

Cooler inflation ahead of the Bank of Japan meeting

Inflation slowed down in March but underlying inflationary pressures are still alive. The BoJ's pause at its next week's meeting is widely expected but markets will pay more attention to the BoJ's quarterly outlook report



Inflation in March eased a bit in Japan

2.7%

Consumer price index

%YoY

Lower than expected

Both headline and core inflation moderated a bit, a touch below market consensus

Consumer price inflation rose 2.7% year-on-year in March (vs 2.8% in February and market

consensus). Core inflation excluding fresh food rose 2.6% in March (vs 2.8% in February, 2.7% market consensus). They slowed down mostly due to base effects, the monthly comparison continued to rise by 0.2% month-on-month sa with both goods (0.2%) and services (0.1%) prices up. Fresh food prices increased but durable goods prices continued to decline. Among services, telecommunications and leisure-related fees rose the most.

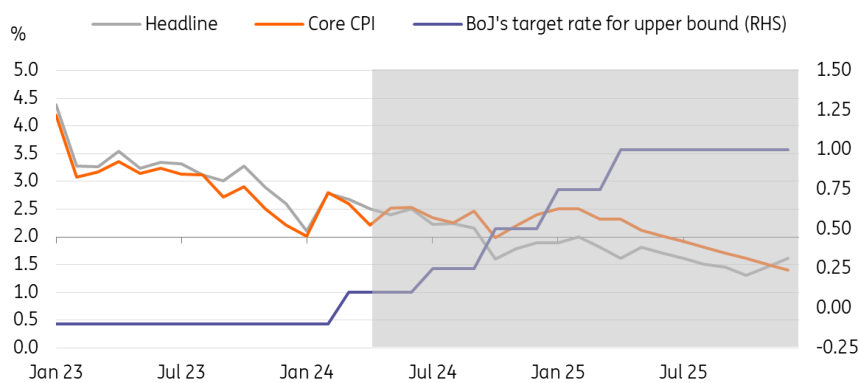
Furthermore, the early April Tokyo inflation, which will be released on the day of the BoJ meeting, is expected to slow again. However, this also should be mostly due to a high base. We are not particularly concerned about moderation of inflation as both headline and core are running well above the BoJ's 2% target, so we expect the BoJ's normalisation efforts to continue throughout the year.

BoJ watch

Markets widely predict no policy change at its upcoming April BoJ meeting, following last month's decision to dismantle the negative interest rate policy and yield curve control programme. Of more interest next week is the BoJ's quarterly outlook report. We expect the BoJ to revise up its inflation outlook. We will also see the BoJ's first forecast for FY26, which is expected to show core inflation at 2%. These will be an important factors in determining when and how much interest rates will be raised.

Given that higher commodity prices combined with a weak yen are hikely to push up both headline and core inflation, the BoJ's need to raise rates sooner than market consensus is likely to increase in our view. Recent hawkish comments from Governor Ueda also signal a change in tone in the BoJ's response to the currency move. He said that if the impact of the weak yen becomes too big to ignore, it might lead to a change in monetary policy. Currently market consensus is October hike, we have penciled in a 15bp hike in July and a 25bp hike in October.

CPI will stay above 2%, support the BoJ's policy normalisation



Source: CEIC, ING estimates

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.