BoJ October: At Target, December Hike in Play

Holds at 1.25% but declares underlying inflation at target; we pull our next hike forward to December

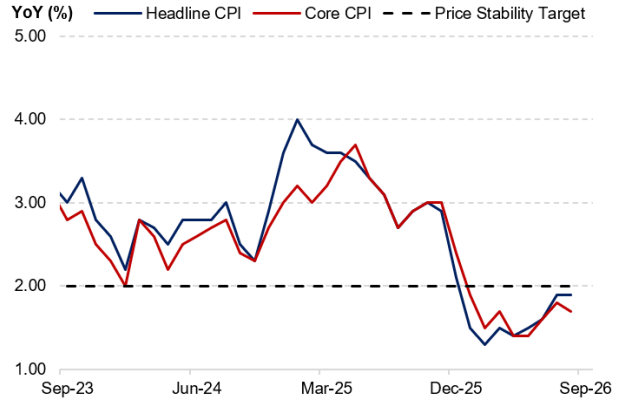
- **Broadly expected: The Bank of Japan (BoJ) kept its overnight call rate (OCR) at 1.25% in an 8-1 vote.** For the first time, it judged underlying CPI inflation to be broadly in line with its 2.0% target. Its focus now shifts from lifting inflation to preventing an overshoot.
- **Short-term rate (8-1 vote):** Board member Hajime Takata dissented, proposing a 25 bps hike to 1.50%. He argued that with underlying inflation at target, the BoJ should move faster towards neutral to keep policy nimble.
- **ETF sales (unanimous):** From January 2027, the BoJ will step up ETF sales to about JPY860.0b a year at book value, or roughly 0.1% of market turnover, from about JPY330.0b. This shortens the disposal period to about 43 years from about 112. The move caught equity markets off guard, but its direct impact should stay small.
- **Economic growth outlook:** The BoJ expects growth in fiscal 2026 to stay moderate but slow. High energy costs from the Middle East conflict are squeezing profits and real incomes, partly offset by government measures, accommodative financial conditions and AI-related demand. Growth should recover gradually later in the projection period as energy costs ease. The median real GDP forecast rises to 0.7% for fiscal 2026 (from 0.6%) and slips to 0.7% for fiscal 2027 (from 0.8%).
- **Inflation outlook:** Core CPI should run clearly above 2.0% in the first half of the projection period, driven by higher oil and semiconductor prices and a weaker yen, before easing back towards 2.0%. The median forecast rises to 2.6% for fiscal 2027 (from 2.4%), while fiscal 2026 stays at 2.5%. The BoJ sees inflation risks tilted to the upside as labour shortages worsen. Its forecasts exclude the proposed consumption tax cut on food, which it estimates would lower fiscal 2027 core CPI by about 1.3 ppts.
- **BoJ clears its own bar for further hikes; we bring our next hike forward to December**
  - **Policy rate outlook:** With underlying inflation now at target, the BoJ has met the main condition it set for further tightening, and its hawks want to move faster. Governor Ueda stopped short of signalling December, saying the BoJ has yet to sustainably achieve its target and that upside risks have not risen sharply over the past month, but stressed that it will not sit and wait. **We now expect the next 25 bps hike in December (previously 1Q27), taking the OCR to 1.50%.** After that, we see a half-yearly pace, with one hike in 1H27 and another in 2H27, lifting the OCR to 2.00% by end-2027. Next spring's shuntō will set the pace. Rengo is targeting pay rises of around 6.0% with a 5.0% floor, and a strong outcome would raise the risk of faster hikes. The key downside risk is fiscal. If passed, the food tax cut would push measured core CPI well below 2.0% in fiscal 2027. The BoJ should look through it, but it would make the case for steady hikes harder to communicate. A policy rate heading towards 2.00%, alongside upside inflation risks, should keep JGB yields under upward pressure.
  - **FX outlook (USDJPY):** The decision gave the yen only slight support. **We maintain our end-2026 forecast at 154.0.** A December BoJ hike, alongside our expected Fed hike to 4.25% (upper bound), should keep the US-Japan rate gap from widening. The BoJ's commitment to normalisation and the threat of intervention should also cap USDJPY around 160.0. If the BoJ waits until 1Q27, 154.0 faces upside risk.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.50% (+0.25%)	Canada	Overnight Rate	Oct-26
5.50% (+0.50%)	Philippines	Target Reverse Repurchase	Oct-26
4.60% (+0.25%)	Australia	Cash Rate	Sep-26
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
3.00% (+0.25%)	South Korea	Base Rate	Aug-26
5.75% (+0.25%)	Indonesia	BI Rate	Jun-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
3.75% (-0.25%)	UK	Base Rate	Dec-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

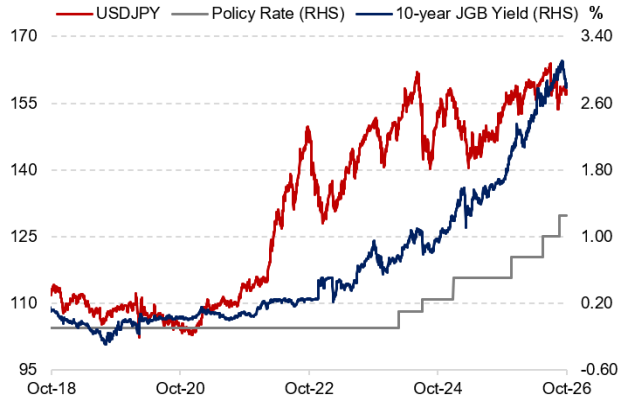
Source: Bloomberg, Kenanga Research

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	July 2026	October 2026	July 2026	October 2026
Fiscal 2026	+0.6 to +0.7 (+0.6)	+0.7 to +0.8 (+0.7)	+2.3 to +2.7 (+2.5)	+2.4 to +2.6 (+2.5)
Fiscal 2027	+0.7 to +0.8 (+0.8)	+0.6 to +0.8 (+0.7)	+2.2 to +2.5 (+2.4)	+2.4 to +2.7 (+2.6)
Fiscal 2028	+0.7 to +0.8 (+0.8)	+0.7 to +0.9 (+0.8)	+2.0 to +2.2 (+2.0)	+2.0 to +2.1 (+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	No change
8th	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)*

Table 4: Bank of Japan Monetary Policy Meeting Schedule for 2027/ KIBB Outlook

No.	Date		KIBB Research Outlook	BoJ Decision
1st	21-22 January* (Thu and Fri)	☐	No change	
2nd	17-18 March (Wed and Thu)	☐	No change	
3rd	27-28 April * (Tue and Wed)	☐	No change	
4th	10-11 June (Thu and Fri)	☐	25 bps hike	
5th	21-22 July* (Wed and Thu)	☐	No change	
6th	21-22 September (Tue and Wed)	☐	No change	
7th	28-29 October* (Thu and Fri)	☐	No change	
8th	16-17 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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