

Hotter-than-expected Tokyo inflation supports BoJ's case for rate hikes

With Tokyo inflation accelerating well above 3% and solid wage gains expected, the possibility of the Bank of Japan hiking rates in June is increasing. Still, we're sticking with our base-case for a July tightening amid tariff uncertainty



Source: Pexels

3.5% Tokyo CPI (% YoY)
vs 2.9% in March

Higher than expected

Tokyo CPI inflation rose 3.5% YoY in April (vs 2.9% in March, 3.3% market consensus)

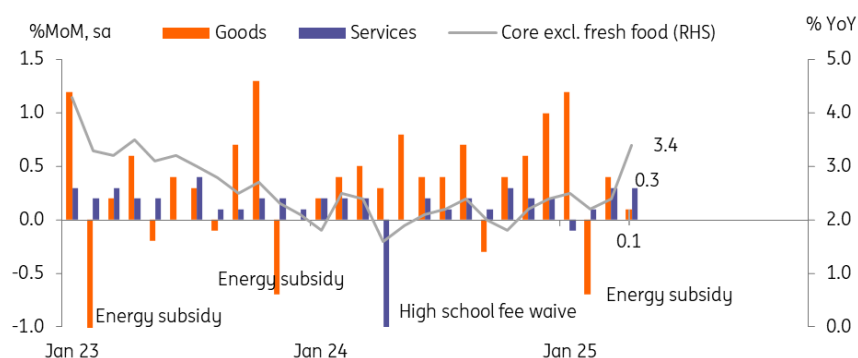
Tokyo inflation increased a much hotter-than-expected 3.5% year on year in April as services prices surprised to the upside. Markets had expected a significant pick-up partly due to increases in education fee waiver programs relative to a low base from last year. Education prices rebounded

to 1.6% YoY from -9.3% in March. But inflationary pressures were broader than expected.

Fresh food prices eased significantly to 4.1% from 13.2% in March, thanks to government support programmes. But prices increased broadly in other sectors. Thus, core inflation, excluding fresh food prices, jumped to 3.4% in April (vs 2.4% in March, 3.2% market consensus). Notably, entertainment and housing prices rose firmly by 2.8% and 1.5%, respectively. In terms of monthly comparison, inflation growth accelerated to 0.5% month on month, seasonally adjusted, from 0.4% in March. Services rose for a third month in a row, up 0.3% in April. Goods prices rose 0.1% following a 0.4% gain in March.

April is when companies raise product prices, and this year's increases were higher than expected. We interpret this price-setting behaviour as firms clearly moving to pass on input cost increases to consumers. With solid wage growth expected this year, it appears that the sustainable inflation the Bank of Japan hoped for has finally arrived. Thus, the accelerated rate of increase has us expecting that the BoJ will continue raising interest rates.

Service prices rose firmly for the past three months



Source: CEIC

BoJ is expected to stand pat next week, but likely to signal additional rate hikes coming

Given the high level of uncertainty surrounding US trade policy, the BoJ is likely to keep its policy rate on hold at next week's meeting. But with inflation set to remain high in the coming months, the BoJ will resume its rate hikes in the summer. During US-Japan bilateral talks, discussions of the yen have been muted. Yet this doesn't mean the US won't target the weak JPY during the next round of negotiations. We believe that the BoJ will tighten when things become clearer, which will see the JPY appreciating further. This seems a better way to respond to US criticism of the weak JPY, rather than Japan directly intervening in the foreign-exchange market. Uncertainty over US tariff measures complicates the BoJ's rate hike cycle. We've pencilled in a hike in July, but the possibility of a June hike is increasing.

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 www.ing.com.