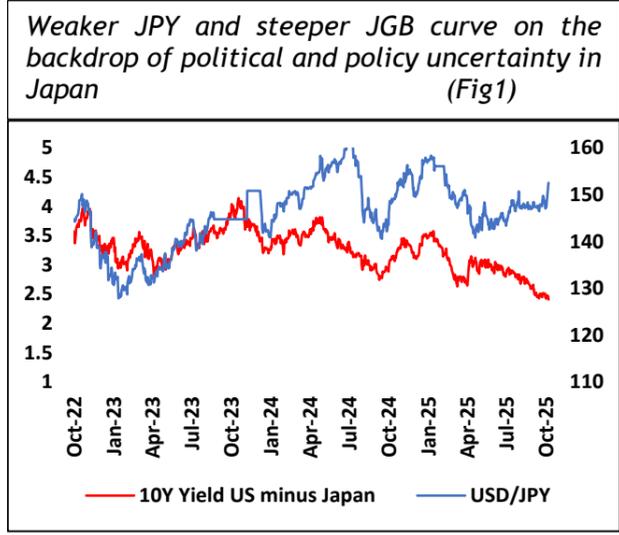


By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank



Risk that could upset the base case (fig2)

Date	Event / Release
Oct'25	US Government Shutdown
20 Oct'25	Japan extraordinary Diet session
29 Oct'25	FOMC Rate Decision
30 Oct'25	BoJ Policy Meeting & Statement

Japan's leadership change triggered a classic "fiscal-first" market move the "Takaichi trade." In the first 24-48 hours after her LDP win, the yen weakened (USD/JPY back above 150), equities surged (Nikkei ~+5%), and the long end of the JGB curve sold off (30-year yield ~+14 bps to unforeseen levels) as investors front-ran a bigger supplementary budget, targeted tax relief, and closer government-BoJ "team play." Rate markets swiftly priced out near-term BoJ tightening roughly ~14 bps for late-October and ~19 bps by year-end before the vote fell to ~6 bps and ~12 bps after lifting carry and steepening JGBs on heavier issuance fears, while cyclical stocks and exporters outperformed on stimulus and a softer yen.

The BoJ is likely to stay on hold through 2025 to support growth, then resume hikes in early 2026 once sustained wage momentum is confirmed. The policy rate is likely to rise toward ~1% by mid-2026. In FX, USD/JPY is expected to stabilize in a 140-150 range much of the Fed's additional easing and the BoJ's eventual tightening is already priced, limiting upside for the yen from policy divergence alone. Near term, speculative net-long yen positioning could unwind and create brief downside pressure on JPY before the medium-term policy path reasserts. For traders, the core message is to respect the 150-handle in the near run but to plan for a glide path toward the mid-140s on a 3-6-month horizon if global yields drift down and the BoJ's tightening bias survives the political transition. While the trade's main event risks are Japan's extraordinary Diet session (15 Oct 2025) and the FOMC/BoJ policy meetings (29-30 Oct 2025).

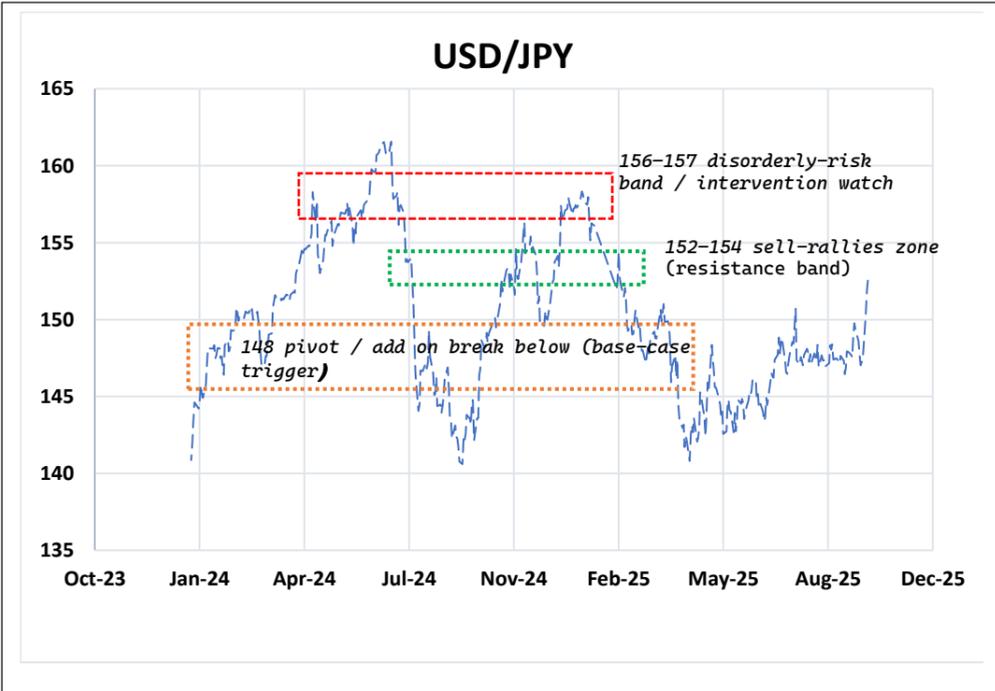
What Just Changed: Policy Presumptions and Market Repricing

