
26 April 2024

# Ueda, cautious on yen, leaves response to the government

## Key takeaways

- The Bank of Japan left interest rates unchanged, and BOJ Governor Ueda Kazuo was hesitant to signal that yen weakness could lead to an earlier rate hike.
- The Kishida government has continued to voice its concerns about the exchange rate and could be compelled by domestic considerations to intervene despite a warning from the United States.

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At its 25-26 April meeting, the Bank of Japan's (BOJ) policy board predictably opted to keep its monetary policies unchanged, following the decisions in March to end negative interest rates and the long-term interest rate targeting through yield curve control (YCC). Perhaps more importantly for the immediate term, BOJ Governor Ueda Kazuo was also careful regarding the role that a weakening yen – which has fallen past JPY 155/USD – could play in the bank's thinking regarding the timing and size of an interest rate hike. While Ueda has been more vocal about the possible impact that exchange rates could have on wages, prices, and growth, in the near term it will be up to political authorities and the finance ministry to decide whether to take action to stabilize the yen.

### Ueda's careful messaging

Given Ueda's comments about the yen last week, it is not surprising that Ueda would face multiple questions about the exchange rate in his press conference following the policy board meeting. The governor not only carefully stated that exchange rates are not a direct concern for the BOJ, but also said that while there is a non-zero probability that the weaker yen could negatively impact consumption through lower real incomes, that does not mean that yen weakness is "having a big impact at the present moment." He allowed that cost-push inflation stemming from higher import costs could lead the bank to raise interest rates – even, he said, before next year's wage negotiations – but he was careful not to suggest that the exchange rate will lead the BOJ to raise interest rates at the next possible opportunity.

On the whole, Ueda sought to communicate a sense of gradualism: the bank anticipates that wages and prices will continue to rise steadily and is prepared to normalize rates gradually in response – but could move more aggressively if there are unexpectedly large deviations. In its quarterly outlook for growth and prices, the policy board signaled that it expected prices to continue rise in line with the BOJ's 2% inflation target through FY2026, suggesting that bank could be on track for at least one more interest rate hike before the end of 2024.

**Will the government intervene?**

The upshot is that the Kishida government could now face intensified pressure to determine how, if at all, it will address the falling yen. The exchange rate could be a headache for the Kishida government not only because higher import costs could squeeze households and further undermine the government's support but also because it could also trigger more pressure from Corporate Japan, which could point to higher import costs as a reason to scale back pay increases. Niinami Takeshi, head of the Keizai Doyukai business federation, explicitly warned in a press conference Friday that the weaker yen could undercut demand-pull inflation led by wage hikes. Tokura Masakazu, the head of Keidanren, Japan's leading business federation, has similarly warned in recent days that an overly weak yen could negatively impact the economic outlook.

But the Kishida government is not only facing domestic pressure to address the weakening yen: it may also be facing US pressure not to intervene. Despite the joint statement between Japan, the US, and South Korea last week that acknowledged Japanese and South Korean concerns about currency weakness, US Treasury Secretary Janet Yellen, asked this week about the possibility of Japanese intervention, said foreign exchange interventions should be "rare," seemingly foreclosing the possibility of a coordinated, multilateral intervention.

Nevertheless, on Friday, 26 April Finance Minister Suzuki Shunichi again warned of the negative impact that yen weakness could have on Japan's economy and said that the government was watching closely and would consider all possible measures, cryptically adding that he "could not discuss specific policy measures." Domestic pressure – and Prime Minister Kishida Fumio's sense of vulnerability following a likely by-election defeat on Sunday, 28 April – could force the government's hand, perhaps during the Golden Week holidays starting on 29 April, when Japanese financial markets will be closed or otherwise subdued. Foreign exchange intervention may not be sufficient to reverse the yen's weakness, but it could slow the pace of its decline and buy the government and BOJ more time to assess the impact, while allowing the government show that it is doing something to address the issue.