【Fixed Income Commentary - Japan Economic & Financial Weekly】

Outlook for 10-year JGB yield's test of 3% level

(original Japanese report issued on September 4, 2026)

JGB market outlook for September 7-11

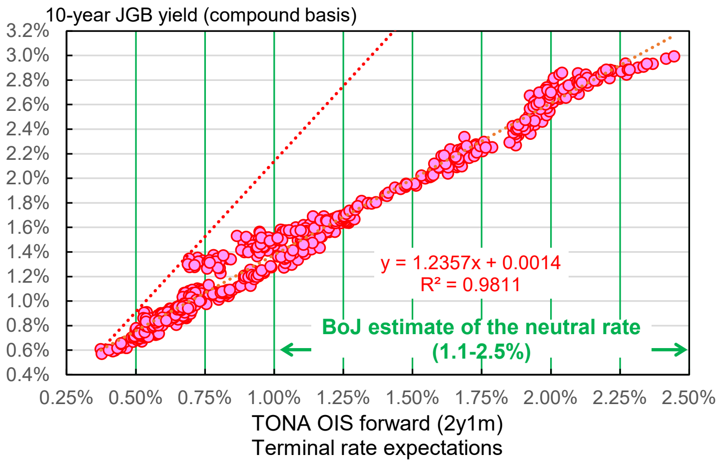
The yield on the newly issued 10-year JGB is expected to hover around 3% this week. Investors are likely to remain in wait-and-see mode ahead of the FOMC and BoJ Policy Board meetings next week. The 10-year yield could rise in nervous trading depending on external developments. For instance, further increases in crude oil prices amid sustained turmoil in the Middle East, or a decline in the yen vs. the euro if the market takes a hawkish view of the outcome of the ECB Governing Council meeting on September 9-10, would probably lift the 10-year JGB yield via higher inflation expectations. But even if the yen weakens, concerns about official currency intervention are likely to prevent USD/JPY from rising above 160 or so, which means the advance in the 10-year yield is also likely to pause. The 2-year-forward 1-month OIS rate (and the 2-year-forward 1-year rate) is regarded as a gauge of market expectations for the terminal rate, and as it approaches the 2.5% upper bound of BoJ estimates of the neutral rate, the sense of a near-term overshoot will probably cap further increases in the 10-year yield. The market already sees a near-100% probability of a rate hike at the September Monetary Policy Meeting. The belief that pricing in a 50bp hike or back-to-back increases would be going too far may also serve to check the rise in the 10-year yield.

The 10-year JGB yield and terminal rate expectations have historically exhibited a strong correlation (Graph 1). Expectations of the terminal rate have recently climbed to around 2.4%, accompanied by an increase in the 10-year yield to around 3%. Since BoJ estimates of the neutral rate range from 1.1% to 2.5%, we think further upside for both terminal rate expectations and the 10-year yield would be limited if the market expects rate hikes to stay within this range. Conversely, if investors expect rate hikes to take the policy rate into restrictive territory, expectations of the terminal rate would probably exceed 2.5%, and the 10-year yield might break above the area around 3%. While we do not currently expect the policy rate to move into clearly restrictive terrain, we think that for now the market is likely to remain on a knife-edge over whether policy will stay neutral or turn restrictive.

Forecast range (intraday basis): 10-year JGB yield: 2.860%– 3.010%

30-year JGB yield: 3.950%– 4.150%

Graph 1: Correlation between 10-year JGB yield and terminal rate expectations



Note: Daily data since the beginning of 2024
Source: MUMSS, from BoJ and Bloomberg data

Key events

Key events

The Ministry of Finance plans to offer JPY2.5 trillion in 5-year JGBs on September 8 and will also hold a JPY700 billion liquidity enhancement auction for bonds maturing in 1-5 years on September 10. We anticipate satisfactory results for the 5-year auction. High yields should be supportive, and demand could receive a further boost if fading concerns about the BoJ falling behind the curve help ease worries about a higher terminal rate. In the US, the Treasury Department is set to offer 3-year UST notes on September 8, 10-year notes on September 9, and 30-year bonds on September 10.

The Bank has three bond-buying operations scheduled on September 9, when it will target JGBs coming due in 1-3 years (JPY355 billion), 5-10 years (JPY335 billion), and >25 years (JPY75 billion).

