

THE WEEK AHEAD, 23 JANUARY 2026

The Bank of Japan will continue hiking

We think the **Bank of Japan** (BoJ) will continue raising its policy uncollateralized overnight rate in 2026 to progressively wind down its ultra loose monetary policy. The purpose for the policy rate normalization, unlike what the market generally perceives, is not to restrain domestic demand, but to diffuse the selling pressures on the Japanese Yen (JPY) and long-dated Japanese Government Bonds (JGBs), in our view.

Japan's headline consumer price index (CPI) inflation has overshoot the BoJ's inflation target of 2% for over three years, prompting the market to view that the Bank of Japan is "behind the curve." Data shows that the correlation between Japan's output gap and trend inflation has completely dislocated since 2020, casting doubt that inflation has been predominantly demand-side driven. The correlation between USDJPY and trend inflation, however, has stayed intact before and after the Covid-19

pandemic. This suggests that the sharp weakening of the JPY against the U.S. dollar (USD) in 2022, driven by the widening of the USD-JPY interest rate differentials, should have been a more dominant driver of Japan's price pressures.

We think Japan's inflation is transcending from predominantly cost-push driven to demand-pull driven, and the Bank of Japan has been very cautious in the pace of policy rate normalization not to disrupt the process. Wage hikes, fueled by high cost-push inflation and the structural deficiency in labor supply, have the chance to generate a virtuous wage-price spiral to achieve the BoJ's 2% inflation target. But market forces are pressuring the JPY and pushing long-dated JGB yields higher. To avoid fueling another round of imported inflation and escalating long-dated financing costs, the BoJ will need to act. We forecast the BoJ to deliver **two 25 basis-point (bp) hikes** to raise the policy rate to 1.25% by end-2026. The risk of the Ministry of Finance (MoF) intervening in the foreign exchange market has also increased as USDJPY drifts up toward its previous high at around 162.

PUBLICATIONS

→ Trump's Greenland tariffs: A step too far?

President Trump's Greenland-linked tariffs could risk a rapid escalation into a global trade conflict, and financial markets will be a key signal of whether the confrontation fizzles quickly or spirals into a destabilising economic shock

→ Dividends — your second income

The world is undergoing a profound and unprecedented transformation. While populations in industrialised countries have become wealthier and enjoy longer life expectancies, intelligent algorithms and robotics are increasingly permeating everyday life and the workplace. Against this backdrop, it is prudent to consider developing an additional source of income...

→ House View Q1 2026

Our view of global markets.
Bending not breaking.

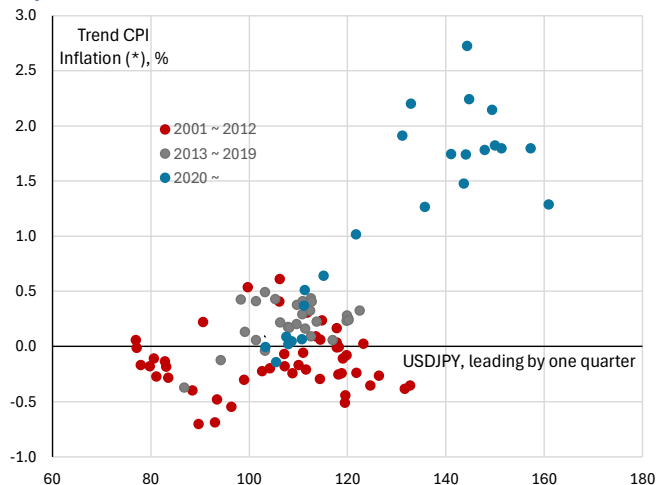


Christiaan Tuntono
Senior Economist,
Asia Pacific

Prime Minister Sanae Takaichi's expansionary fiscal policy has further intensified market pressures, worsening the challenges faced by the BoJ. The launch of the Fiscal Year (FY) 2025 supplementary budget and the draft FY2026 budget reportedly approved by the Takaichi cabinet have triggered selloff in long-dated JGBs, pushing up long-duration yields. The BoJ would be pressured to hike to keep the JGB term premium in check. But while Japanese bonds and currency would remain pressured, Japanese equities are likely to be bolstered by the anticipation of increased government spending.

On 17 January, U.S. President Donald Trump announced a 10 percentage point (pp) tariff increase, effective 1 February, on imports from eight European countries – Germany, the United Kingdom (U.K.), France, the Netherlands, Sweden, Denmark, Finland and Norway – seen as opposing his plans to acquire Greenland. Whether President Trump went a stop too far → [read our comment here](#).

Japan's Trend CPI Inflation vs USDJPY



Source: Bloomberg, Nomura, AllianzGI Global Economics & Strategy, as of January 2026. Past performance does not predict future returns.

UPCOMING POLITICAL EVENTS 2026

27–28 January	FED	Central Bank Meeting
5 February	EZB	Central Bank Meeting
5 February	BoE	Central Bank Meeting
16–17 February	EZ	Ecofin

The week ahead

Next week will mainly feature the **U.S.'s** Federal Open Market Committee's (**FOMC's**) decision, durable goods orders and employment data, along with **Europe's** economic sentiment indicators and fourth-quarter gross domestic production (GDP) data and **Japan's** employment and retail sales data.

In the **U.S.**, the release of the November durable goods orders on Monday shall reflect the latest momentum in manufacturing activities. We will also see the release of the U.S.'s January consumer confidence index on Tuesday, and the U.S.'s latest initial and continued jobless claims on Thursday. The market will focus on the FOMC's decision on Wednesday but expect no change in the Fed Funds Target Rate at this meeting.

