

## Japan-US Tariff Agreement

Diminished recession fears drive domestic yields higher, supporting continued rate hikes

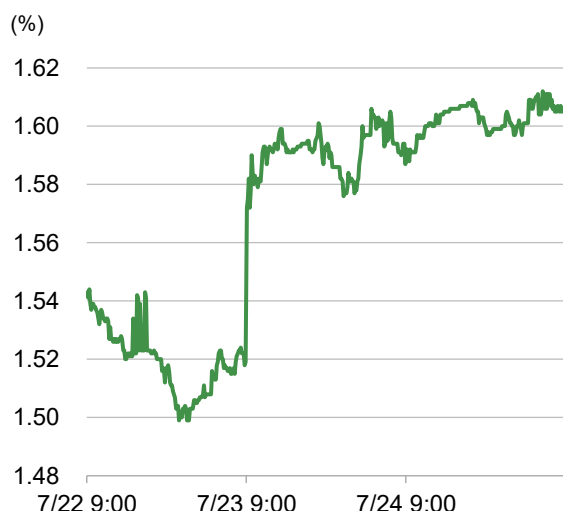
July 25, 2025

### Rapid Breakthrough in Japan-US Tariff Talks: Reciprocal and Auto Tariffs Cut to 15%

On July 23 (JST), Japan and the US announced a tariff agreement that surprised markets due to its timing—coming shortly after Japan’s ruling party lost its majority in both houses following the 27th House of Councillors election, raising concerns about prolonged negotiations. Key elements of the agreement include a reduction in reciprocal tariff rates from the 25% level notified in early July to 15%. Additionally, tariffs on automobiles and auto parts, which had been a major point of contention, were lowered from the current rate of 27.5% to 15%. In return, Japan has reportedly committed to expanding investment in the US in strategically important sectors such as semiconductors, energy, and pharmaceuticals, which are critical to economic security.

With the agreement on tariff negotiations between Japan and the US, concerns over downward pressure on the economy have eased, leading to a significant rally in the domestic equity market and a general rise in domestic interest rates. In the previous outlook report, it was noted that “rather than settling at just 10%, the tariff rate is likely to stabilize at a somewhat higher level as a result of negotiations.” Given this context, the latest agreement is being viewed as moderately positive. On July 23rd, Deputy Governor Uchida of the Bank of Japan expressed the view that “even if export-oriented corporations experience a moderate compression in earnings, the corporate sector as a whole is expected to maintain robust profitability.” This statement implicitly supports the continuation of the current monetary tightening trajectory, which is anchored in wage growth dynamics. While uncertainty surrounding US tariff rates has somewhat abated, the potential ramifications of US trade policy on Japan’s domestic economy and inflation outlook remain opaque. Consequently, market participants are closely monitoring the upcoming July Monetary Policy Meeting, particularly the Outlook Report’s projections for economic activity and price developments, as well as Governor Ueda’s press conference, to gauge the timing and terminal rate of future interest rate hikes.

#### 10-year JGB Yield



The latest value is 16:57 on July 24, 2025.

3-minute time frame; for times without values, the previous value is used.

Source: Bloomberg; Compiled by Daiwa Asset Management

#### GDP and Price Outlook by Bank of Japan Policy Board Members

(YoY, %)	Real GDP	Consumer Price Index	
		(less fresh food)	(less fresh food and energy)
FY2024	+0.7~0.7 <+0.7>	+2.7	+2.3
(as of Jan)	+0.4~0.6 <+0.5>	+2.6~2.8 <+2.7>	+2.1~2.3 <+2.2>
FY2025	+0.4~0.6 <+0.5>	+2.0~2.3 <+2.2>	+2.2~2.4 <+2.3>
(as of Jan)	+0.9~1.1 <+1.1>	+2.2~2.6 <+2.4>	+2.0~2.3 <+2.1>
FY2026	+0.6~0.8 <+0.7>	+1.6~1.8 <+1.7>	+1.7~2.0 <+1.8>
(as of Jan)	+0.8~1.0 <+1.0>	+1.8~2.1 <+2.0>	+1.9~2.2 <+2.1>
FY2027	+0.8~1.0 <+1.0>	+1.8~2.0 <+1.9>	+1.9~2.1 <+2.0>

As of May 2025, <> in the lower row indicates the median.

Source: Bank of Japan; Compiled by Daiwa Asset Management

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