Policy Board member Kazuyuki Masu will appear at a meeting of business leaders in Fukui prefecture on September 10, where he will deliver a speech and hold a press conference. In a speech in May, Mr. Masu said that “I believe the negative real interest rate situation should be addressed as soon as possible” and went on to state that “To complete the normalization of monetary policy in Japan, I am convinced that the Bank needs to raise the policy interest rate further, so that it falls solidly within the estimated range of the neutral interest rate, thereby ensuring the flexibility needed to swiftly adjust the policy rate in either direction, depending on economic conditions.”

We project the ECB Governing Council will raise its policy rate (the deposit facility rate) to 2.50% when it meets on September 10. Reuters also reported on August 26 that the ECB was likely to raise rates at the September meeting, with a rate hike appearing to be the market consensus.

In upcoming US data, the Bloomberg-compiled consensus as of 8:00am JST on September 4 was that the official US jobs report (Sep 4) would show the nonfarm sector of the economy creating 55,000 jobs in August (compared with a loss of 23,000 in July), with the unemployment rate holding steady at 4.1% and the average hourly wage rising 0.3% MoM (up from a +0.1% gain in July). Economists expect the August PPI report (Sep 10) will show the price of final-demand goods increasing 0.4% MoM (vs. a result of 0.0% in July), with the core index adding 0.3% MoM (following a gain of 0.2% in the previous month). The CPI print for August (Sep 11) is projected to show the headline and core indices rising 0.4% and 0.2%, respectively, compared with increases of 0.1% and 0.2% in July. On a YoY basis, the two indices are seen gaining 3.4% and 2.4%, respectively, vs. July increases of 3.4% and 2.5%.

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14:00 JST, September 4, 2026

Economic indicators for the week of September 7

Date/Time (JST)		Indicator/Event	Our Forecasts / Past Results			Market Consensus	Comments
9/7 (Mon)	14:00	Indexes of Business Conditions (preliminary)	Jul est.	MoM	+1.5pt	+1.7pt	We expect a rise in the coincident index, with positive contributions from shipments of investment goods (excluding transport equipment), retail and department store sales, and export volumes. The assessment is likely to remain unchanged at "improving."
		Leading CI	Jun	"	+0.0pt		
			May	"	+0.4pt		
		Coincident CI	Jul est.	MoM	+1.8pt	+1.7pt	
			Jun	"	+0.6pt		
			May	"	-0.2pt		
	14:00	Consumption Activity Index (Jul)					
9/8 (Tue)	8:30	Monthly Labour Survey	Jul est.	YoY	+3.9%	+3.9%	Scheduled cash earnings for general workers (common establishments) likely maintained the previous month's strong 2.9% YoY growth, while summer bonuses also rose solidly.
		Total cash earnings	Jun	"	+4.0%		
			May	"	+3.3%		
	8:50	Principal Figures of Financial Institutions (Aug)					
	8:50	Balance of Payments	Jul est.	Balance	JPY2,841.5bn	JPY2,898.0bn	We expect the current account surplus to narrow YoY, as the trade balance likely worsened on recovering crude oil imports and the primary income surplus, while solid, likely fell from a year earlier, when direct investment income surged.
		Current account	Jun	"	JPY92.3bn		
			Jul '25	"	JPY3,968.3bn		
	8:50	Real GDP	26/2Q est.	QoQ annualized	+1.8%	+1.8%	We expect annualized growth to be revised up from 1.3%, as the Financial Statements Statistics of Corporations by Industry indicate a smaller decline in business investment.
		(second preliminary estimates)	26/1Q	"	+1.9%		
			25/4Q	"	+1.0%		
	10:30	5yr JGB auction (planned issuance: 2.5 trillion yen); announcement of results, 12:35					
	14:00	Economy Watchers Survey (Aug)					
9/9 (Wed)	8:50	Money stock	Aug est.	YoY	+1.5%	n.a.	Corporate lending likely continued to accelerate on the back of higher inflation. We also expect stronger demand for M3 amid a continued rise in interest rates.
		M3	Jul	"	+1.4%		
			Jun	"	+1.5%		
		Broadly-defined liquidity	Aug est.	YoY	+4.5%	+4.3%	
			Jul	"	+4.4%		
			Jun	"	+4.5%		
	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	6mo T-Bill auction (planned issuance: 3.0 trillion yen); announcement of results, 12:30					
9/10 (Thu)	10:30	Liquidity supply auction (1-5yr; planned issuance: approx. 700 billion yen); announcement of results, 12:35					
	10:30	BoJ Policy Board member Kazuyuki Masu, speech at a meeting with local leaders in Fukui					
9/11 (Fri)	8:50	Corporate Goods Price Index (CGPI)	Aug est.	YoY	+7.2%	+7.4%	We expect the resumption of electricity and gas subsidies to have weighed on the index, while AI-related demand likely accelerated the rise in nonferrous metals and production machinery prices.
		(domestic; all commodities)	Jul	"	+7.2%		
			Jun	"	+7.3%		
	8:50	Business Outlook Survey (Jul-Sep)					
	10:20	3mo T-Bill auction (planned issuance: 3.5 trillion yen); announcement of results, 12:30					
9/13 (Sun)		Okinawa gubernatorial election					

