

## Bank of Japan rate hike case backed by strong exports and elevated inflation

Japanese data shows inflationary pressures are firm and that exports remain resilient despite tariffs. An upbeat flash purchasing manager's index suggests the economy is on the recovery path. While these outcomes favour a Bank of Japan rate hike in December, government pressure to keep policy loose might delay a move until next year



# 3.0%

Consumer price inflation

%YoY

As expected

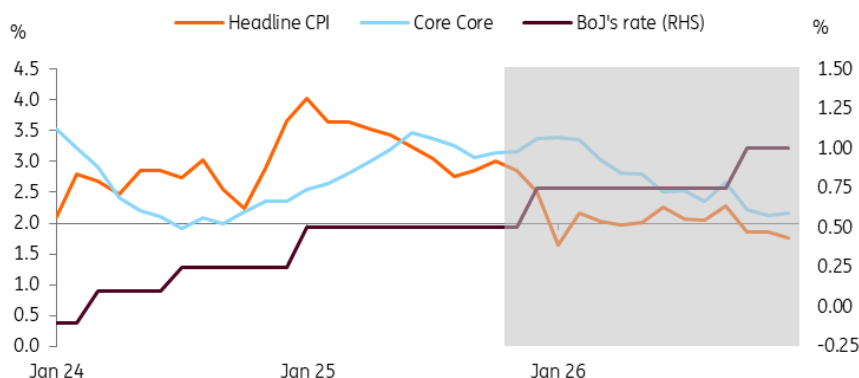
### Inflation accelerated in October

Both headline and core inflation Japanese rose to 3.0% year-on-year in October (vs 2.9% in September, 3.0% market consensus). Food prices rose the most, 6.4%, while entertainment and transportation/communication also rose solidly by 2.6% and 3.6%, respectively. Utilities continued

to rise as the government subsidy program ended.

On a monthly basis, inflation rose by 0.4% month-on-month, seasonally adjusted, driven by goods and services rising 0.3% and 0.4% each. Typically, companies adjust final prices in October, and they are clearly passing increased input costs on to consumers. This development is likely welcomed by the BoJ, which seeks a virtuous cycle between solid wage growth and sustained inflation.

## Above 2% inflation is likely to support the BoJ's rate hike



Source: CEIC, ING estimates

**3.6%** Exports  
%YoY

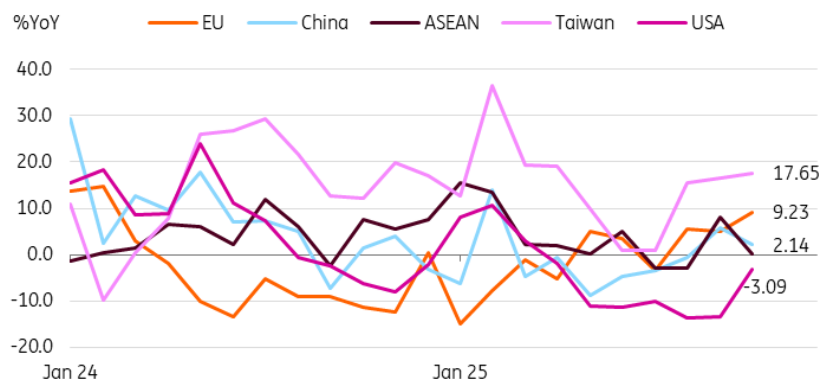
Higher than expected

## Japanese exports rose stronger than expected, showing resilience despite tariff headwinds

Exports rose 3.6% YoY in October (vs 4.2% in September, 1.1% market consensus). Although Japan reached a trade deal with the US, exports to the US were still down 3.1%. However, the contraction has moderated compared to the previous quarter. The most notable drop came from car exports (-7.1%) and iron and steel (-14.5%).

Exports to other regions rose, more than offsetting weak US exports. Exports to the EU were up sharply by 9.2% with transport equipment up 5.7% and machinery up 18.5%. Exports to China and Asia increased by 2.1% and 4.2%, driven by strong demand for electrical machinery (including semiconductors). We believe that solid global semiconductor demand and AI investment support intra-regional trade.

## Exports to the US remained sluggish but exports to other regions gained



Source: CEIC

# 52 Flash PMI Composite

## Flash PMI rises, indicating potential recovery

The composite purchasing managers' index (PMI) increased to 52 from 51.5. Most gains were in manufacturing (up to 48.8 from 48.2), while services remained at 53.1. Easing global trade tensions may have helped boost the manufacturing PMI, but it is still below 50, indicating ongoing caution among companies.

## BoJ watch

Inflation remains elevated, and stronger signals of economic recovery in the current quarter should keep the BoJ's rate hike in the near future. Although we believe that recent data supports a rate hike as early as December, government pressure for accommodative monetary policy could postpone it until next year. Additionally, markets appear to favour a January hike.

We anticipate that more board members will support a rate hike in December, with at least three board members likely to vote in favor. This would mark an increase from the two who supported hikes in the previous two meetings. However, it remains unclear whether the rest of the board will agree.

If the Japanese yen remains weak and forthcoming data confirm both economic recovery and increasing inflation, we think the BoJ will act, basing its decision on data and maintaining independence from political influence.

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