

Japan Bond Market Update

BOJ Governor Ueda: "We will thoroughly discuss the merits of raising interest rates"

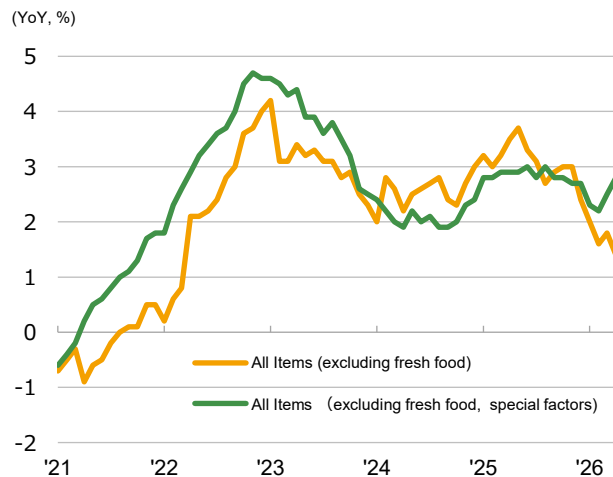
June 4, 2026

BOJ Takes Proactive Stance on Rate Hike at June Meeting, Wary of Upward Price Risks

Amid the de facto blockade of the Strait of Hormuz against the backdrop of escalating tensions in the Middle East, the Bank of Japan's Core Consumer Price Index (CPI) (excluding fresh food), which excludes special factors, rose 2.8% year-on-year in April. This marks an acceleration from the 2.2% increase in February and 2.5% in March. Additionally, the 10-year BEI remains elevated, exceeding the 2% inflation target, raising concerns about upside risks to inflation. Against this backdrop, the market widely expects the next rate hike to occur at the June Monetary Policy Meeting.

In a speech delivered on the 3rd, Bank of Japan Governor Ueda stated, "Even if the uncertain situation persists, if we judge that the upside risks to prices are increasing relative to the downside risks to the economy, we will need to thoroughly discuss whether to raise interest rates." This phrasing regarding the decision to raise rates is similar to that used by Deputy Governor Himino in January 2025 and by Governor Ueda in December of the same year, just before their respective rate hikes. Given that this phrasing has been repeated, it is considered a strong signal that a June rate hike is the base scenario. On the other hand, while previous remarks included specific references such as "looking ahead to the next policy meeting," this speech did not include such language. While the Bank has strengthened its proactive stance toward a rate hike, it does not appear to have reached the stage where a June implementation is a foregone conclusion. This is because there are concerns about downward pressure on the Japanese economy stemming from a "double shock" of soaring energy prices and supply constraints on raw materials, symbolized by naphtha. Perhaps reflecting these uncertainties, the market has not yet fully priced in a June rate hike.

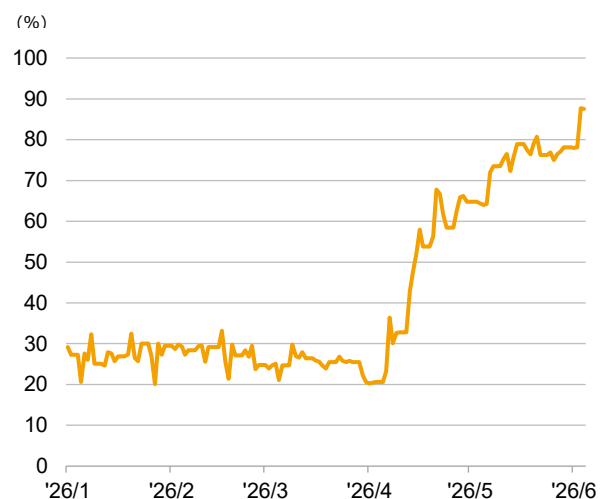
Consumer Price Index (CPI)



※ Latest figure as of April 2026

Source: Ministry of Internal Affairs and Communications, BOJ

Market-Implied Probability of a Rate Increase at the June Meeting



※ Latest figure as of June 4, 2026, 12:00 PM

Source: Bloomberg; Compiled by Daiwa Asset Management

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