

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 overshot 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.



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PUBLICATIONS

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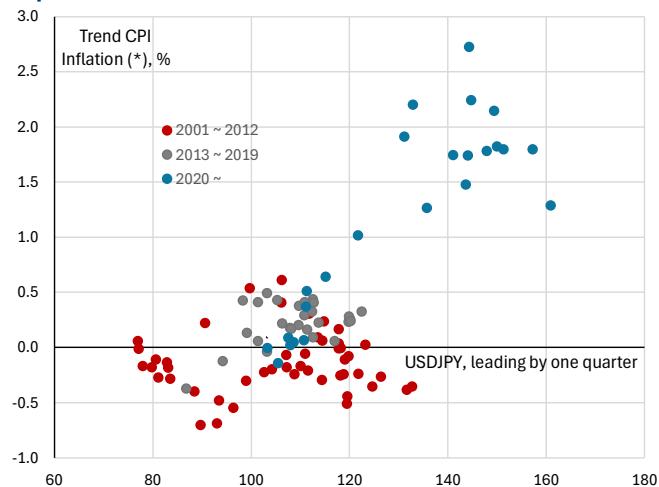
Our view of global markets.
Bending not breaking.

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 step 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'ng	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.

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