

FX Thoughts

22 January 2025

JPY – Hike In The Price

Markets have nearly priced in a 25bp hike (95% probability) at the upcoming MPC (24 Jan). From a markets point of view, the risk is a dovish hike as this may suggest that USDJPY's move lower may be more constrained. We remain of the view that BoJ has room to normalise policy as economic data (inflation wage growth) continues to support.

For USDJPY, technical suggests consolidation trades in the near term. USDJPY would need to break below 50 DMA to gather momentum. We see support at 154.90 (50 DMA), 154.30 (23.6% fibo retracement of Sep low to Jan high). Resistance at 157.10 (21 DMA). Bias to sell rallies.

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Taking Stock

USDJPY consolidated after the recent 2% decline. Expectations on BoJ hike had been building up rapidly. Markets have nearly priced in a 25bp hike (95% probability) at the upcoming MPC (24 Jan). The shift was due to comments from BoJ officials and a report in Japanese media, that said BoJ officials see good chance of an interest rate hike as long as Trump administration does not trigger too many negative surprises. Last week, Governor Ueda and deputy Governor Himino spoke about making decision whether to raise rate at the upcoming BoJ meeting. Governor Ueda also shared there is positive views on wage hikes gathering momentum.

Japan's Wage Hikes Gathering Momentum

Japan Business Federation (or Keidanren) and Japanese Trade Union Confederation (or Rengo) held a meeting with leaders today (22 Jan), effectively kicking off this year's shunto wage talks. Keidanren's Tokura shares BoJ view that demand-driven price increase is underway though Japan has not fully completed the transition to a demand-led inflation. Rengo leader Tomoko Yoshino agrees with BoJ that there is wage hike momentum in regions. The union is looking for an overall wage increase of at least 5%, with a slightly higher target of 6% for smaller firms. Last year's average wage increase was about 5.3%.

So far, several Japanese corporates have indicated that they will be raising wages in 2025. Fast retailing (Uniqlo) announced it will raise starting pay for new employees by 10% and 5% for other employees, while companies in other sectors such as Meiji Yasuda Life Insurance and Hoshino Resorts Co., Ltd announced raising wages by 5% and 5.5% on average respectively.

Suntory Holdings is looking to raise monthly wages by about 7% in 2025 for the third straight year.

This is following a government-led campaign to increase pay back in Nov 2024, where Prime Minister Ishiba met with labour union and business leaders to discuss 2025 wage negotiations and call for an increase in wages to secure stable inflation, economic growth and respond to the rising cost of living. Ishiba called for “building on this year’s (2024) momentum” after average wage deals in 2024 hit a 33-year high. The manner in which companies respond to the wage growth pressure is key as stressed by Keidanren’s Tokura who mentioned that “Japan’s future rests on whether we can step up a gear to achieve structural wage hikes”.

Spring Wage Negotiations Rose for 3rd Consecutive Year



Source: Bloomberg, OCBC Research

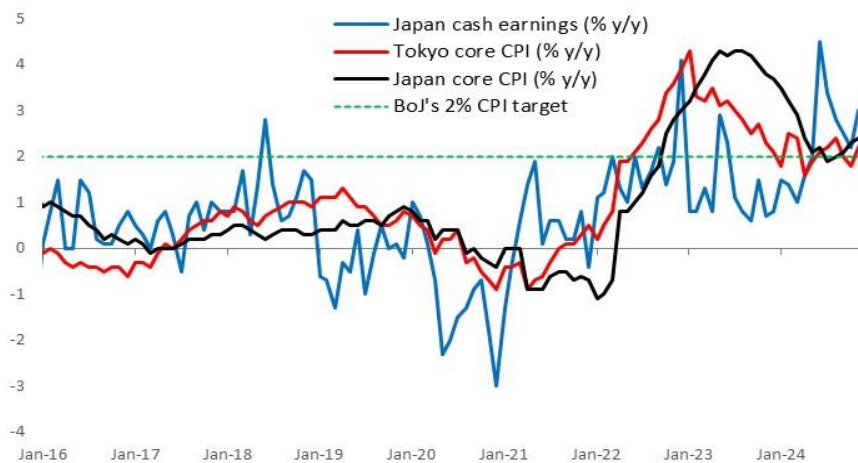
BoJ Hike Likely But Will It Be a Dovish Hike?