In the **euro area**, Friday will release the preliminary estimates for fourth-quarter GDP growth data. We shall also see the release of January business climate, economic sentiment and consumer confidence indices. Friday will also feature **Japan's** jobs/application ratio and unemployment rate, along with the retail sales growth data for December.

Wish you all continue making gains this week,
Christiaan Tuntono.

Calendar Week 05

Monday			Consensus	Previous
GE	Ifo Business Climate New	Jan	--	87.6
GE	Ifo Curr Conditions New	Jan	--	85.6
GE	Ifo Expectations New	Jan	--	89.7
US	Durable Goods	Nov	--	-2.2%
US	Durables Ex-Transport	Nov	--	0.1%
Tuesday				
US	CaseShiller 20 YY NSA	Nov	--	1.3%
US	Consumer Confidence	Jan	--	89.1
Wednesday				
US	Fed Funds Tgt Rate	28 Jan	--	3.5-3.75
US	Fed Int On Excess Reserves	28 Jan	--	3.65%
Thursday				
US	International Trade \$	Nov	--	-29.4B
US	Unit Labor Costs Revised	Q3	--	-1.9%
US	Productivity Revised	Q3	--	4.9%
US	Initial Jobless Clm	19 Jan, w/e	--	--
US	Cont Jobless Clm	12 Jan, w/e	--	--
Friday				
JN	CPI, Overall Tokyo	Jan	--	2.0%
JN	Jobs/Applicants Ratio	Dec	--	1.18
JN	Unemployment Rate	Dec	--	2.6%
JN	Retail Sales YY	Dec	--	1.0%
JN	Large Scale Retail Sales YY	Dec	--	5%
JN	Housing Starts YY	Dec	--	-8.5%
GE	Import Prices YY	Dec	--	-1.9%
JN	CPI Tokyo Ex fresh food YY	Jan	--	2.3%
GE	Unemployment Chg SA	Jan	--	3k
GE	Unemployment Rate SA	Jan	--	6.3%
GE	GDP Flash QQ SA	Q4	--	0.0%
GE	GDP Flash YY NSA	Q4	--	0.3%
GE	GDP Flash YY SA	Q4	--	0.3%
EC	GDP Flash Prelim YY	Q4	--	1.4%
EC	GDP Flash Prelim QQ	Q4	--	0.3%
EC	Unemployment Rate	Dec	--	6.3%
GE	CPI Prelim YY	Jan	--	1.8%
GE	HICP Prelim YY	Jan	--	2.0%
US	PPI Machine Manuf'ing	Dec	--	193.4
US	PPI Final Demand YY	Dec	--	3.0%
US	PPI exFood/Energy YY	Dec	--	3.0%
US	Chicago PMI	Jan	--	43.5
EC	Business Climate	Jan	--	-0.56
EC	Economic Sentiment	Jan	--	96.7
EC	Industrial Sentiment	Jan	--	-9.0
EC	Services Sentiment	Jan	--	5.6
EC	Consumer Confid. Final	Jan	--	--

The calendar data for the current week comes directly from LSEG Datastream. They are published in the week in which "The Week Ahead" appears. These are economic data that come from official sources. Where available, the previous figure is collected together with the consensus estimate. The consensus estimate is collected by LSEG Datastream through a survey of analysts and economists. It is the average of all estimates submitted.

If not mentioned otherwise data and information sources are from LSEG Datastream.

Diversification does not guarantee a profit or protect against losses.

The statements contained herein may include statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. We assume no obligation to update any forward-looking statement.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is for Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations and is for information purpose only. This document does not constitute a public offer by virtue of Act Number 26.831 of the Argentine Republic and General Resolution No. 622/2013 of the NSC. This communication's sole purpose is to inform and does not under any circumstance constitute promotion or publicity of Allianz Global Investors products and/or services in Colombia or to Colombian residents pursuant to part 4 of Decree 2555 of 2010. This communication does not in any way aim to directly or indirectly initiate the purchase of a product or the provision of a service offered by Allianz Global Investors. Via reception of this document, each resident in Colombia acknowledges and accepts to have contacted Allianz Global Investors via their own initiative and that the communication under no circumstances does not arise from any promotional or marketing activities carried out by Allianz Global Investors. Colombian residents accept that accessing any type of social network page of Allianz Global Investors is done under their own responsibility and initiative and are aware that they may access specific information on the products and services of Allianz Global Investors. This communication is strictly private and confidential and may not be reproduced, except for the case of explicit permission by Allianz Global Investors. This communication does not constitute a public offer of securities in Colombia pursuant to the public offer regulation set forth in Decree 2555 of 2010. This communication and the information provided herein should not be considered a solicitation or an offer by Allianz Global Investors or its affiliates to provide any financial products in Brazil, Panama, Peru, and Uruguay. In Australia, this material is presented by Allianz Global Investors Asia Pacific Limited ("AllianzGI AP") and is intended for the use of investment consultants and other institutional /professional investors only, and is not directed to the public or individual retail investors. AllianzGI AP is not licensed to provide financial services to retail clients in Australia. AllianzGI AP is exempt from the requirement to hold an Australian Foreign Financial Service License under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order (CO 03/1103) with respect to the provision of financial services to wholesale clients only. AllianzGI AP is licensed and regulated by Hong Kong Securities and Futures Commission under Hong Kong laws, which differ from Australian laws.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors (Schweiz) AG; Allianz Global Investors UK Limited, authorized and regulated by the Financial Conduct Authority; in HK, by Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; in Singapore, by Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; in Japan, by Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424], Member of Japan Investment Advisers Association, the Investment Trust Association, Japan and Type II Financial Instruments Firms Association; in Taiwan, by Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan; and in Indonesia, by PT. Allianz Global Investors Asset Management Indonesia licensed by Indonesia Financial Services Authority (OJK).