

8 May 2024

Ueda voices concern about yen as Kishida frets

Key takeaways

- Bank of Japan Governor Ueda Kazuo has sounded more concerned about the impact of yen weakness in public appearances after Golden Week.
- Prime Minister Kishida Fumio's political difficulties suggest that the government will continue to seek ways of containing currency weakness and its effects on households.

After [signaling](#) at the Bank of Japan's (BOJ) April policy board meeting that he did not believe that yen weakness was "having a big impact at the present moment," BOJ Governor Ueda Kazuo may be changing his tune. Ueda emerged from a meeting with Prime Minister Kishida Fumio on Tuesday, 7 May and told reporters that the bank will continue to monitor yen weakness closely, adding that the bank will "be watching carefully to see what impact it has on the underlying inflation rate."

Ueda struck similar notes in two public appearances on Wednesday, 8 May, telling legislators in the House of Representatives' Financial Affairs committee that the bank is watching the yen's recent depreciation closely, and delivering a speech to the Yomiuri International Economic Society in which he warned that the risk of cost-push inflation may be higher as companies may be more willing to adjust prices in response to higher import costs. The upshot, Ueda said, is that the bank could move more quickly to raise interest rates if it appears that a weak yen is pushing underlying inflation above the bank's target.

The hawkish shift in Ueda's messaging does not guarantee that the BOJ will move to raise rates earlier – for example, at its mid-June or late July policy board meetings – but it does imply that yen weakness could weigh more on the governor's thinking than he

previously suggested. Coming after a meeting with the prime minister, it may also be point to how the broader political context is shaping how both the government and the BOJ will address yen weakness over the next four-to-six months.

Kishida, increasingly vulnerable following the [28 April by-elections](#), is still looking for a way to prolong his political life – and the prospect of a sharply declining yen undercutting wage increases and squeezing household finances is an increasingly significant challenge for the prime minister ahead of the Liberal Democratic Party's (LDP) leadership election in September. While the kickback scandal was the proximate cause of the dramatic loss of confidence in the LDP that led the by-election defeat, higher prices for imported household essentials have likely been a persistent drag on the government's support. It also makes it more difficult for Kishida to declare victory over deflation and highlight his government's achievements in raising wages, as the public is likely to be less receptive to this message if real household incomes continue to fall. The Ministry of Health, Labor, and Welfare reported in April that real household incomes fell year-over-year for the twenty-third consecutive month in February.

The upshot is that Kishida will continue to look for ways to manage the weak yen, particularly while he waits for June, when a JPY 40,000 (USD 257) per person tax cut takes effect. The government's suspected JPY 8tn foreign exchange intervention last week, for example, is unlikely to be the last, particularly if the yen drifts back to the JPY 160/USD level. But Kishida's meeting with Ueda – and the change in messaging that followed – may suggest that the government could be willing to lean on Ueda and the BOJ if not necessarily to change policies but to support the government's messaging about the risks of yen weakness and hint at the possibility of interest rate hikes.

Copyright © 2024 Japan Foresight LLC, All rights reserved.

This communication was produced by Japan Foresight LLC. The information it contains is intended as general background research and is not intended to constitute advice on any specific commercial investment or trade matter, legal matter, or other issue. You should not rely upon it for such purposes. The views expressed here represent opinions as of this date and are subject to change without notice. The information has been obtained from sources believed to be reliable, but no guarantees can be given as to its accuracy, completeness, or reliability. This communication is provided for your sole use. You may not reproduce, circulate, store, or transmit this communication or any information in it, in any form or by any means, electronic or otherwise, without the prior written consent of Japan Foresight LLC. This material is protected by copyrighted law. By accessing this material, you agree to indemnify and hold harmless Japan Foresight LLC, its officers, employees, agents, and affiliates from any claims, liabilities, damages, losses, or expenses (including legal fees) arising out of or in connection with your use or reliance on the information provided herein. To the extent permitted by law, Japan Foresight LLC disclaims all liability for any direct, indirect, incidental, special, consequential, or punitive damages arising out of or in connection with the use or inability to use this material, even if advised of the possibility of such damages.

Japan Foresight LLC will make PDF versions of its research available at the Japan Foresight LLC archive.