Our house view looks for a hike as economic data supports policy normalisation. Wage growth pressure remains intact, alongside broadening services inflation. Tokyo core core CPI, PPI, wages rose while labour market report also pointed to upward wage pressure in Japan with jobless rate easing, while trade unions are calling for another 5-6% wage increase at shunto wage negotiations for 2025. Our Rates strategist, Frances Cheung, projects for 25bp hike each in 1Q, 2Q and 3Q 2025. The prospect remains for inflation to stay sustainably around the 2% target, premised on a positive output gap and the virtuous cycle between wage and price continuing to play out as the labour market continues to tighten gradually.

At the upcoming meeting, the BoJ will also release its updated economic outlook report, where officials are likely to discuss raising their inflation projections.

But there is a risk that BoJ may prefer not to commit too early to future guidance (given that the next MPC after Fri is in mid-Mar) to avoid unnecessary JPY strength from derailing any progress.

Room for BoJ to Pursue Policy Normalisation as Wage Growth Intact while Services Inflation Broadens



Source: Bloomberg, OCBC Research

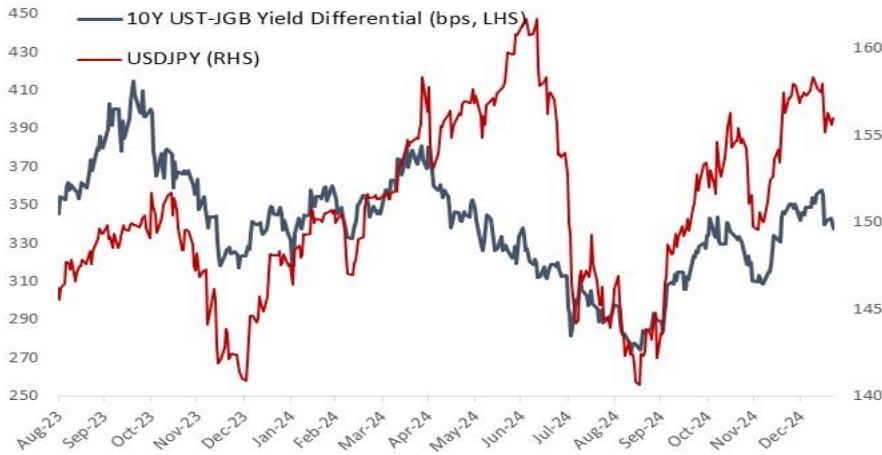
Outlook on USDJPY

We still look for USDJPY to trend lower, premised on Fed cut cycle while the BoJ has room to further pursue policy normalisation.

Divergence in Fed-BoJ policies should bring about further narrowing of UST-JGB yield differentials and this should underpin the broader direction of travel for USDJPY to the downside. That said, the risk is that any slowdown in pace of policy normalisation – be it the Fed or BoJ– would mean that USDJPY’s direction of travel may be bumpy or even face intermittent upward. Elsewhere, any escalation in geopolitical tensions, protectionism measures may also support safe-haven demand (positive for JPY).

In light of the upcoming MPC (24 Jan), the risk is a dovish hike as it may imply that USDJPY’s move lower may be more constrained. On the other hand, a hawkish hike should see USDJPY continue its path lower.

UST-JGB Yield Differential Driving USDJPY



Source: Bloomberg, OCBC Research

JPY Bulls Need to Break 50DMA to gather Momentum



JPY Currency (Japanese Yen Spot) Candle Chart Daily 24JAN2020-22JAN2025 Copyright© 2025 Bloomberg Finance L.P. 22-Jan-2025 17:16:43

USDJPY last seen at 155.80 levels. Bearish momentum on daily chart intact for now but RSI shows tentative signs of turning higher. Consolidation likely for now. Key support at 154.90 (50 DMA), 154.30 (23.6% fibo retracement of Sep low to Jan high). Break below these levels could see USDJPY test lower towards 152.80 (200 DMA), 151.50 (38.2% fibo, 100 DMA). Resistance at 157.10 (21 DMA), 158.90 levels.

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