21 September 2026

BoJ Monetary Policy Decision (17-18 September)

1.25% done, two dissents push the next hike to 1Q27

- **Split vote: The Bank of Japan (BoJ) raised the overnight call rate (OCR) by 25 bps to 1.25% in a 7-2 vote**, just three months after June's hike. At 1.25%, the policy rate sits inside the lower end of the BoJ's estimated neutral range for the first time.
- **Short-term rate (7-2 vote):** Board members Toichiro Asada and Ayano Sato dissented. Asada argued the economy was not strong enough to justify a hike with core CPI running below 2.0% recently. Sato judged that economic and price developments had not accelerated materially. The BoJ kept its tightening bias and flagged a new priority: stabilising underlying CPI inflation at around 2.0%, to stop inflation from overshooting and hurting the economy later.
- **Market operations:** The board voted unanimously to switch the climate response financing operation to a floating loan rate, tied to the complementary deposit facility rate. It capped total loans at JPY50.0t and loans per counterparty at JPY10.0t. The same floating-rate approach now applies to the disaster area and pooled collateral operations.

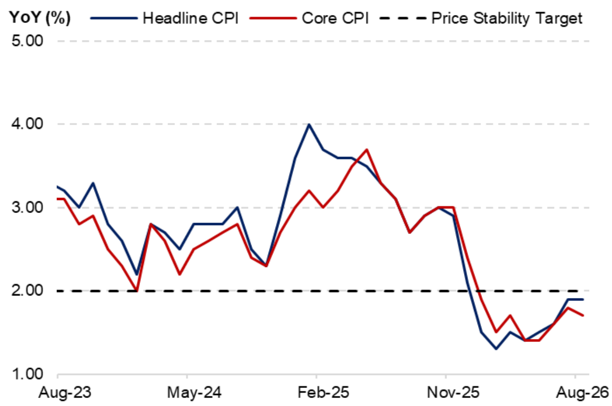
Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.25% (+0.25%)	Japan	Overnight Call Rate	Sep-26
3.75% - 4.00% (+0.25%)	USA	Funds Rate Target	Sep-26
2.50% (+0.25%)	Euro Area	Key Deposit Facility Rate	Sep-26
2.75% (+0.25%)	New Zealand	Official Cash Rate	Sep-26
5.00% (+0.25%)	Philippines	Target Reverse Repurchase	Aug-26
3.00% (+0.25%)	South Korea	Base Rate	Aug-26
5.75% (+0.25%)	Indonesia	BI Rate	Jun-26
4.35% (+0.25%)	Australia	Cash Rate	May-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
3.75% (-0.25%)	UK	Base Rate	Dec-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

Source: Bloomberg, Kenanga Research

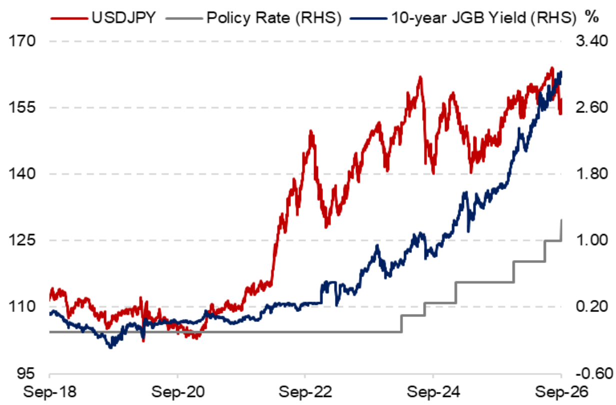
- **Economic growth outlook:** The BoJ said Japan's economy has recovered moderately, with some pockets of weakness, partly because of the West Asia conflict. It expects growth to continue at a moderate but slower pace. Oil prices, elevated since early spring, weigh on activity, while government measures, accommodative financial conditions and global AI-related demand provide support. Exports and industrial production have started to pick up, corporate profits remain high, and private consumption holds up despite weak household sentiment. Housing investment continues to decline.
- **Inflation outlook:** Core CPI has risen moderately to a 1.5-2.0% range, as higher import prices feed through and firms keep passing wage increases into selling prices. The BoJ expects underlying inflation to reach a level broadly consistent with the 2.0% target between 2H26 and 2027. It now flags an upside risk that underlying inflation overshoots 2.0%, as firms lean harder into raising wages and prices and longer-term inflation expectations climb.
- **BoJ keeps normalising, but a divided board pushes our next hike call to 1Q27**
  - Governor Ueda signalled pre-emptive action to keep underlying inflation from overshooting 2.0%, citing broadening wage pressures and rising inflation expectations. He did not rule out larger or consecutive hikes, but tied them to a clear overshoot Japan has yet to see. This decision does not lock the BoJ into a quarterly cadence. Ueda declined to set a pace, the dissents raise the bar for another move this year, and August core CPI eased. **We expect the next 25 bps hike in 1Q27, though faster inflation, yen weakness or high energy costs could bring it forward.**
  - **FX outlook (USDJPY):** Ueda stressed that the BoJ does not set policy to steer or cap the yen; it watches FX only for its effect on domestic inflation. We see this playing out in two stages. Near term, markets pricing a second Fed hike and elevated oil could push USDJPY towards 158-160. **We maintain our end-2026 USDJPY forecast at 154.0 on the view that this repricing proves temporary: an extended Fed hold, continued BoJ normalisation and the standing threat of further intervention should gradually narrow the US-Japan rate gap** and pull the pair back over the fourth quarter. The trigger is the Fed holding rather than delivering a second hike; without it, 154.0 is at risk to the upside.

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

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

	Real GDP		Core CPI	
Forecasts made in	April 2026	July 2026	April 2026	July 2026
Fiscal 2026	+0.4 to +0.7 (+0.5)	+0.6 to +0.7 (+0.6)	+2.8 to +3.0 (+2.8)	+2.3 to +2.7 (+2.5)
Fiscal 2027	+0.6 to +0.8 (+0.7)	+0.7 to +0.8 (+0.8)	+2.3 to +2.4 (+2.3)	+2.2 to +2.5 (+2.4)
Fiscal 2028	+0.7 to +0.8 (+0.8)	+0.7 to +0.8 (+0.8)	+2.0 to +2.2 (+2.0)	+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
1st	22-23 January* (Thu and Fri)	☑	No change	No change
2nd	18-19 March (Wed and Thu)	☑	No change	No change
3rd	27-28 April * (Mon and Tue)	☑	No change	No change
4th	15-16 June (Mon and Tue)	☑	No change	25 bps hike
5th	30-31 July* (Thu and Fri)	☑	No change	No change
6th	17-18 September (Thu and Fri)	☑	25 bps hike	25 bps hike
7th	29-30 October* (Thu and Fri)	☐	No change	
8th	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)*

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my