

BoJ Monetary Policy Decision (15-16 June)

Raises rates and vows not to fall behind on inflation

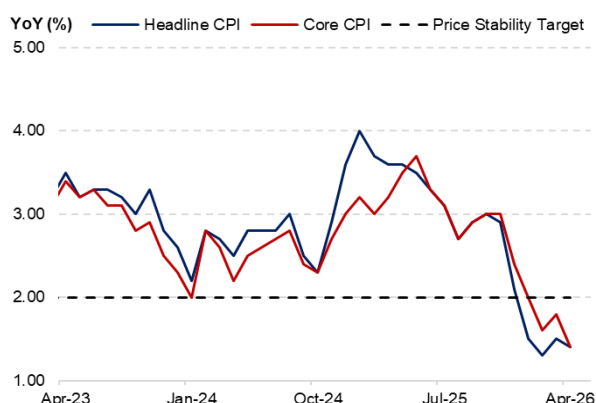
- Broadly expected:** The Bank of Japan (BoJ) raised its overnight call rate (OCR) by 25 bps to 1.00%, the highest level since 1995. This follows three meetings on hold as the Bank moved to head off risks of underlying inflation overshooting its 2.0% target.
- Governor absent from the vote:** Ueda has been in hospital since 10 June for treatment of an infected liver cyst, and did not attend or vote at this meeting. **This is the first such absence since the BoJ's current decision-making framework began in 1998.** Himino chaired in his place, and Uchida held the press conference.
- Short-term rate (7-1 vote):** The BoJ reiterated that further policy normalisation remains appropriate as underlying inflation approaches 2.0% and financial conditions stay accommodative. Board member Toichiro Asada dissented in favour of no change, arguing downside risks to production and employment outweigh upside risks to prices.
- Long-term rate (7-1 vote):** The BoJ will cut monthly JGB purchases by around JPY200.0b/quarter until January-March 2027, then hold purchases steady at JPY2.0t per month. Naoki Tamura dissented, arguing long-term rates should be determined more fully by market forces.
- Asset purchase guidelines (unanimous):** The BoJ continues to unwind its ETF and J-REIT holdings at a measured pace, in line with its balance sheet plans. It can pause sales if market conditions worsen.
- Economic growth outlook:** Japan's economy continues to recover moderately despite high energy prices and war-related uncertainty. The BoJ said **downside risks to growth have eased since April.** This reflects government energy subsidies, resilient corporate profits, a favourable labour market, and improved supply chains.
- Inflation outlook:** Inflation risks have grown. Energy subsidies are still holding down headline CPI, but the BoJ flagged broader cost pass-through and rising inflation expectations. It also noted that **wage-price dynamics are becoming increasingly entrenched**, raising the risk of core inflation exceeds the 2.0% target.
- BoJ turns more attentive to upside inflation risks, with another hike possible in December**
 - Policy rate outlook:** The June rate hike suggests policymakers are becoming increasingly concerned that underlying inflation could remain above target for longer. Since the April meeting, concerns over economic growth have moderated, while broadening price pressures, firmer wage growth and stronger exchange rate pass-through have reinforced the case for further policy normalisation. **While developments in the Middle East remain a key source of uncertainty, the BoJ appears more focused on ensuring inflation expectations remain anchored. We continue to view December as the most likely timing for the next 25 bps hike.**
 - FX outlook (USDJPY):** The rate hike should give modest support to the yen, though markets had largely priced in the move. Further yen gains will likely need more BoJ tightening and a narrower US-Japan rate gap. At the same time, high energy import costs continue to weigh on Japan's external balance. We therefore expect USDJPY to remain range-bound in the near term rather than fall steadily. **We keep our USDJPY end-2026 forecast at 150.0 (2025: 156.7). Uncertainty over energy prices and the pace of Fed easing should continue to cap rebounds above 160.0 level.**

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.00% (+0.25%)	Japan	Overnight Call Rate	Jun-26
2.25% (+0.25%)	Euro Area	Key Deposit Facility Rate	Jun-26
5.50% (+0.25%)	Indonesia	BI Rate	Jun-26
4.35% (+0.25%)	Australia	Cash Rate	May-26
4.50% (+0.25%)	Philippines	Target Reverse Repurchase	Apr-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
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	Nov-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

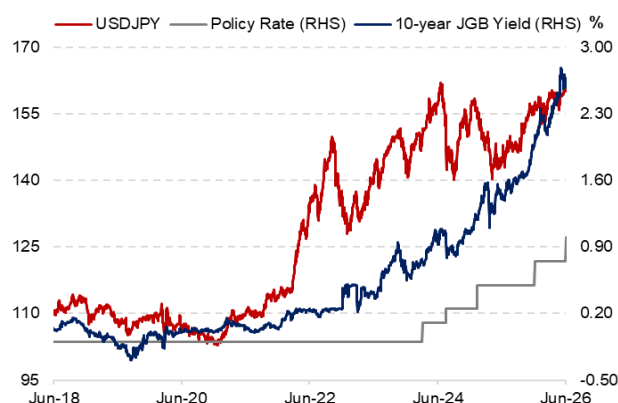
Source: Bloomberg, Kenanga Research

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

18 June 2026

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

Forecasts made in	Real GDP		Core CPI	
	January 2026	April 2026	January 2026	April 2026
Fiscal 2026	+0.8 to +1.0 (+1.0)	+0.4 to +0.7 (+0.5)	+1.9 to +2.0 (+1.9)	+2.8 to +3.0 (+2.8)
Fiscal 2027	+0.8 to +1.0 (+0.8)	+0.6 to +0.8 (+0.7)	+1.9 to +2.2 (+2.0)	+2.3 to +2.4 (+2.3)
Fiscal 2028	-	+0.7 to +0.8 (+0.8)	-	+2.0 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	No change
4 th	15-16 June (Mon and Tue)	☑	No change	25 bps hike
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)	☐	No change	
8 th	17-18 December (Thu and Fri)	☐	25 bps hike	

Source: Bank of Japan, Kenanga Research

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

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