

# FX Viewpoint Flash

Currencies  
Global

## JPY: BoJ hikes rate and cuts bond purchase

- ◆ The BoJ hiked rates to 0.25% in July...
- ◆ ...and it will gradually taper its JGB monthly purchases
- ◆ USD-JPY had a volatile session, but it is worth noting that its yield gap is still quite sizeable

On 31 July, the Bank of Japan (BoJ) raised its policy rate to around 0.25% from a range of 0% to 0.1%. This would mark the BoJ's highest interest rates since December 2008. The central bank also provided details on the tapering of its Japanese government bond (JGB) purchases going forward. **It will reduce monthly JGB purchases by around JPY400bn per quarter, with an interim review at the monetary policy meeting in June 2025.** The amount of JGBs it buys per month will fall to JPY3trn, half the current rough target, by 1Q26.

**This outcome seems to be more hawkish on interest rates, but a bit disappointing on the tapering aspect.** We noticed two important changes in the BoJ's statement and outlook report:

1. The BoJ provided some semblance of hawkish forward guidance in the final paragraph of the statement: "if the outlook for economic activity and prices presented in the July Outlook Report will be realised, **the Bank will accordingly continue to raise the policy interest rate**".
2. The BoJ added a new line in the FX section (the second risk to prices) of the Outlook Report: "with firms' behaviour shifting more toward raising wages and prices recently, **exchange rate developments are, compared to the past, more likely to affect prices.**"

Meanwhile, the newly appointed top currency official at the Ministry of Finance – Atsushi Mimura – said on 30 July that **demerits of a weak JPY are becoming more noticeable, and that intervention is necessary to counter speculation** (*Bloomberg*, 30 July 2024). It seems like the BoJ and MoF are becoming more aligned in their views about the JPY. Indeed, short JPY positions have been reduced as of late (Commodity Futures Trading Commission [CFTC], as of 23 July 2024).

**USD-JPY has been volatile** with a bit of a downward bias after the press conference (Chart 1). The decline in USD-JPY actually started overnight on the back of NHK headlines hinting of a BoJ hike (*NHK*, 31 July 2024). It is also worth noting that **USD-JPY is finally converging towards the US-Japan yield differential** with the latter still narrowing (mostly because of falling US rates), **but the gap is still quite sizeable** (Chart 2).

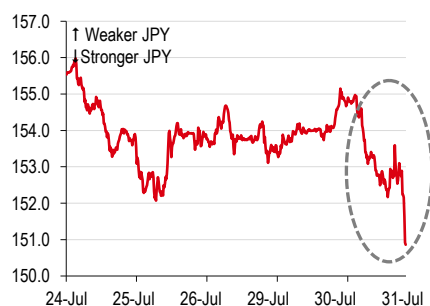
**The BoJ hiked rates to 0.25% and unveiled plans to halve JGB purchases**

**The BoJ may continue to hike rates**

**Japan's MoF thinks that FX intervention is necessary to counter speculation**

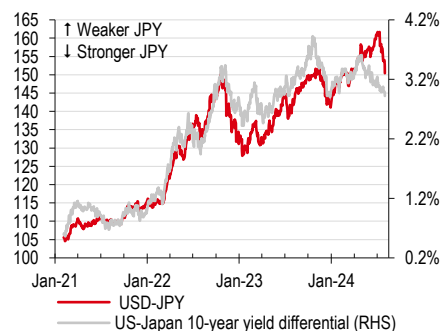
**USD-JPY once again started to follow its yield differential**

### 1. USD-JPY



Source: Bloomberg, HSBC

### 2. USD-JPY and its yield differential



Source: Bloomberg, HSBC

# Disclosure appendix

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