

WEEKLY ANALYSIS

IS THE BOJ PIVOT ENOUGH TO BOOST THE YEN?

Likely economic slowdown in Q2 and Q3. Consumer confidence subdued. Return of inflation. BoJ pivot anticipated. Rate market tensions. Easing pressure on the yen. Nikkei consolidation.

Key Points

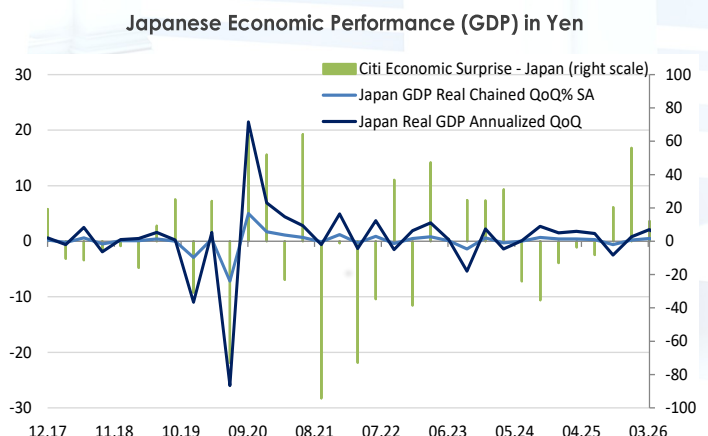


- Strengthening economic momentum in Q1
- An uncertain Q2 caught between energy shock and wage surge
- Mixed indicators at the heart of Q2 and Q3 tensions
- Household confidence dented by inflation
- Return of inflationary pressures
- The BoJ up against the wall of 160 JPY/USD
- The yield curve under pressure from forced monetary tightening
- A 0.25% hike will not be enough to boost the yen
- The BoJ's monetary pivot will weigh on the Nikkei

Strengthening economic momentum in Q1

The Japanese economy entered 2026 under the banner of a major structural transition. While the Q4-to-Q1 handover allowed the positive GDP trajectory to be consolidated, the driving forces behind Japanese growth underwent an unprecedented rotation, shaped by the combined effect of the Shunto wage negotiations and a marked slowdown in private productive investment. Preliminary data released in May 2026 show real GDP growth of +0.5% (+0.8% in nominal terms) and +2.1% at an annualised rate. This result follows a strongly positive revision of Q4 2025 to +0.8%, but it brings new macroeconomic imbalances to light. This acceleration, that is marginally below the revised analyst consensus of +1.0%, reflects a shift in domestic dynamics. First, household consumption appears to be holding firm, posting another notable gain of +0.3%. This increase offers grounds for cautious optimism regarding the consolidation of the modestly positive trend seen over recent quarters, following two years of demand stagnation. The trend is being driven by the spring wage increases, which have stimulated spending on durable goods and automobiles. The positive psychological impact of these pay rises has given households renewed breathing room, temporarily overshadowing the burden of elevated

energy costs. Consumer confidence is gradually stabilising, as core inflation eased to +2.4%, allowing real wages to turn positive for the first time in several quarters, thereby reshaping overall purchasing behaviour. Conversely, business investment (Capex) suffered a sharp setback, with capital expenditure falling back to just +0.3%, well below the virtuous trend observed at end-2025 (+1.3%). Capital spending is under pressure from rising borrowing costs and dearer imported capital goods. This decline reflects a pronounced wait-and-see stance. Faced with erratic currency fluctuations and geopolitical uncertainty, manufacturing industries have frozen capacity expansion plans. As for the contribution from foreign trade, it turned positive again over the period, thanks to a net contribution of 0.3%. In volume terms, exports rose +0.4%, supported by a strategic reorientation of trade flows towards South-East Asia and Europe which helped offset the persistent weakness in the US channel. This sectoral recovery demonstrates the adaptability of exporting conglomerates in the face of protectionism. The public sector played the role of a passive stabiliser, contributing 0.1 percentage point to national output through a +0.2% increase in current expenditure. However, public procurement continues to be hampered by inflation in the construction sector; regional civil engineering projects are still plagued by chronic delays, as bids remain unsuccessful due to labor costs that exceed government-set rates. Furthermore, the continuation of the BoJ's monetary tightening is curtailing national fiscal room for manoeuvre and limiting scope for direct support measures.



Sources: Bloomberg, BBGI Group SA