

Japanese consumer inflation rose in June, putting pressure on the Bank of Japan to raise interest rates

The actual figures slightly missed market consensus, but showed that inflationary pressures are building on both the supply and demand sides. We think a reacceleration in service prices should give more confidence to the Bank of Japan



2.8% YoY

Consumer price inflation

Core inflation excluding fresh food rose 2.6% YoY

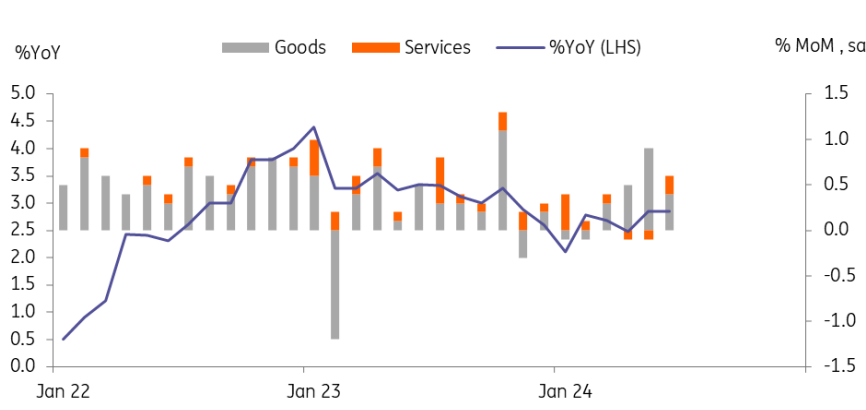
Lower than expected

Headline CPI inflation stayed at 2.8% YoY in June for a second month (vs 2.8% in May, 2.9% market consensus)

Core inflation excluding fresh food, the BoJ's preferred measure, accelerated to 2.6% in June (vs 2.5% in May, 2.7% market consensus) from 2.2% in April. Utilities (7.5%) rose the most as an energy subsidy programme ended. In a monthly comparison, inflation grew by 0.3% MoM sa (vs 0.5% in May) with both goods and services up by 0.4% and 0.2% respectively. In our view, the weak JPY is partly adding to supply-side pressures, while solid wage growth is supporting demand-side pressures.

Going forward, the government plans to renew energy subsidy programmes from August to October to counteract the heatwave during the summertime. This could lower the overall inflation figure, but as it is temporary, the Bank of Japan is not expected to be too concerned.

Services prices rebounded in June



Source: CEIC

BoJ preview

The Bank of Japan is scheduled to meet on 30 and 31 July. The Bank of Japan will unveil a roadmap for its Quantitative tightening programme and release its quarterly economic outlook report. Given the recovery in consumption, solid wage growth, and the potential for further inflationary pressures from a weaker yen, we believe the Bank of Japan is likely to raise its policy rate by 15bp.

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>.