【Fixed Income Commentary - Japan Economic & Financial Weekly】
Will fears of BoJ falling behind the curve start to retreat?

(original Japanese report issued on August 14, 2026)

JGB market outlook for August 17-21

We expect JGBs to be rangebound with an upward bias for the week of August 17. Fading expectations of an early Fed rate hike should be supportive. The US July CPI report, released on August 12, indicated moderate inflation, with the headline CPI rising 0.1% MoM and 3.4% YoY and the core index gaining 0.2% MoM and 2.5% YoY. Core services inflation accelerated slightly on a MoM basis to 0.2% from 0.0% in June, but the YoY rate slowed to 3.0% from 3.2%. While the inflation outlook remains uncertain given the situation in the Middle East and rising prices for IT goods due to AI investment demand, the latest price data should give not only Fed Chair Kevin Warsh but also the more hawkish FOMC members the room they need to keep policy on hold at the September meeting. We think diminished concerns about US inflation and the stabilization of the 10-year UST yield will help alleviate pressure on the yen and curb further increases in the 10-year JGB yield.

The market is pricing in just under an 80% probability of a BoJ rate hike in September, up from around 65% as of August 7. Rate hike expectations picked up following a series of media reports that boosted the prospects of an early tightening move.[1] Bloomberg also reported on August 13 that the government supports an early rate hike to sustain the impact of the coordinated Japan–US foreign exchange intervention, and the Bank of Japan is considering raising the policy rate at the September or October Monetary Policy Meetings. An October rate hike would be regarded as a dovish outcome in view of current market pricing, but the key takeaway from the article is that the government supports an early rate hike. The market’s attention has already shifted to the future pace of rate hikes, which is likely to help stoke investor concerns about an acceleration of tightening. On the other hand, if the Takaichi administration is starting to understand the need for rate hikes, this could help stabilize long- and super-long-term JGB yields by easing concerns that the BoJ has fallen behind the curve.

Fiscal developments warrant caution. Ahead of the end-August deadline for ministries and agencies to submit their FY27 budget requests, speculation of a substantial increase in aggregate requests, combined with uncertainty over how the consumption tax cut will be funded, could fuel concerns about a “malicious” rise in bond yields. Attention will also focus on the cabinet reshuffle and changes to the LDP leadership expected between now and September. Market participants, including overseas investors, are particularly focused on the fate of Finance Minister Satsuki Katayama, who is regarded as a proponent of fiscal discipline within the Takaichi administration. If she is replaced, renewed concerns over fiscal

[1] On the evening of August 10, Kyodo News reported that “the unusual coordinated yen-buying intervention conducted by the Japanese and US governments on July 31 EST -- the first in 28 years -- was ultimately prompted by BoJ Governor Kazuo Ueda’s strong indication at a press conference immediately beforehand that the policy rate could be raised as early as September.” On August 12, a Jiji Press article stated that “the mood among the BoJ leadership has changed completely following the coordinated yen-buying intervention by Japanese and US authorities at the end of July” and that “there is even a sense that an acceleration in the pace of rate hikes is under consideration.” (Excerpts from the articles translated by MUMSS)

expansion could exacerbate the weakness in the yen and prompt a bear-steepening of the JGB curve, depending on who is chosen to succeed her.

Our outlook for monetary policy is as follows. We expect the BoJ to raise the policy rate to 1.25% in September 2026, 1.50% in January 2027, and 1.75% in June 2027. Although the timing of the rate hikes could shift somewhat depending on the external environment, we project the Bank will accelerate the cadence of tightening somewhat now that underlying inflation is approaching 2%. There are two main reasons why we anticipate a terminal rate of 1.75%. First, upside risks to prices are likely to diminish from around mid-2027, due in part to base effects related to this year's rise in crude oil prices and decline in the yen. Second, our US economy and rates analysts' baseline scenario calls for US inflation to moderate toward end-2026 and for the Fed to cut rates.[2] If so, the BoJ's "adjustments to the degree of monetary accommodation" are also likely to run their course around next summer.

