

Daiwa's Economic View

Speech by BOJ policy board member Asahi Noguchi; hawkish/dovish perspectives on forex/inflation

- Noguchi still in favor of raising interest rates soon
- May be cautious on hike to 1%; back to measured, step-by-step approach to rate hikes
- December MPM live

FICC Research Dept.

Kento Minami

81-3-5555-8789

kento.minami@daiwa.co.jp

**Kenji Yamamoto**

81-3-5555-8784

kenji.yamamoto@daiwa.co.jp



Daiwa Securities Co. Ltd.

Bank of Japan (BOJ) policy board member Asahi Noguchi gave a speech in Oita Prefecture on 27 November. This followed on from a 20 November speech by board member Junko Koeda in which she commented that "overall, I believe that underlying inflation is about 2 percent", implying a readiness to raise rates in the near future. Another board member, Kazuyuki Masu, gave an interview with the *Nikkei* the same day in which he stated that a decision on a rate hike was "nearing," signaling that he favored quickly raising rates. Mr. Noguchi, who has been viewed as a monetary policy dove, stated in her previous September speech that "I believe Japan will, in the not-too-distant future, require a new policy perspective," implying his support for rate hikes. These developments led to a focus on whether Mr. Noguchi would follow Ms. Koeda and Mr. Masu in adopting a more hawkish tone in his recent speech.

Thoughts on timing of next rate hike: Noguchi still keen to hike soon

In his September speech, Mr. Noguchi noted the need for rate hikes but cited the significant downside risk from US tariff policy. However, in his recent speech he stated that the effects of US tariff policy "are unlikely to be very severe," indicating that he thinks concerns are easing.

Mr. Noguchi also stated that "if economic activity and prices develop in line with the Bank's outlook, the Bank will gradually adjust the degree of monetary accommodation," implying that it could return to its previous policy stance. Given the outlook for tariffs' impact to play out gradually over the long term, the BOJ's current policy of raising interest rates "in accordance with improvement in economic activity and prices" risks pushing back rate hikes given its inability to confirm a clear recovery from the tariff shock. Given that Japan's economy and inflation are currently on track with the BOJ's expectations, we think Mr. Noguchi's statement indicates that he favors raising interest rates in the near future.

Mr. Noguchi also noted that unduly low real interest rates "will likely be reflected in exchange rates and in asset prices, such as land prices and stock prices," and that a weaker yen and rising asset prices "also contribute to an upswing in economic activity and prices." He emphasized the downsides of a weaker yen and higher share prices, stating that their positive effects almost disappear as the economy approaches full employment and ultimately "are replaced by negative effects that merely push inflation higher than necessary."

The yen has been weakening recently, and the Summary of Opinions from the October Monetary Policy Meeting (MPM) included concerns about real estate price trends. Given this context, Mr. Noguchi views the weaker yen and rising asset prices as problematic and appears to view current real interest rates as unduly low.

However, Mr. Noguchi also noted that inflation expectations have yet to reach 2% and will take time to become anchored consistently at around 2%. Compared with Ms. Koeda's view that underlying inflation is generally around 2%, Mr. Noguchi's views on inflation (which we discuss in detail below) suggest that he sees a rate hike as somewhat further off. In short, Mr. Noguchi is in favor of raising the policy rate to +0.75% in the near term in view of forex and asset prices. However, we see him as highly unlikely to propose a rate hike at the December MPM if this contradicts the views of the BOJ's leadership.

