------------------------|--------|
| 4.10% (+0.25%) | Australia | Cash Rate | Mar-26 |
| 1.00% (-0.25%) | Thailand | Repo Rate | Feb-26 |
| 4.25% (-0.25%) | Philippines | Target Reverse Repurchase | Feb-26 |
| 0.75% (+0.25%) | Japan | Overnight Call Rate | Dec-25 |
| 3.75% (-0.25%) | UK | Base Rate | Dec-25 |
| 3.50% - 3.75% (-0.25%) | USA | Funds Rate Target | Dec-25 |
| 2.25% (-0.25%) | New Zealand | Official Cash Rate | Oct-25 |
| 2.25% (-0.25%) | Canada | Overnight Rate | Oct-25 |
| 4.75% (-0.25%) | Indonesia | BI Rate | Sep-25 |
| 2.75% (-0.25%) | Malaysia | Overnight Policy Rate | Jul-25 |
| 2.00% (-0.25%) | Euro Area | Key Deposit Facility Rate | Jun-25 |
| 2.50% (-0.25%) | South Korea | Base Rate | May-25 |
| 3.00% (-0.10%) | China | Loan Prime Rate (1Y) | May-25 |

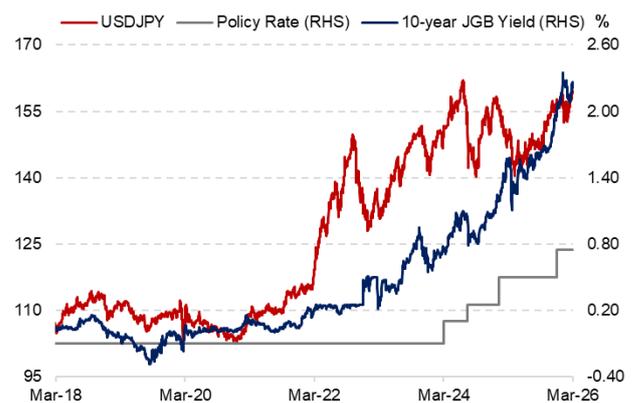
Source: Bloomberg, Kenanga Research

Graph 1: Headline and Core Inflation Rates



Source: Bloomberg, Kenanga Research

Graph 2: USDJPY and Policy Rates (short- and long-term)



Source: Bloomberg, Kenanga Research

24 March 2026

Table 2: Bank of Japan Outlook for Economic Activity and Prices (YoY %)

| Forecasts made in | Real GDP | | Core CPI | |
|--------------------|---------------------|---------------------|---------------------|---------------------|
| | October 2025 | January 2026 | October 2025 | January 2026 |
| Fiscal 2025 | +0.6 to +0.8 (+0.7) | +0.8 to +0.9 (+0.9) | +2.7 to +2.9 (+2.7) | +2.7 to +2.8 (+2.7) |
| Fiscal 2026 | +0.6 to +0.8 (+0.7) | +0.8 to +1.0 (+1.0) | +1.6 to +2.0 (+1.8) | +1.9 to +2.0 (+1.9) |
| Fiscal 2027 | +0.7 to +1.1 (+1.0) | +0.8 to +1.0 (+0.8) | +1.8 to +2.0 (+2.0) | +1.9 to +2.2 (+2.0) |

Source: Bank of Japan, Kenanga Research

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates)

Table 3: Bank of Japan Monetary Policy Meeting Schedule for 2026/ KIBB Outlook

| No. | Date | | KIBB Research Outlook | BoJ Decision |
|-----------------|-------------------------------|---|-----------------------|--------------|
| 1 st | 22-23 January* (Thu and Fri) | ☑ | No change | No change |
| 2 nd | 18-19 March (Wed and Thu) | ☑ | No change | No change |
| 3 rd | 27-28 April * (Mon and Tue) | ☐ | No change | |
| 4 th | 15-16 June (Mon and Tue) | ☐ | No change | |
| 5 th | 30-31 July* (Thu and Fri) | ☐ | No change | |
| 6 th | 17-18 September (Thu and Fri) | ☐ | No change | |
| 7 th | 29-30 October* (Thu and Fri) | ☐ | 25 bps hike | |
| 8 th | 17-18 December (Thu and Fri) | ☐ | No change | |

Source: Bank of Japan, Kenanga Research

*Meeting associated with The Bank's View (outlook for economic activity and prices)

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