Forecast range (intraday basis): 10-year JGB yield: 2.780%–2.900%

30-year JGB yield: 3.900%–4.080%

Key events

Key events

The Ministry of Finance plans to offer JPY2.5 trillion in 5-year JGBs on August 18 and JPY700 billion in 20-year bonds on August 20. We anticipate satisfactory to somewhat weak results for the 5-year auction and satisfactory results for the 20-year tender, with support provided by high yields. Growing speculation of an early rate hike could lead bidders to adopt a more cautious stance at the 5-year offering, while an expected easing of concerns that the BoJ is falling behind the curve should provide a tailwind for the 20-year auction. In the US, the Treasury Department is scheduled to offer 20-year UST bonds on August 19 and 30-year TIPS on August 20.

The Bank of Japan has three bond-buying operations scheduled on August 19, when it will target JGBs coming due in 1-3 years (JPY355 billion), 5-10 years (JPY335 billion), and >25 years (JPY75 billion).

In Japan, the Nikkei QUICK-compiled consensus as of 8:00am JST on August 14 was that the first preliminary estimates of Apr–Jun real GDP (Aug 17) would show output expanding 0.5% QoQ (2.2% annualized). We think private final demand, including private consumption and capital investment, was solid. The deterioration in the Middle East situation probably had some impact on external demand, but we expect that imports fell more sharply than exports, resulting in a positive contribution. Meanwhile, the release of crude oil from government reserves is likely to have weighed on inventories.

The Nikkei QUICK-compiled consensus as of 8:00am JST on August 14 was that the nationwide CPI print for July (Aug 21) would show headline and core CPI inflation accelerating to 1.9% and 1.8%, respectively, from rates of 1.7% and 1.6% in June. Price hikes for electricity and gas will likely result in a smaller YoY decline in energy prices. Rising prices for packaging materials and higher energy costs due to escalating tensions in the Middle East are likely to feed through gradually.

[2] We expect the Fed to resume rate cuts in December 2026, followed by additional 25bp cuts in June 2027, after it confirms inflation has slowed to the 2.0-2.5% range, and March 2028, when a 2% inflation rate comes into view. We forecast the target range for the federal funds rate will be 3.25-3.50% at the end of 2026, 3.00-3.25% at the end of 2027, and 2.75-3.00% at the end of 2028.

The 60-day deadline for negotiations on a final US-Iran agreement under the June 18 memorandum of understanding will expire on August 16. However, the deadline may be extended by mutual agreement.

The Fed will release the minutes of the July 28-29 FOMC meeting on August 19.

In upcoming US data, the Bloomberg-compiled consensus as of 8:00am JST on August 14 was that July new housing starts would fall 5.7% MoM to an annualized rate of 1.35 million units after surging 19.0% MoM in June. Economists expect the Philadelphia Fed's August current general business activity index (Aug 20) will drop 16.4pt MoM to a reading of 25.0.