May be cautious on hike to 1%; back to measured, step-by-step approach to rate hikes

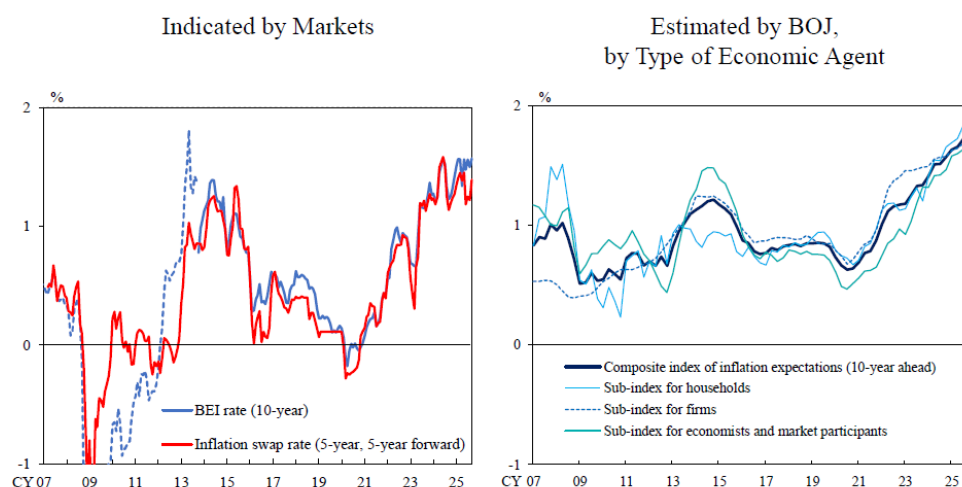
While Mr. Noguchi's recent speech contained numerous hawkish comments on forex and asset prices, his views on inflation showed the caution typical of the reflation camp.

Mr. Noguchi noted the need for a "measured, step-by-step approach" to policy adjustments and cited two reasons for caution about these adjustments: (1) they could impede the momentum of wage growth, and (2) inflation expectations have yet to be anchored at 2%. This is far removed from board member Hajime Takata's view that the norm has already changed and Ms. Koeda's view that underlying inflation is around 2%.

We focus on Mr. Noguchi's awareness that items like rent, which had remained largely static and kept inflation near zero, have not begun rising nationwide. As [we have written previously](#), private-sector rents and imputed rents are based on continuing rents and therefore tend to lag the actual uptrend in rents; we would therefore bear in mind the downward bias particularly for imputed rents caused by the approach used to estimate them. In short, if the BOJ's assessment of underlying inflation relies unduly on items that are entrenched at zero, this will increase the risk of it delaying the judgement that its 2% target has been reached.

Mr. Noguchi positions a combination of 3% nominal wage growth, 2% CPI inflation, and 1% growth in labor productivity (broadly equivalent to real wages) as the steady state Japan's economy will reach once it achieves the 2% price stability target. He also indicated that he expects inflation to reach this level in the second half of its projection period, which is consistent with the baseline scenario in the BOJ's *Outlook for Economic Activity and Prices* report. However, given Mr. Noguchi's view of inflation, we think he expects a cautious pace of policy rate hikes toward 1%.

Inflation Expectations



Source: Reprinted from BOJ materials.

December MPM “live”

The December MPM remains "live" for a potential rate hike. Ms. Koeda commented during her 20 November press conference that the BOJ would carefully monitor the impact of forex on inflation given the recent decline in import prices, but Governor Kazuo Ueda explicitly stated during his 21 November Diet testimony that it needs to monitor the potential for this to affect underlying inflation, signaling his concern about the weak yen. This is consistent with Mr. Noguchi's view.

However, the BOJ discussions with the government on monetary policy could cause it to forgo a December rate hike. From the perspective of the Takaichi administration (disregarding forex), postponing a rate hike until after the New Year would naturally create more reassurance about the economy, including the ability to confirm companies' FY26 wage hike proposals and the direction of China-Japan relations following PM Takaichi's recent statements regarding a potential military conflict involving Taiwan. At least at this point, there is [no political incentive](#) for the BOJ to ignore the government's wishes and push through a rate hike.

In short, we expect the BOJ to base its policy decision at the December MPM on its assessment of the FOMC's policy decision and forex trends and its discussions with the Japanese government. In that sense, we think Governor Ueda's 1 December speech in Nagoya is unlikely to give any sense of whether the next rate hike will come in December or January. We expect him to discuss concerns about the weak yen's impact on consumer prices, but indicate that the BOJ will decide on the timing of rate hikes based on the data it has in hand as of each meeting.

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