Maybank

FX

Global

FX Flash

BOJ Hike, Balanced Ueda

USDJPY Ranged Amid Balanced Ueda, Downside Not Ruled Out

BOJ hiked rates by 25bps to 0.50% as was expected by both much of the markets and us. The move brings the rates to the highest level since 2008 and there was overwhelming support in the board for it as it was decided with a vote of 8-1. In its release, the BOJ sees that economic activity and prices have been developing generally in line with the expectations presented in the previous outlook report whilst recognizing that the likelihood of realizing the outlook has been rising. BOJ has also made mention that there have been many views expressed by firms that they will continue to raise wages steadily in this year's annual spring-labour-management wage negotiations. On the CPI front, it has gradually been increasing towards the price stability target of 2 percent. Overall, they seem to recognize a virtuous wage – price cycle continuing to take hold as they made mention that as wages continue to rise, there has been an increase in moves to reflect higher costs, such as increased personnel expenses and distribution costs. They also made reference to a depreciating currency, noting that it has been driving higher import prices and backing inflation. Under such circumstances, the BOJ had made this decision to hike rates.

Importantly, the BOJ also raised its forecast for multiple economic parameters. Core (ex fresh food) CPI was raised for FY2024 – 2026 and core core CPI (ex fresh food and energy) was raised for FY2024 and FY2025. This means that their inflation forecasts for FY2024 – 2026 now stand above 2.0% and would be supportive for the BOJ to be on a hiking trajectory.

At the press conference itself, we would describe Ueda as balanced. Whilst the forecast upgrades published before the press conference had given somewhat of a hawkish impression on markets, the central bank governor looked to have been making a nice mix of both dovish and hawkish leaning statements. The governor had given some hawkish cues when he mentioned that the neutral range is broad but the BOJ is still far from the ideal range in addition to also saying that economic conditions and prices are along the BOJ's trend lines and that there has been no big shock to markets since the Trump inauguration. Regarding the latter, he even said that he initially thought it could be a potential risk factor and the BOJ may need to change its view depending on that. However, he did actually caveat his statement on Trump policies by also saying that he admits that uncertainty is great, which sounds more dovish leaning.

As a whole, we actually find Ueda's words as providing some stabilization for the JPY in that it would neither significantly embolden either the bulls nor the bears. This could help prevent aggressive moves on the JPY and cause any ruckus to markets, which had happened around mid-last year after the BOJ had then moved. Upside moves in the near term for the USDJPY can be limited by intervention, the more hawkish nature of the forecast upgrades and the governor's statements. This does not mean that the USDJPY would not move beyond recent highs except that it may not necessarily break decisively beyond 162.00 (the high of last year). Meanwhile, downside moves for USDJPY would be subjected to how global developments continue to pan out to be especially in relation to Trump's policies. For now, there is still much uncertainty from his trade and fiscal policies given still limited details provided.

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However, we would like to note an important point that we do sense markets have entered this year, heavily pricing in quite a bleak scenario by preparing for harsh US tariffs on China being implemented immediately in addition to a level of tariffs universally applied to the rest of the world.

As of date, that has not quite clearly been playing out yet as the President has only talked about 25% tariffs on Mexico and Canada in addition to 10% on Europe and China. He recently even said that he would rather not have to use tariffs on China. Given the stretched long dollar positioning and the aggressive run up in UST yields, the President holding back from any imposition of harsh tariffs in the coming weeks, can risk leading to the broad dollar and UST yields coming off more. Therefore, we do not rule out the possibility of the USDJPY breaking out of its recent range and moving lower towards the 150.00 support.

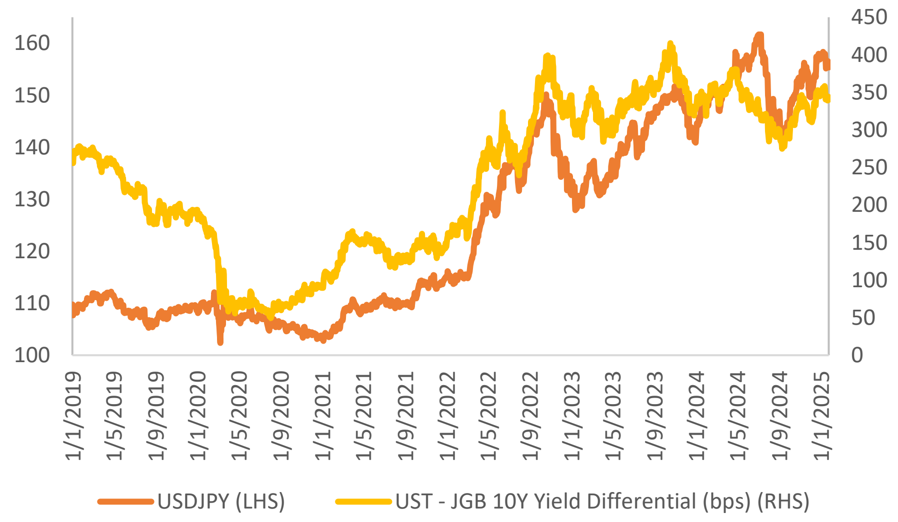
Despite this, we are raising our USDJPY forecast as we expect the UST yields throughout this year to trade higher than what we had initially expected. Even so, we are still keeping to a downward trajectory as we see the US - JP yield differentials would continue to narrow. The BOJ appears likely to stay on a tightening path in the medium term and we see the possibility of another rate hike of 25bps on Oct 2025 to 0.75%. However, we do not rule out an earlier move if Shunto wage results come out strongly and global trade tensions are more benign. Meanwhile, there is some risk that the Fed could end up easing less than our expected 75bps cuts this year and Trump tariffs can end up being more gradual in nature.