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14:00 JST, August 14, 2026

Economic indicators for the week of August 17

Date/Time (JST)		Indicator/Event	Our Forecasts / Past Results			Market Consensus	Comments
8/17 (Mon)	8:50	Real GDP (first preliminary)	26/2Q est.	QoQ annualized	+2.3%	+2.1%	Private consumption and capital spending likely remained firm; inventory drawdowns, including oil reserves, appear to have had only a limited impact.
			26/1Q	"	+1.8%		
			25/4Q	"	+0.7%		
	13:30	Indices of Industrial Production (Jun, final)					
	13:30	Indices of Tertiary Industry Activity	Jun est.	MoM	-1.0%	-1.0%	We expect a decline in retail activity following the previous month's surge, partly driven by air-conditioner sales. Living and amusement-related services also likely fell, hit by the weather.
			May	"	+1.1%		
			Apr	"	+0.8%		
	17:00	BoJ Current Account Balances by Sector (Jul)					
8/18 (Tue)	10:30	5yr JGB auction (planned issuance: 2.5 trillion yen); announcement of results, 12:35					
8/19 (Wed)	8:50	Machinery orders (private sector excl. volatile orders)	Jun est.	MoM	+4.2%	+7.8%	We expect accelerated growth in orders from the automobile industry. AI-related demand likely fueled the upturn in orders from the information services industry.
			May	"	-12.4%		
			Apr	"	+8.7%		
	10:10	BoJ JGB purchases: 1yr-up to 3yrs (approx. 355 billion yen), 5yrs-up to 10yrs (approx. 335 billion yen), over 25yrs (approx. 75 billion yen)					
	10:20	1yr T-Bill auction (planned issuance: 2.8 trillion yen); announcement of results, 12:30					
	16:15	Visitor arrivals (Jul)					
8/20 (Thu)	8:50	Trade statistics	Jul est.	Balance	-JPY513.8bn	-JPY669.0bn	Trade deficit likely widened YoY as imports increased driven by naphtha and crude oil (volume recovery and higher prices) as well as AI-related demand.
			Jun	"	-JPY409.9bn		
			Jul '25	"	-JPY156.3bn		
	10:30	20yr JGB auction (planned issuance: 700 billion yen); announcement of results, 12:35					
8/21 (Fri)	8:30	CPI Natoinwide, excl. fresh foods (core CPI)	Jul est.	YoY	+1.7%	+1.8%	We expect core-core CPI inflation to edge up YoY for the first time in nine months as higher crude oil prices gradually feed through to petrochemicals. The CPI will be rebased to 2025 with this release, but the announced impact is limited.
			Jun	"	+1.6%		
			May	"	+1.4%		
		Nationwide; excl. fresh foods and energy (core-core CPI)	Jul est.	YoY	+1.8%	+1.9%	
			Jun	"	+1.7%		
			May	"	+1.8%		
	10:20	3mo T-Bill auction (planned issuance: 3.7 trillion yen); announcement of results, 12:30					

Source: MUMSS, from media reports.

Japan Economic Outlook

Forecasts (%)