Source: MUMSS, from media reports.

Japan Economic Outlook

Forecast →

(%)

	FY2025				FY2026 (F)				FY2027 (F)				FY24	FY25	FY26 (F)	FY27 (F)	FY28 (F)
	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3					
Real GDP	**0.2**	**- 0.4**	**0.2**	**0.5**	**0.3**	**0.1**	**0.0**	**0.0**	**0.5**	**0.4**	**0.3**	**0.3**	**0.7**	**0.9**	**0.7**	**1.1**	**0.8**
(QoQ annualized rate)	**0.7**	**-1.8**	**1.0**	**1.9**	**1.1**	**0.3**	**0.1**	**0.1**	**2.1**	**1.5**	**1.3**	**1.1**					
(YoY)	2.1	0.6	0.4	0.5	0.7	1.1	0.9	0.4	0.7	1.0	1.3	1.5					
*Domestic demand	0.2	-0.3	0.2	0.2	-0.2	0.5	0.2	0.1	0.5	0.4	0.3	0.3	1.0	1.0	0.6	1.4	0.9
*Private demand	0.1	-0.3	0.1	0.0	0.0	0.2	0.1	0.1	0.5	0.3	0.3	0.2	0.5	0.9	0.2	1.1	0.7
Private consumption	0.1	0.5	0.1	0.5	- 0.0	0.1	0.1	- 0.0	0.5	0.3	0.3	0.2	0.1	1.3	0.6	1.0	0.8
Residential investment	0.5	-8.0	5.0	0.9	-0.5	0.4	0.1	0.1	0.1	0.1	0.1	0.1	-0.4	-2.6	1.0	0.5	0.3
Capital investment	1.4	-0.3	1.3	-1.0	-1.2	1.2	0.4	0.4	0.6	0.6	0.6	0.6	1.8	2.3	-0.1	2.4	1.5
*Private inventories	-0.2	-0.2	-0.4	-0.1	0.3	-0.1	- 0.0	0.0	0.1	0.0	0.0	0.0	0.2	-0.1	-0.1	0.1	0.0
*Public demand	0.1	- 0.0	0.1	0.1	-0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.5	0.1	0.4	0.3	0.2
Government consumption	0.5	0.1	0.4	0.4	1.6	0.1	0.3	0.2	0.2	0.2	0.2	0.2	2.3	0.8	2.4	0.9	0.8
Public investment	0.7	-1.1	-0.4	1.5	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.3	0.7	0.2	0.2
*Net exports	- 0.0	-0.2	0.1	0.3	0.5	-0.4	-0.1	-0.1	- 0.0	- 0.0	0.0	- 0.0	-0.3	-0.1	0.1	-0.3	- 0.0
Exports	1.6	-1.4	0.1	1.7	0.5	0.1	0.8	0.5	0.4	0.4	0.4	0.3	2.7	2.0	2.2	1.8	1.3
Imports	1.8	-0.6	-0.1	0.3	-1.5	2.6	1.7	1.0	0.5	0.4	0.4	0.4	4.0	2.5	1.5	3.4	1.6
Nominal GDP	1.8	0.3	0.9	0.7	1.2	0.4	0.7	0.6	0.3	0.8	0.9	0.8	4.0	4.3	3.1	2.5	2.8
(YoY)	5.4	4.1	3.8	3.8	3.2	3.2	3.0	2.9	2.0	2.5	2.6	2.8					
GDP deflator (YoY)	3.2	3.5	3.4	3.2	2.6	2.1	2.1	2.5	1.4	1.5	1.3	1.3	3.2	3.3	2.3	1.4	1.9
Domestic demand deflator (YoY)	2.6	2.8	2.6	2.4	2.9	2.9	2.9	2.9	1.4	1.1	1.1	1.1	2.8	2.6	2.9	1.2	1.7
CPI core (excluding perishables, YoY)	3.5	2.9	2.8	1.7	1.5	1.8	2.5	3.0	2.2	2.1	1.8	1.7	2.7	2.7	2.2	2.0	2.0
[Excl. tax hike/tuition wavers]									1.3	1.2	0.8	0.7				1.0	
BoJ core CPI (excluding perishables and energy, YoY)	3.2	3.2	3.0	2.5	1.8	2.0	2.3	2.3	2.2	2.0	2.0	2.1	2.3	3.0	2.1	2.1	2.0
[Excl. tax hike/tuition wavers]									1.3	1.1	1.1	1.1				1.1	
Industrial production (QoQ)	-0.5	-1.1	0.3	2.5	0.2	0.2	0.1	0.1	1.0	0.8	0.7	0.5	-1.5	-0.2	2.2	2.2	1.7
(YoY)	0.0	-0.7	-1.0	1.2	1.7	3.2	3.0	0.6	1.3	1.9	2.6	3.0					

