

## Bank of Japan expected to hold steady at October meeting

Recent data suggests that upward pressure remains on underlying inflation, but the Bank of Japan is likely to extend its wait-and-see approach at next week's meeting. Markets will be closely watching the quarterly outlook report and how the BoJ's risk assessment of the US economy and the recent JPY depreciation has changed



Kazuo Ueda, Governor of the Bank of Japan

# 1.8%

Tokyo consumer prices

%YoY

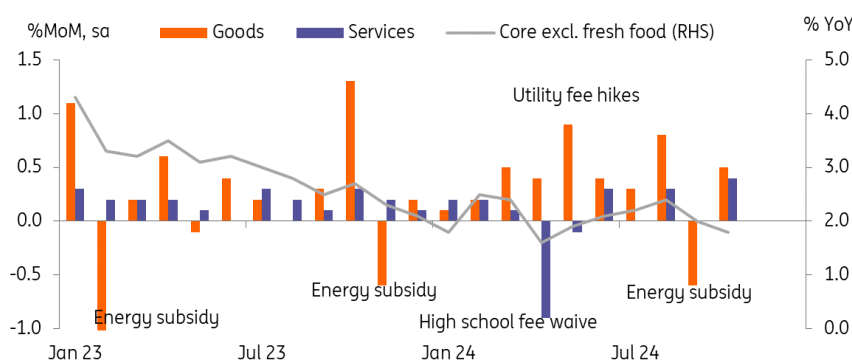
As expected

## Tokyo consumer inflation slows to below 2% for the first time in months

Headline inflation slowed to 1.8% YoY in October (vs 2.1% in September), in line with market consensus. Utility subsidies were the main reason for the slowdown in year-on-year growth as utility prices eased to 2.4% from the previous month's 9.0%. But, we believe that the underlying pricing pressure is still building. Core inflation indicators rose 1.8%, which were higher than market expectations and core, excluding fresh food and energy, even accelerated from the previous month's 1.6%.

In a month-on-month comparison, CPI rebounded 0.5% MoM (seasonally adjusted), with goods and services rising 0.5% and 0.4%, respectively. We believe that the BoJ is likely to focus more on solid service price growth than on the slowdown in the headline figure. This shows that firms' pricing behaviour has changed to reflect input price increases.

### Service prices rose solidly in October



Source: CEIC

### BoJ watch

At next week's meeting, the BoJ is expected to take a breather, but we need to watch how the BoJ interprets the recent price dynamics and its risk assessment for the US economy. We continue to put the probability of a December hike at just over 50%, given Japan's inflation situation and the recent JPY depreciation. However, this will also depend to a large extent on the outcome of the US elections and global financial market developments.

The BoJ was criticised for a lack of communication when it raised its key rate in July, so it will try to improve its communication via its outlook report and its assessment of the economy. For the economic outlook report, the GDP outlook for FY24 is likely to be revised down quite significantly, reflecting the recent slump in production related to the auto sector and natural disasters, but GDP for the coming years is likely to remain little changed. As for inflation, the BoJ may revise up the FY24 outlook, but no significant change is expected. The timing of the next rate hike is highly uncertain for now, but the Bank of Japan is expected to raise its policy rate to 1.0% by the end of next year.

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