	FY2025 4-6	FY2025 7-9	FY2025 10-12	FY2025 1-3	FY2026 (F) 4-6	FY2026 (F) 7-9	FY2026 (F) 10-12	FY2026 (F) 1-3	FY2027 (F) 4-6	FY2027 (F) 7-9	FY2027 (F) 10-12	FY2027 (F) 1-3	FY24	FY25	FY26 (F)	FY27 (F)	FY28 (F)
Real GDP	**0.3**	**-0.6**	**0.2**	**0.5**	**-0.2**	**0.4**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.5**	**0.8**	**0.5**	**0.9**	**0.7**
(QoQ annualized rate)	**1.1**	**-2.3**	**0.7**	**1.8**	**-0.9**	**1.7**	**0.8**	**0.8**	**1.0**	**0.9**	**0.9**	**0.8**					
(YoY)	1.9	0.5	0.3	0.4	-0.2	0.8	0.9	0.6	1.1	0.9	0.9	0.9					
*Domestic demand	0.2	-0.3	0.1	0.2	-0.4	0.6	0.3	0.2	0.2	0.2	0.2	0.2	0.8	0.9	0.4	1.1	0.8
*Private demand	0.0	-0.2	0.1	0.0	-0.3	0.4	0.3	0.1	0.2	0.2	0.2	0.2	0.4	0.8	0.2	0.9	0.6
Private consumption	0.2	0.5	0.1	0.3	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.1	1.3	0.6	0.5	0.7
Residential investment	-0.0	-8.0	5.0	0.9	0.5	0.4	0.1	0.1	0.1	0.1	0.1	0.1	-0.7	-3.4	1.9	0.5	0.3
Capital investment	1.0	-0.1	1.2	-0.7	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.8	2.0	1.1	1.5	1.2
*Private inventories	-0.3	-0.2	-0.4	-0.1	-0.4	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.2	-0.1	-0.4	0.3	0.0
*Public demand	0.1	-0.0	0.1	0.1	-0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.5	0.1	0.2	0.2	0.2
Government consumption	0.6	0.1	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	2.3	0.8	1.1	0.9	0.8
Public investment	0.4	-1.0	-0.1	1.5	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.5	0.9	0.2	0.2
*Net exports	0.1	-0.3	0.0	0.3	0.1	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	-0.3	-0.1	0.1	-0.2	-0.1
Exports	1.6	-1.6	0.2	1.8	0.0	0.4	0.8	0.5	0.3	0.3	0.3	0.3	2.7	2.0	1.9	1.7	1.2
Imports	1.1	-0.2	-0.0	0.4	-0.8	1.2	1.7	1.0	0.5	0.4	0.4	0.4	4.0	2.5	1.5	3.0	1.6
Nominal GDP	1.9	0.2	0.9	0.6	0.7	1.0	0.7	0.7	0.6	0.7	0.7	0.7	3.7	4.1	3.0	2.7	2.7
(YoY)	5.3	4.0	3.7	3.6	2.4	3.3	3.1	3.2	3.0	2.7	2.6	2.6					
GDP deflator (YoY)	3.2	3.5	3.4	3.2	2.6	2.4	2.2	2.6	1.9	1.8	1.7	1.7	3.2	3.3	2.4	1.8	1.9
Domestic demand deflator (YoY)	2.6	2.8	2.6	2.4	2.5	2.4	2.2	2.2	1.5	1.5	1.5	1.6	2.8	2.6	2.3	1.5	1.7
CPI core (excluding perishables, YoY)	3.5	2.9	2.8	1.7	1.5	1.9	2.5	3.1	2.3	2.1	1.8	1.7	2.7	2.7	2.2	1.9	2.0
BoJ core CPI (excluding perishables and energy, YoY)	3.2	3.2	3.0	2.5	1.8	2.1	2.5	2.5	2.5	2.0	2.0	2.0	2.3	3.0	2.2	2.1	2.0
Industrial production (QoQ)	-0.5	-1.1	0.3	2.5	0.0	0.9	0.4	0.4	0.5	0.5	0.4	0.4	-1.5	-0.2	2.7	1.9	1.5
(YoY)	0.0	-0.7	-1.0	1.2	1.4	3.6	3.8	1.7	2.2	1.7	1.8	1.8					

	FY24	FY25	FY26 (F)	FY27 (F)	FY28 (F)
USD/JPY (FY avg)	152.5	150.7	161.0	163.0	163.5
Crude oil (import-basis, USD/bbl)	82.8	71.3	86.0	76.0	79.0
Current account (trillion yen)	30.0	34.5	36.0	35.5	36.6
as % of nominal GDP	4.7	5.2	5.2	5.0	5.0
Trade balance (customs-cleared, trillion yen)	-5.4	-1.8	-1.9	-1.3	-0.5

Notes:
1) QoQ figures unless noted otherwise; rows beginning with asterisk (*) show QoQ contribution to GDP in percentage points.
2) Estimates as of August 14, 2026. Our advance estimates for Apr-Jun 2026 GDP (real GDP growth of 2.3% QoQ annualized) not reflected.
Source: MUMSS, from Cabinet Office, MIC Statistics Bureau, METI, and other data; MUMSS forecasts

