

Monetary Policy to Remain Steady – BOJ's July Meeting

Written by Katsutoshi Inadome, Senior Strategist

- This report briefly reviews recently released monetary and economic data that may be relevant to monetary policy decisions. Then it looks ahead to future monetary policy and market developments based on an interview with Shinichi Uchida, Deputy Governor of the Bank of Japan (BOJ), published on July 6th.
- The monetary policy of the BOJ is decided through two types of judgments: "Quantitative Judgment" that relies on financial and economic data, and "Qualitative Judgment" that is based on the data and long-standing experience of the Board members, headed by Kazuo Ueda, the governor of the BOJ.

Quantitative Judgement: Recent data does not suggest that the BOJ will make any early policy revisions.

- Recent financial and economic data, which is the basis for quantitative judgments, will not encourage the BOJ to revise its policy early. The Tokyo core consumer price index (CPI), which was released on June 30th and ahead of Japan's national CPI, showed a year-on-year decrease to 3.1%, lower than the previous 3.2% and forecasted 3.4% respectively.
- The BOJ Tankan, released on July 3rd, indicated that the company's outlook for sales prices had slowed for the first time in three years, and the sales price Diffusion Index (DI) had also declined for the first time in three years. On July 5th, the supply-demand gap was reported to be negative (-0.37% to -0.34%), just like the previous report. Given these indicators, the BOJ would not feel the need for an early policy correction.

Qualitative Judgement: BOJ decision makers seem to agree on continuing the current policy.

- Deputy Governor Uchida showed similar views to Governor Ueda regarding the qualitative judgment in his recent interview with the Nikkei. Uchida's comments supported Ueda's previous statements. However, the timing of Uchida's comments led to the market expecting the BOJ to make changes, resulting in a significant increase in yen rates on July 7th. While the timing and market reaction are concerning, the deputy governor emphasized the risk of rushing policy changes and missing the opportunity to achieve the 2% target at the interview. Therefore, it is unlikely that the BOJ will act quickly.

Conclusion: The BOJ's Monetary Policy Meeting on July 28th will likely maintain the current status quo.

- To summarize, it is probable that the BOJ policy meeting on July 28 will keep things as they are. However, there is a chance that the BOJ may make changes to its policy in order to address any potential negative effects without causing monetary tightening. This could include expanding the Yield Curve Control (YCC) band or shortening its target from 10 years interest rate to 5 years. Regardless, it is expected that the fluctuation in interest rates at the end of July will be more significant than those seen around the June BOJ policy meeting.

About Writer



Katsutoshi Inadome, Senior Strategist

After completing a master's degree in economics, Katsutoshi joined a domestic securities company in 2004, and in 2023 joined Sumitomo Mitsui Trust Asset Management, where he has been in his current position since February 2023.

After joining a securities company, he has consistently worked as a bond strategist for nearly 20 years. He has been engaged in research and analysis of the Japanese and global bond market and macroeconomics, writing reports and making presentations to clients. In his current role, he oversees macroeconomic and financial market analysis.

Disclaimer – UK

This marketing communication is issued by Sumitomo Mitsui Trust International Limited (“SMTI”). SMTI is authorised and regulated by the United Kingdom’s Financial Conduct Authority (the “FCA”), whose address is 12 Endeavour Square, London, E20 1JN, United Kingdom.

This marketing communication has been made available to you only because SMTI has classified you as a professional client in accordance with the FCA’s rules. If you have received this marketing communication from a source other than SMTI, you should contact SMTI before using it or relying on it. You must not send this marketing communication to any other person without first having received written approval from SMTI.

The information contained in this marketing communication (the “Material”) is being made available for information purposes only and is designed to provide information on the investment services which SMTI may offer to clients.

Nothing in the Material amounts to or should be construed as an actual offer by SMTI to provide any investment services to any person. If SMTI agrees to provide any investment services to any person, those services will be the subject of a separate written agreement between SMTI and that person. Furthermore, the Material has not been prepared with any consideration of the individual circumstances of any person to whom it is communicated.

Accordingly, it is not intended to, and does not, constitute a personnel recommendation in relation to the purchase or sale of, or exercise of any rights in relation to, any financial instruments or advice in relation to any investment policy or strategy to be followed. The Material also does not contain the results of any investment research carried out by SMTI and is not intended to amount to a financial promotion of any particular financial instrument which may be referred to in it.

While SMTI uses all reasonable endeavours to ensure the Material is accurate, it has not been prepared with a view to any person relying on it. Accordingly, SMTI accepts no responsibility for any loss caused to any recipient of this document as a result of any error, inaccuracy or incompleteness in the Material, nor for any error in the transmission or receipt of this communication.

Any enquiries regarding the products should be made to:

Hirofumi Hayashi

Head of Investment Management Department

Sumitomo Mitsui Trust International Limited

155 Bishopsgate, London EC2M 3XU, United Kingdom

Direct: +44 (0)20 7562 8405

Email: imd@smtil.com

Sumitomo Mitsui Trust International Limited is authorised and regulated by the Financial Conduct Authority

© Sumitomo Mitsui Trust International Limited 2025