Maybank

FX Note

USDJPY Upward Pressure as BOJ Holds

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FX

Global

BOJ Holds Rates Amid US Policy Concerns, Awaiting Data

BOJ kept rates unchanged at 0.25% in what had been seen prior to the meeting as a fairly uncertain outcome. The central bank looks to have come to this decision based on two factors which are **1) uncertainty over Trump trade and economic policies and 2) the need to see more data.**

Regarding the former, the BOJ was already quite explicit about this in its morning statement as it made mention that "there remained high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices". Governor Ueda in the afternoon press conference had also gone on to say that uncertainties are high over US policy and that Trump's fiscal and trade policies could affect the global economy. Meanwhile, on the point of economic data, Ueda would stated that he wants more information on the spring wage negotiations. He even said that the big picture on wage should be clear in Mar or Apr. However, he did also say that it is not just wages that will move the needle on rates.

We do note that there were some points that attempted to make the communication from the central bank look more balanced. For one, Ueda did recognize that most data is in line with expectations. Also, the earlier statement did specifically mention that "exchange rate developments are, compared to the past, most likely to affect prices" and that "the cycle from income to spending intensifies".

Regardless, the tone of Ueda makes it appear that the BOJ is ready to wait to observe to see how both wage data and Trump policies fares before making another move. This actually points to the increased possibility that another BOJ hike could be delayed and we believe that another 25bps hike may only occur in Mar, when they have more information on the Shunto wages and for that matter clarity on Trump policies. Even so, we are aware that the BOJ can have a tendency to surprise and a Jan hike cannot entirely be ruled out (though not our base case) even if it is less likely. Ueda is not entirely clear on what amount of data and cues on US policies would suffice. Some Trump policies could also be announced together with the inauguration. After Mar, we see another 25bps hike possibly coming in Oct 2025. Overall, we see only two 25bps hikes in 2025, bringing the rate to 0.75%.

Tricky for USDJPY

Looking at the chart, Ueda's perceived dovish comments have almost immediately applied upward pressure and pushed it to test the key resistance at 157.00. If the pair can reject the 157.00 level, this can lead to the formation of a bearish double top pattern. This could guide a reversal downwards towards the support at 150.00. UST yields receding from the levels it has hit following the FOMC can help reduce upward pressure on the USDJPY. The BOJ can also continue to note that data remains in line to play up the possibility of a Jan hike, leading to markets possibly not ruling out a Jan hike. It is also important to note that the BOJ statement made mention that exchange rates developments are most likely to affect prices compared to the past. However, we do recognize that the situation is tricky especially as Ueda's words do imply quite a delay in hikes.

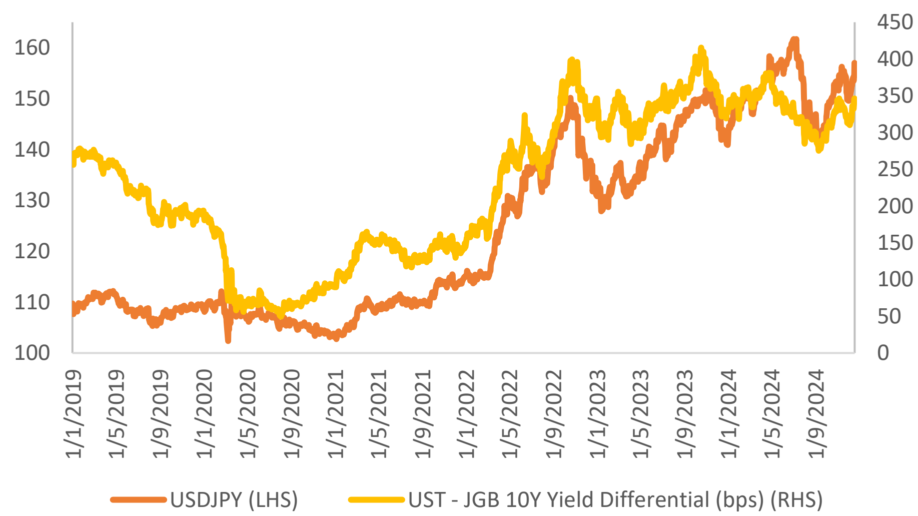
Instead we are more incline to expect that the upward pressure could persist and that it could move up to possibly test the 160.00 level, which would be around the highs seen in Jul this year. The next level of resistance after that would be at 165.00. Warnings of intervention can go some way to limit the rise in the pair though.

We do a slight adjustment to our forecast revising the 4Q 2024 number to 160.00 to reflect the delay in the BOJ hiking. Nonetheless, into next year, we importantly note that the BOJ remains on a tightening path whilst our economist still expects the Fed to cut rates by 75bps next year. Central bank divergence therefore remains in play and this would back a narrowing of yield differentials allowing USDJPY to decline. However, our forecasts are modest showing USDJPY lower but still elevated in some respects.

Chart 1: Double Top Pattern Forming?

Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Narrowing US - JP Yield Differentials Can Guide Some Fall in USDJPY



Source: Bloomberg, Maybank FX Research & Strategy

Table 1: USDJPY Forecasts

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USDJPY	160.00	145.00	145.00	140.00	140.00
JPYSGD	0.84	0.94	0.95	0.97	0.96
JPYMYR	2.75	3.17	3.24	3.25	3.18

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