Market Forecast

			FY24	FY25 Apr-Jun	FY25 Jul-Sep	FY25 Oct-Dec	FY25 Jan-Mar	FY26 (forecast) Apr-Jun	FY26 (forecast) Jul-Sep	FY26 (forecast) Oct-Dec	FY26 (forecast) Jan-Mar	FY27 (forecast) Apr-Jun	FY27 (forecast) Jul-Sep	FY27 (forecast) Oct-Dec	FY27 (forecast) Jan-Mar	FY28 (forecast)
Japan	Real GDP	Annualized QoQ (%)	—	1.1	-2.3	0.7	1.8	-0.9	1.7	0.8	0.8	1.0	0.9	0.9	0.8	—
		YoY (%)	0.5	0.8				0.5				0.9				0.7
	Core CPI	YoY (%)	2.7	3.5	2.9	2.8	1.7	1.5	1.9	2.5	3.1	2.3	2.1	1.8	1.7	2.0
	Uncollateralized O/N rate	End of term (%)	0.500	0.500	0.500	0.750	0.750	1.000	1.250	1.250	1.500	1.750	1.750	1.750	1.750	1.750
	3-month yen TIBOR	End of term (%)	0.820	0.772	0.818	1.072	1.268	1.412	1.700	1.850	1.950	2.200	2.200	2.200	2.200	2.200
JGB yields	2-year JGB yield	Range (%)	0.190-0.880	0.580-0.855	0.730-0.935	0.890-1.170	1.130-1.380	1.345-1.450	1.385-1.800	1.550-1.950	1.600-2.000	1.700-2.100	1.700-2.100	1.700-2.100	1.700-2.100	1.700-2.100
		End of term (%)	0.830	0.745	0.935	1.170	1.350	1.355	1.700	1.750	1.800	1.900	1.900	1.900	1.900	1.900
	5-year JGB yield	Range (%)	0.360-1.180	0.725-1.105	0.960-1.230	1.185-1.545	1.530-1.820	1.730-2.030	1.910-2.350	1.950-2.400	1.950-2.400	2.000-2.450	2.000-2.450	2.000-2.450	2.000-2.450	2.000-2.450
		End of term (%)	1.095	0.980	1.225	1.545	1.770	1.880	2.150	2.150	2.150	2.200	2.200	2.200	2.200	2.200
	10-year JGB yield	Range (%)	**0.740-1.580**	**1.110-1.570**	**1.385-1.655**	**1.620-2.080**	**2.060-2.385**	**2.300-2.790**	**2.650-3.150**	**2.650-3.150**	**2.650-3.150**	**2.600-3.100**	**2.500-3.000**	**2.400-2.900**	**2.400-2.900**	**2.400-2.900**
		End of term (%)	**1.485**	**1.420**	**1.645**	**2.060**	**2.345**	**2.670**	**2.900**	**2.900**	**2.900**	**2.850**	**2.750**	**2.650**	**2.650**	**2.650**
	20-year JGB yield	Range (%)	1.515-2.310	1.900-2.595	2.310-2.680	2.570-3.000	2.880-3.450	3.195-3.775	3.500-4.100	3.500-4.100	3.450-4.050	3.400-4.000	3.250-3.850	3.150-3.750	3.150-3.750	3.150-3.750
		End of term (%)	2.220	2.345	2.610	2.985	3.280	3.640	3.800	3.800	3.750	3.700	3.550	3.450	3.450	3.450
	30-year JGB yield	Range (%)	1.805-2.610	2.250-3.170	2.865-3.285	3.035-3.430	3.280-3.875	3.550-4.150	3.740-4.350	3.750-4.350	3.700-4.300	3.600-4.200	3.450-4.050	3.400-4.000	3.400-4.000	3.400-4.000
		End of term (%)	2.520	2.910	3.140	3.410	3.710	3.940	4.100	4.050	4.000	3.900	3.750	3.700	3.700	3.700
	40-year JGB yield	Range (%)	2.100-2.965	2.555-3.675	3.055-3.535	3.345-3.745	3.515-4.205	3.640-4.355	3.755-4.300	3.700-4.300	3.650-4.250	3.550-4.150	3.400-4.000	3.350-3.950	3.350-3.950	3.350-3.950