Table 1: USDJPY Forecasts

Forecast	1Q 2025	2Q 2025	3Q 2025	4Q 2025
USDJPY	150.00 (145.00)	150.00 (145.00)	145.00 (140.00)	140.00 (140.00)
JPYSGD	0.91 (0.94)	0.92 (0.95)	0.94 (0.97)	0.96 (0.96)
JPYMYR	3.07 (3.17)	3.13 (3.24)	3.14 (3.25)	3.18 (3.18)

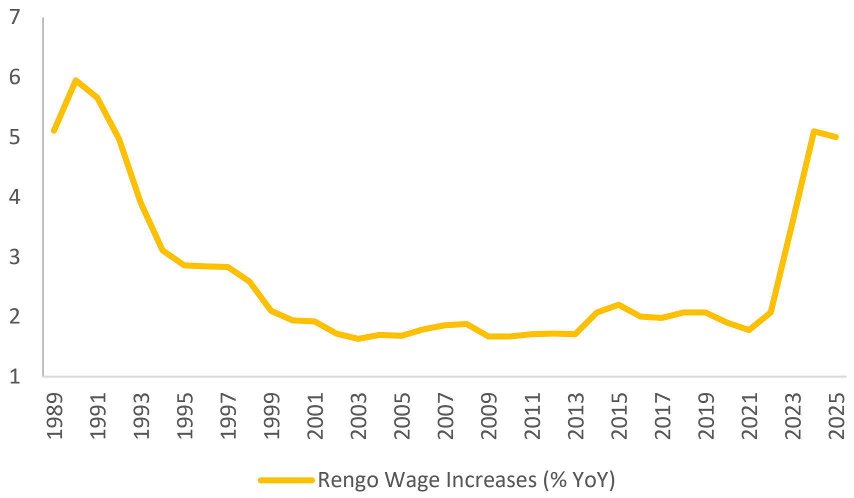
Previous Forecasts in Parentheses

Chart 1: Narrowing US - JP Yield Differentials to Guide the USDJPY lower Overtime



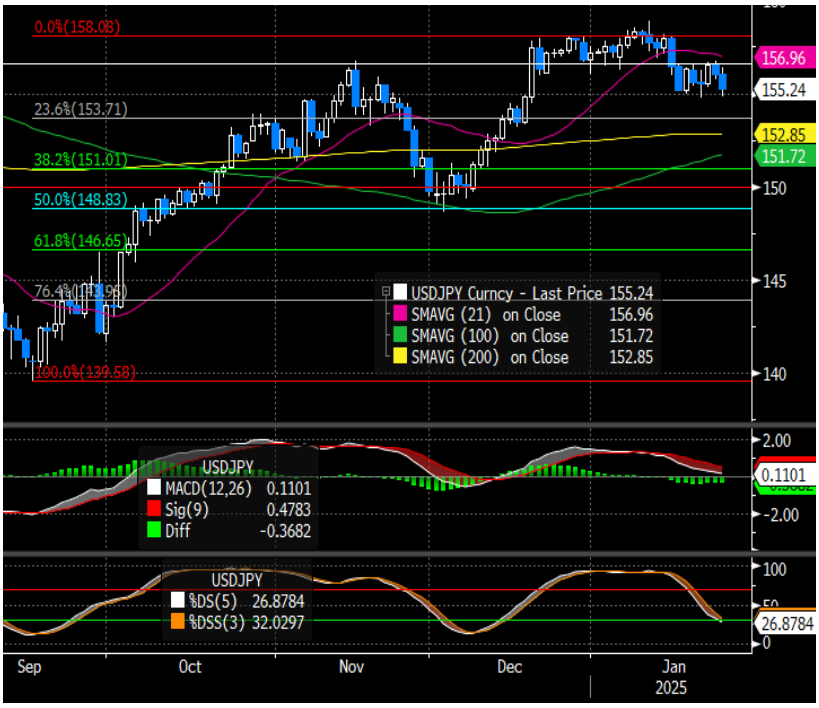
Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: Rengo Wage Results Expected to be Strong



Source: Macrobond, Maybank FX Research & Strategy
Note: 2025 represents the Rengo wage demand increase of 5.00%

Chart 3: Some Further Moves Lower Near Term in USDJPY Cannot be Ruled Out with Support at 155.00 and 150.00



Source: Bloomberg, Maybank FX Research & Strategy

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