Market Letter

Bank of Japan Monetary Policy Meeting (July 2026)

Policy Rate Left Unchanged as Expected by the Market

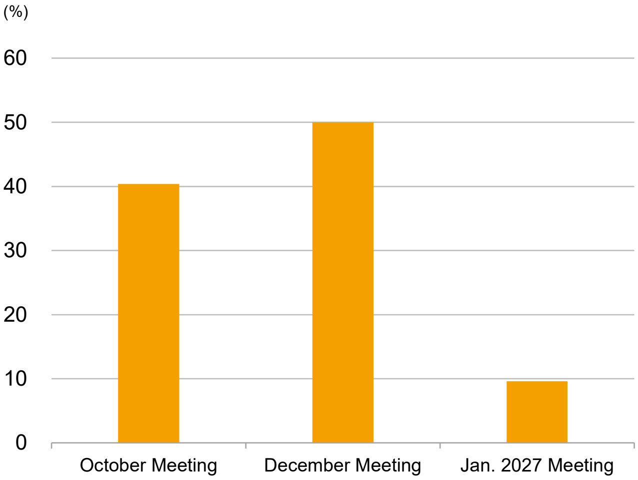
August 3, 2026

Hints at an Earlier Rate Hike and Faster Tightening if Conditions Remain Too Accommodative

The BOJ (Bank of Japan) held its Monetary Policy Meeting on July 30–31 and, as expected by the market, decided to keep the unsecured call rate (overnight rate)—the policy interest rate—at 1.0%. Although uncertainty surrounding the situation in the Middle East remains, crude oil prices have fallen compared to earlier levels, and the risks of a significant economic downturn or an upward deviation in prices have receded. Against this backdrop, the BOJ appears to be taking a wait-and-see approach to assess the impact of the rate hike implemented at its previous meeting in June. In the Outlook Report, the Bank's baseline forecasts for growth and inflation were largely unchanged, except for a downward revision to FY2026 inflation reflecting the impact of the government's energy subsidy measures.

Regarding future monetary policy management, Governor Ueda stated that, as the underlying inflation rate approaches 2%, it is important to stabilize this indicator at around 2% to prevent the risk of it rising above that level from materializing and adversely affecting the economy thereafter. He also reiterated that discussions on the timing of the next rate hike would begin from the next (September) meeting onward, while assessing the probability of and risks to the Bank’s baseline economic and inflation outlook, including the impact of developments in the Middle East, expanding AI-related demand, and exchange rate fluctuations. In addition, he noted that the pace of rate hikes could be accelerated if monetary conditions are judged to be too accommodative. While we anticipate the next rate hike to occur in December, based on a pace of approximately once every six months, given that the Bank of Japan has left the door open for an earlier additional rate hike, we believe the risks are tilted toward an earlier-than-expected move.

Expected Timing of the Next BOJ Rate Hike



※Survey conducted among Bank of Japan watchers
※As of the July 2026 survey

Source: Bloomberg; Compiled by Daiwa Asset Management

GDP and Price Outlook of Bank of Japan Policy Board Members

(YoY, %)	Real GDP	Consumer Price Index (less fresh food)	Consumer Price Index (less fresh food and energy)
FY2026	+0.6～+0.7 <+0.6>	+2.3～+2.7 <+2.5>	+2.3～+2.6 <+2.5>
(as of Apr)	+0.4～+0.7 <+0.5>	+2.8～+3.0 <+2.8>	+2.5～+2.7 <+2.6>
FY2027	+0.7～+0.8 <+0.8>	+2.2～+2.5 <+2.4>	+2.2～+2.7 <+2.6>
(as of Apr)	+0.6～+0.8 <+0.7>	+2.3～+2.4 <+2.3>	+2.6～+2.7 <+2.6>
FY2028	+0.7～+0.8 <+0.8>	+2.0～+2.2 <+2.0>	+2.1～+2.3 <+2.2>
(as of Apr)	+0.7～+0.8 <+0.8>	+2.0～+2.2 <+2.0>	+2.1～+2.4 <+2.2>

※ As of July 2026; the values in <> in the bottom row represent the median

Source: Bank of Japan; Compiled by Daiwa Asset Management

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