		End of term (%)	2.790	3.090	3.335	3.610	3.920	3.770	4.050	4.000	3.950	3.850	3.700	3.650	3.650	3.650
FX	Dollar/Yen	Range	139.58-161.95	139.89-150.49	142.68-150.92	146.59-157.89	152.10-160.46	155.04-162.67	152.5-167.0	153.0-167.5	153.5-168.5	154.0-169.0	154.5-169.5	155.0-170.0	155.5-170.5	156.0-171.0
		End of term	149.96	144.03	147.90	156.71	158.72	162.55	160.0	160.5	161.0	161.5	162.0	162.5	163.0	163.5
	Euro/Yen	Range	154.42-175.43	158.30-169.86	168.46-175.13	172.27-184.92	180.81-186.87	182.05-187.95	177.7-193.0	178.3-193.6	178.8-194.7	179.4-195.3	180.0-195.8	180.6-196.4	181.2-197.0	181.7-197.6
		End of term	162.21	169.78	173.53	184.01	183.38	185.68	185.6	186.2	186.8	187.3	187.9	188.5	189.1	189.7
US	Real GDP	Annualized QoQ (%)	—	3.8	4.4	0.5	2.1	1.5	2.4	2.1	2.0	2.0	1.9	1.8	1.7	—
		YoY (%)	2.8	2.1				2.1				2.0				1.8
	FF rate (target)	End of term (%)	4.25-4.50	4.25-4.50	4.00-4.25	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.25-3.50	3.25-3.50	3.00-3.25	3.00-3.25	3.00-3.25	2.75-3.00	2.75-3.00
	10-yr Treasury yield	Range (%)	3.6176-4.7924	3.9943-4.5985	4.0206-4.4813	3.9493-4.1878	3.9375~4.4278	4.2479-4.6663	4.05-4.75	4.25-4.75	4.25-4.75	4.05-4.55	3.85-4.35	3.65-4.15	3.75-4.25	3.55-4.05
		End of term (%)	4.21	4.23	4.15	4.17	4.32	4.47	4.30	4.50	4.50	4.30	4.10	3.90	4.00	3.80
Euro zone	Real GDP	Annualized QoQ (%)	—	-0.0	1.3	0.8	0.0	1.8	0.9	2.3	1.6	1.0	0.8	0.4	0.7	—
		YoY %	1.0	1.2				0.9				1.4				0.9
	Deposit facility rate	End of term (%)	2.50	2.00	2.00	2.00	2.00	2.25	2.25	2.50	2.50	2.50	2.50	2.25	2.25	2.25
	10-year German Bund yield	Range (%)	2.010-2.940	2.424-2.732	2.542-2.801	2.523-2.914	2.643-3.129	2.831-3.201	2.90-3.30	3.10-3.50	3.10-3.50	2.90-3.30	2.60-3.00	2.30-2.70	2.50-2.90	2.90-3.30
		End of term (%)	2.74	2.61	2.71	2.86	3.00	2.86	3.10	3.30	3.30	3.10	2.80	2.50	2.70	3.10

Notes: 1) JGB, Treasury, and Eurozone bond yields are daily closing rates. Japanese 2yr - 40yr JGBs are newly issued. USD/JPY and EUR/JPY are intraday-based.
2) Forecasts for macroeconomic indicators as well as forecast ranges and end-of-term figures for interest rates and forex revised August 14, 2026 (previous revision August 7, 2026).
Our advance estimates for Apr-Jun 2026 GDP (real GDP growth of 2.3%, QoQ annualized) not reflected.
3) Uncollateralized O/N rate is BoJ's target range. US FF rate is FRB's target level. US and Eurozone real GDP growth rates (calendar year) are against previous year.
Source: MUMSS, from Quick and Bloomberg data; MUMSS estimates

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Appendix A

Analyst Certification

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