

The Bank of Japan's Monetary Policy in Light of the Escalating Tensions in the Middle East

Expectations for an Interest Rate Hike at the April Meeting Has Fallen to Around 30%

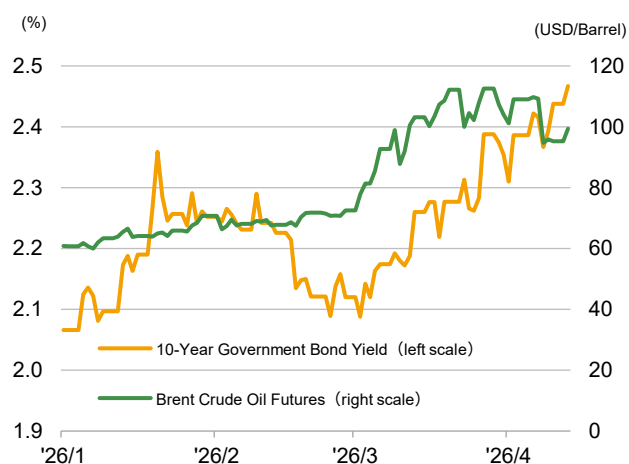
April 14, 2026

Monitoring the Situation in the Middle East; Assessing the Accuracy and Risks of Economic and Inflation Forecasts

Against the backdrop of turmoil in the Middle East, which has kept crude oil prices elevated, the yield on 10-year Japanese government bonds has risen to just shy of 2.5% (as of April 13). Regarding the situation in the Middle East, although the US and Iran agreed to a two-week temporary ceasefire, subsequent negotiations have been difficult, as significant differences remain regarding nuclear development and the reopening of the Strait of Hormuz. The situation remains tense, with the US announcing a “counter-blockade” of the Strait, and it is expected to take some time to assess the impact of the Middle East situation on the domestic economy and prices.

However, at the March monetary policy meeting, Bank of Japan Governor Ueda made clear his intention to maintain the current path of interest rate hikes despite rising economic uncertainty both domestically and abroad, and the market's short-term focus is now on whether or not the Bank will raise rates at the April meeting (April 27–28). In particular, following the confirmation of a significant deterioration in business sentiment in surveys such as the Economic Watchers Survey released last week, attention has been focused on whether there will be a shift in the Bank of Japan's monetary policy stance, which had previously been relatively cautious regarding upward pressure on prices. Against this backdrop, Governor Ueda stated at the Trust Industry Conference on the 13th (read by Deputy Governor Himino) that “in light of the escalating tensions in the Middle East, unstable movements are being observed in international financial markets” and that “while closely monitoring the impact on economic, price, and financial conditions, we intend to assess the likelihood and risks associated with the realization of our central outlook for the economy and prices,” indicating no urgency to raise rates. Reflecting these views, the probability of a rate hike at the April meeting—which the market had previously priced in at over 70%—has fallen to around 30%.

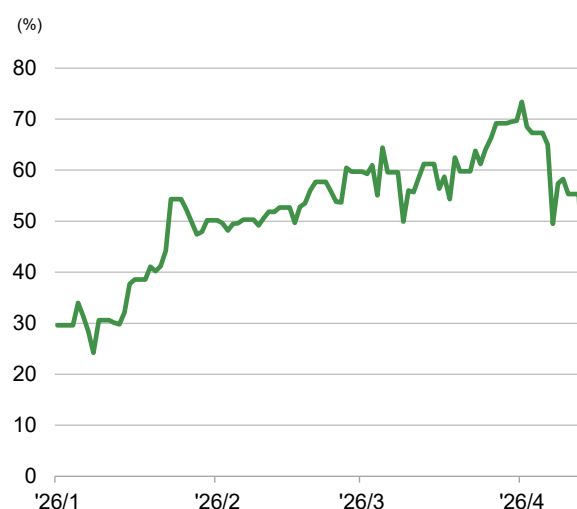
10-Year Government Bond Yield and Crude Oil Futures Prices



※Latest figure as of April 13, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

Market-Implied Probability of a Rate Hike at the April Meeting



※ Latest figure as of April 13, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

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