

03 August 2026

BoJ Monetary Policy Decision (30-31 July)

Holds firm, but keeps December hike (and an earlier surprise) on the table

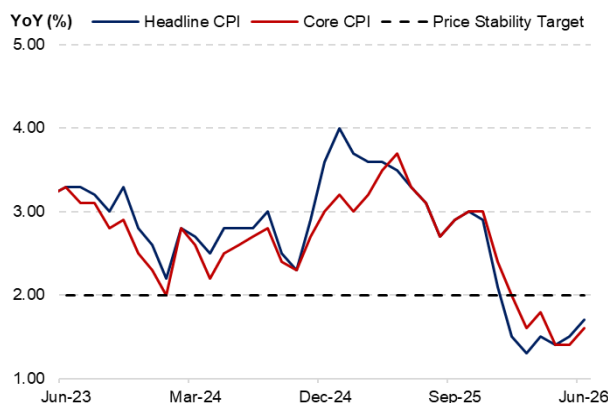
- Broadly expected:** The Bank of Japan (BoJ) left its overnight call rate (OCR) unchanged at 1.00% in an 8-1 vote, as policymakers stayed cautious after June's rate hike, still assessing whether underlying inflation can sustainably hold around the 2.0% target amid continued uncertainty.
- Short-term rate (8-1 vote):** The BoJ reiterated that it will keep adjusting monetary policy as economic and price developments evolve, closely monitoring upside risks from currency moves, wage-price dynamics, and overseas developments. Board member Hajime Takata dissented, favouring a 25 bps hike on rising inflation risks from external demand shocks and shifting overseas financial conditions.
- Long-term rate:** The BoJ kept its plan to gradually reduce JGB purchases, trimming monthly buying by around JPY200.0b/quarter until 1Q27, then holding purchases steady at around JPY2.0t/month.
- Asset purchase guidelines:** The BoJ kept its plan to gradually unwind ETF and J-REIT holdings at a measured pace, retaining flexibility to pause sales if market conditions deteriorate significantly.
- Economic growth outlook:** Japan's economy is expected to continue expanding moderately. The BoJ raised its median real **GDP forecast for fiscal 2026 to 0.6%** (from **0.5%** previously), supported by strong global AI-related demand, government measures to ease household energy costs, and solid wage gains from this year's *shunto*.
- Inflation outlook:** Core CPI is projected to rise by a median **2.5% in fiscal 2026** (down from **2.8%**), largely reflecting the temporary impact of government energy support measures. Broader price pressures from wage growth, higher energy costs, stronger AI-related demand, and yen depreciation continue to build. Inflation is expected to moderate to **2.4% in fiscal 2027** and **2.0% in fiscal 2028**, with underlying inflation becoming broadly consistent with the BoJ's 2.0% target from 2H26 onward.
- BoJ keeps door open for earlier hikes, but gradual normalisation remains our base case**
 - Governor Kazuo Ueda reiterated that the BoJ is paying closer attention to upside price risks as underlying inflation nears the 2.0% target, particularly from yen weakness, wage-price dynamics, and AI-related demand. **The BoJ remains committed to further normalisation, but the pace is likely to stay gradual given external uncertainties and the need to confirm inflation momentum is sustainable.** We still expect the next 25 bps hike in December, though timing could move up to September or October if incoming inflation and currency data strengthen the case for earlier action.
 - FX outlook (USDJPY):** Recent government intervention may offer temporary yen support, but sustained appreciation will likely need further BoJ tightening alongside a narrowing US-Japan rate differential. The BoJ's increasingly hawkish tone should only lightly support the yen near term, as markets remain focus more on the pace than the direction of normalisation. **We revise our USDJPY end-2026 forecast to 154.0** (previously 150.0), reflecting more persistent structural headwinds to the yen. However, last week's intervention and Governor Ueda's firmer policy tone should help limit further yen weakness.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.75% (+0.25%)	South Korea	Base Rate	Jul-26
2.50% (+0.25%)	New Zealand	Official Cash Rate	Jul-26
5.75% (+0.25%)	Indonesia	BI Rate	Jun-26
4.75% (+0.25%)	Philippines	Target Reverse Repurchase	Jun-26
1.00% (+0.25%)	Japan	Overnight Call Rate	Jun-26
2.25% (+0.25%)	Euro Area	Key Deposit Facility Rate	Jun-26
4.35% (+0.25%)	Australia	Cash Rate	May-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
3.75% (-0.25%)	UK	Base Rate	Dec-25
3.50% - 3.75% (-0.25%)	USA	Funds Rate Target	Dec-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

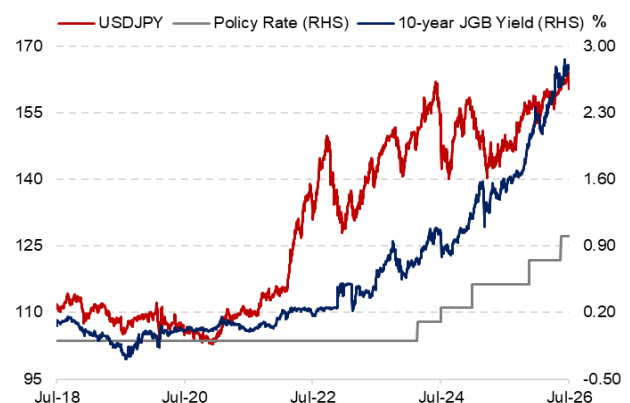
Source: Bloomberg, Kenanga Research

Graph 1: Headline and Core Inflation Rates



Source: Bloomberg, Kenanga Research

Graph 2: USDJPY and Policy Rates (short- and long-term)



Source: Bloomberg, Kenanga Research

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Table 2: Bank of Japan Outlook for Economic Activity and Prices (YoY %)

Forecasts made in	Real GDP		Core CPI	
	April 2026	July 2026	April 2026	July 2026
Fiscal 2026	+0.4 to +0.7 (+0.5)	+0.6 to +0.7 (+0.6)	+2.8 to +3.0 (+2.8)	+2.3 to +2.7 (+2.5)
Fiscal 2027	+0.6 to +0.8 (+0.7)	+0.7 to +0.8 (+0.8)	+2.3 to +2.4 (+2.3)	+2.2 to +2.5 (+2.4)
Fiscal 2028	+0.7 to +0.8 (+0.8)	+0.7 to +0.8 (+0.8)	+2.0 to +2.2 (+2.0)	+2.0 to +2.2 (+2.0)

Source: Bank of Japan, Kenanga Research

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates)

Table 3: Bank of Japan Monetary Policy Meeting Schedule for 2026/ KIBB Outlook

No.	Date		KIBB Research Outlook	BoJ Decision
1 st	22-23 January* (Thu and Fri)	☑	No change	No change
2 nd	18-19 March (Wed and Thu)	☑	No change	No change
3 rd	27-28 April * (Mon and Tue)	☑	No change	No change
4 th	15-16 June (Mon and Tue)	☑	No change	25 bps hike
5 th	30-31 July* (Thu and Fri)	☑	No change	No change
6 th	17-18 September (Thu and Fri)	☐	No change	
7 th	29-30 October* (Thu and Fri)	☐	No change	
8 th	17-18 December (Thu and Fri)	☐	25 bps hike	

Source: Bank of Japan, Kenanga Research

*Meeting associated with The Bank's View (outlook for economic activity and prices)

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