	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	88.0	79.0	81.0
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. For CPI, the upper figures are before adjustment for the impact of the consumption tax cut on food, and the lower figures are after adjustment.
2) Assuming food consumption tax cut to 1% (from current 8%) from April 2027 through March 2029.
3) Estimates as of September 4, 2026. It does not reflect our latest forecast for the second preliminary estimate of Apr-Jun 2026 GDP (real GDP growth, annualized: +1.8%).
Source: MUMSS, from Cabinet Office, MIC, METI, and other data; MUMSS forecasts

Market Forecast

			FY24	FY25				FY26 (forecast)				FY27 (forecast)				FY28 (forecast)
				Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	
Japan	Real GDP	Annualized QoQ (%)	—	0.7	-1.8	1.0	1.9	1.1	0.3	0.1	0.1	2.1	1.5	1.3	1.1	—
		YoY (%)	0.7	0.9				0.7				1.1				0.8
	Core CPI	YoY (%)	2.7	3.5	2.9	2.8	1.7	1.5	1.8	2.5	3.0	1.3	1.2	0.8	0.7	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	1.600	1.750	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	3.50-3.75	3.50-3.75	3.25-3.50	3.25-3.50	3.25-3.50	3.00-3.25	3.00-3.25
	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	4.35-4.85	4.25-4.75	4.25-4.75	4.05-4.55	3.85-4.35	3.65-4.15	3.65-4.15	3.55-4.05
		End of term (%)	4.21	4.23	4.15	4.17	4.32	4.47	4.60	4.50	4.50	4.30	4.10	3.90	3.90	3.80
Euro zone	Real GDP	Annualized QoQ (%)	—	- 0.0	1.3	0.8	0.0	1.8	0.9	2.2	1.5	1.0	0.8	0.4	0.5	—
		YoY %	1.0	1.2				0.9				1.3				0.8
	Deposit facility rate	End of term (%)	2.50	2.00	2.00	2.00	2.00	2.25	2.50	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 28, 2026 (previous revision August 21, 2026).
It does not reflect our latest forecast for the second preliminary estimate of Apr-Jun 2026 GDP (real GDP growth, annualized: +1.8%).
3) Uncollateralized O/N rate is BoJ's target range. Japan CPI reflects the assumed reduction in the consumption tax rate on food to 1% from the current 8% from April 2027 through March 2029.
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

The analyst(s) mentioned on the cover of this report hereby certify(ies) (or, where multiple analysts are responsible, individually certify with respect to each security that the analyst covers in this report) that the views expressed in this report accurately reflect their personal views about the subject company(ies) and its (their) securities, and also certify(ies) that they have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing any specific recommendation(s) or view(s) in this report.

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