

Bank of Japan Monetary Policy Meeting (December 2024)

Policy Rate Maintained as Expected

December 20, 2024

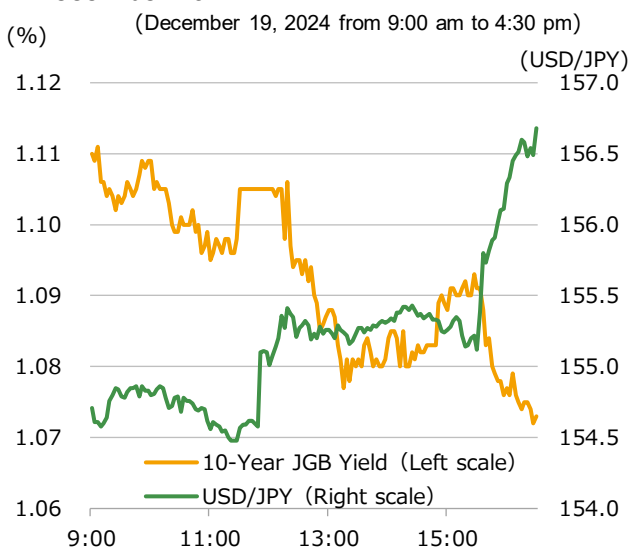
Governor Ueda Indicates Need for "One More Notch" Before Additional Rate Hike

On December 18-19, the Bank of Japan (BOJ) held its Monetary Policy Meeting and decided to maintain the policy rate, keeping the uncollateralized overnight call rate around 0.25%. Market expectations for a rate hike had once risen to approximately 65%, but just before the meeting, they had fallen to nearly 20%, making this decision largely in line with market forecasts. However, following the recent FOMC (Federal Open Market Committee) meeting in the US, which indicated a significant slowdown in the pace of rate cuts, the Yen depreciated. Some speculated that a surprise rate hike might be implemented as a countermeasure to the Yen's depreciation, leading to further Yen weakening beyond 155 Yen per dollar immediately after the announcement.

In a press conference, Governor Ueda explained that the decision to forgo a rate hike was due to uncertainties surrounding future wage trends and the economic policies of the incoming US administration. He emphasized the need for additional information to assess these factors. Furthermore, he noted that the YoY increase in import prices has stabilized and inflation expectations are rising gradually, which also contributed to the decision to delay an additional rate hike. These dovish remarks led to further yen depreciation.

Regarding future monetary policy, Governor Ueda stated that the economic and price conditions are "on track" as expected, increasing the likelihood of the BOJ's outlook being realized. However, he mentioned the need for "one more notch" before considering an additional rate hike. Specifically, he highlighted the momentum of wage increases during the 2025 spring labor negotiations, indicating that the next rate hike would likely be contingent on the outcomes of these negotiations.

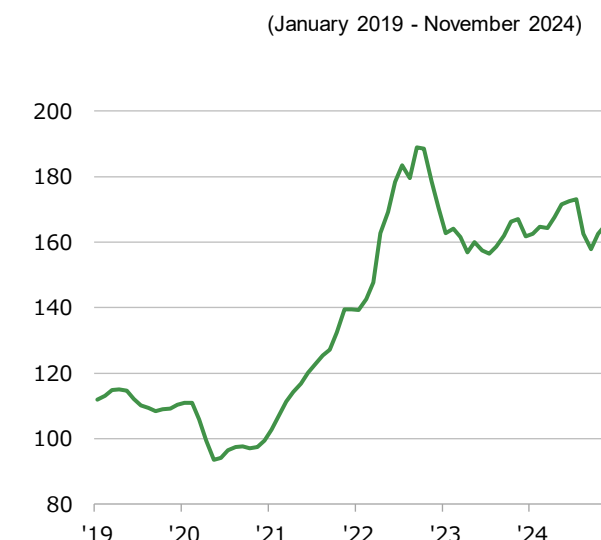
10-Year JGB Yield and USD/JPY Movement on December 19



*3 minute chart, use previous value for missing time points.

Source: Bloomberg; Compiled by Daiwa Asset Management

Import Price Index (Yen basis)



*2020 average = 100

Source: BOJ; Compiled by Daiwa Asset Management

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