

Snap | 1 May 2025

## Bank of Japan on hold, trade uncertainty the reason

As widely expected, the Bank of Japan kept its policy rate unchanged at 0.5%. The BoJ revised down its GDP and CPI outlook yet emphasised uncertainty regarding the outlook. The yen weakened against the USD on the dovish stance



Kazuo Ueda, governor of the Bank of Japan

# 0.5%

 Target rate

As expected

### Uncertainty surrounding trade and downside risk to growth were the main reasons for the decision

The Bank of Japan's latest quarterly outlook report showed a sizable downside revision of GDP for FY2025. At the press conference, Governor Kazuo Ueda also stressed extreme uncertainty

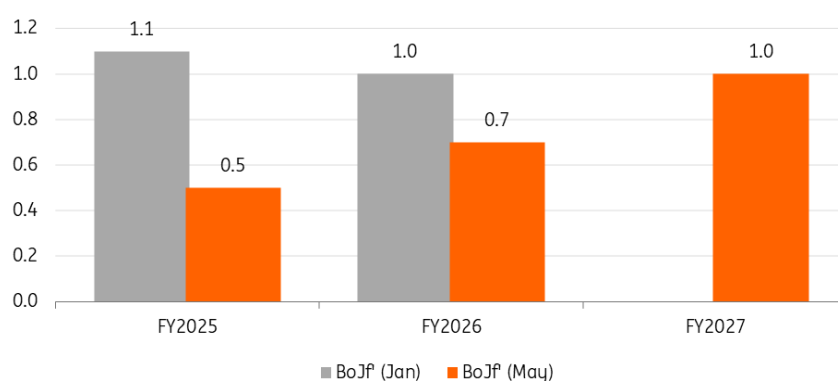
regarding trade and the BoJ's growth outlook. This was clearly the main reason for the decision to keep rates steady today. However, the latest GDP growth forecast of 0.5% is still close to potential GDP. The BoJ expects the economy to grow at a pace close to potential, supported by solid private consumption, despite headwinds from the trade slowdown.

On the inflation outlook, the central bank pushed back the expected timing of its price target, but inflation is expected to rise 2.2% year-on-year in FY25. Governor Ueda commented that the "delay in price goal timing doesn't mean a delay in hikes", suggesting the BoJ is maintaining its plan to normalise policy. He also dismissed concerns about the Bank being behind the curve, saying that the recent high inflation is not yet attributable to rising service prices.

## BoJ outlook

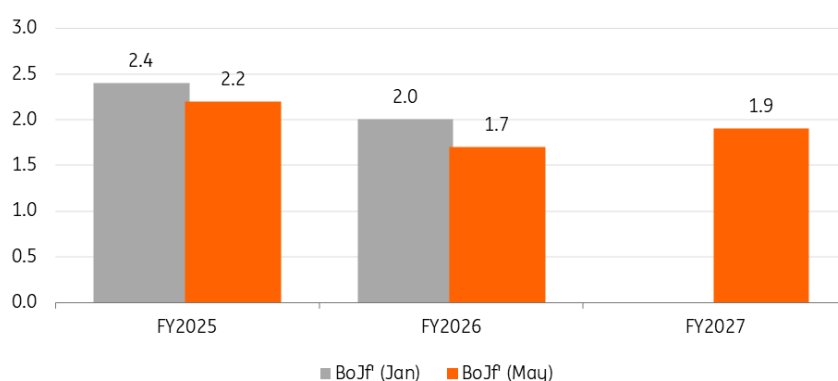
Analysing the statement, the outlook report, and the governor's comments together, the BoJ seems to be struggling to anticipate how US trade policy will evolve and how tariff rates will settle. The BoJ's policy decision ahead will depend heavily on this. We believe that despite inflation being above 3%, the BoJ will maintain its wait-and-see stance until any trade agreements between Japan and the US are finalised. Given the US 90-day pause on 'reciprocal' tariffs, the earliest the BoJ can start raising rates again is July, with the big assumption being that bilateral talks will lead to a reduction in tariffs from current levels. We also think there is a possibility that the BoJ's outlook for GDP and CPI could be revised upwards if progress is made in the tariff negotiations.

## FY25 GDP outlook revised down substantially



Source: Bank of Japan

## FY25 inflation is expected to grow 2.2%



Source: Bank of Japan

## Yen hands back some gains

USD/JPY has bounced back above 144 today - not only on the dovish BoJ, but also as some of the [risk premium](#) continues to come out of US asset markets and the dollar. JGB yields are about 5bp lower across the curve as the market continues to pare back any expectations of a BoJ rate hike this year.

Positioning is against the yen now, where both the leveraged fund community (fast money) and especially the asset management community now have substantial long yen positions. An unwinding of positioning is probably the biggest threat to the yen now, which in an extreme case could carry USD/JPY back to 150.

For the time being, however, we think the next chapter in the 2025 financial market story will be April's uncertainty resulting in a meaningful US slowdown and Federal Reserve easing. Our base case assumes that USD/JPY gains above 145 prove fleeting and we end both the quarter and the year somewhere in the 140/142 area.

There also remains the background bearish USD/JPY story of the [Mar-a-Lago accord](#), where Washington could ask Tokyo to deliver a stronger yen in return for lower tariffs. That should be another factor which will discourage active shorting of the yen and also discourage a return to yen-funded carry trades should FX volatility levels continue to drop.

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