The yen is on the back foot, with USD/JPY currently pushing above 152 mark, as markets digested Sanae Takaichi's LDP leadership win and rising uncertainty around coalition politics. It remains unclear how the politics will settle or whether the 20th Oct extraordinary Diet session to confirm her premiership could slip and that fog has added to JPY selling alongside expectations of modest fiscal expansion and slower BoJ normalization. Rates markets have now largely priced out BoJ hikes for 2025, with the next move seen as far out as March 2026; while softer wage data and guidance from Takaichi's advisers against near-term tightening further undermine the case for a near-term JPY rebound.

BoJ Rate Hike Probability: "Delayed, Not Derailed"

Into the **Oct 29-30 meeting** the market is effectively **pricing patience**, which fits the political optics of a fresh cabinet and impending fiscal package. But the BoJ's framework remains **data-dependent, wages, services-inflation breadth**, and the outlook report trajectory will guide timing. A short delay does not preclude a move later in Q4 or early next year, nor does it imply a revival of balance-sheet expansion beyond what's needed for orderly market functioning. The BoJ-induced USD/JPY pops can be sharp but reversible if guidance turns firmer or the data lean hawkish. Treat the "Takaichi trade" as tactical credible while hike odds are compressed, vulnerable once normalization talk returns.

Scenario	JPY Bias	USD/JPY Range	Key Drivers (next 2-8 weeks)	Trade Stance	Levels
Base case	Modestly stronger	148-152 → 144-148 (6M)	Fed easing → tighter UST-JGB spreads; BoJ normalization resumes	Sell rallies into 152-154; add on break <148	148 pivots; 150 psych line
JPY-bullish	Stronger yen	146-150 → 142-146 (6M)	BoJ signals earlier hike; USTs rally on softer US data	Buy JPY on rallies against dollar; add above JPY momentum levels (USD/JPY <146, <144)	146 confirmation; 144 momentum
JPY-bearish	Weaker yen	150-154 → 153-156	Bigger fiscal package; delays hikes; USTs stay sticky/higher	Sell JPY on dips (i.e., increase JPY shorts);	153-155 MoF sensitivity; >156-157 disorderly risk



Easing vs. Normalizing: The Medium-Term USD/JPY Map

Beyond knee-jerk political reactions, USD/JPY remains a spread-sensitive currency pair anchored in the relative policy paths of the Fed and the BoJ. As US disinflation resumes and the Fed continues an easing cycle into year-end, front-end US yields should decline and the UST-JGB spread should compress, all else equal. On that path, USD/JPY typically drifts lower as carry narrows and the dollar loses some of its rate advantage. Meanwhile, even a slowly normalizing BoJ implies a mild upward trend in short-tenor JPY rates and a gradual step-up in the term premium at the long end. Put together, the medium-term “gravity” for USD/JPY points toward the mid-140s over a 3-6-month horizon, provided global risk remains orderly and Japan’s domestic inflation dynamics no longer justify delaying hikes indefinitely.

Risk Matrix: What could upset the base Case?

Two tactical risks frame the next few weeks. On the *JPY-weaker* side, a *larger-than-expected* supplementary budget and explicit “team-play” tone could extend yen underperformance, especially if UST yields stay sticky or rise; that said, *MoF rhetoric* becomes more forceful if moves turn one-way and disorderly. On the *JPY-stronger* side, firmer wages or a hawkish *Outlook Report* can pull hike expectations forward and *flip USD/JPY* lower in a hurry. Practically, **150** is the near-term pivot; 148 is a momentum tell on the downside, while **153-155** is a sensitivity zone where policymaker tone tends to sharpen. The medium-term anchor remains spreads as the Fed eases and UST-JGB differentials compress, the balance of probabilities still points to *USD/JPY drifting toward the mid-140s* over 3-6 months barring a fresh global or energy shock.

What to Watch: Dates, Data, and Headlines

The late-October BoJ meeting and the accompanying outlook report are the immediate focal points for rate-path information and inflation-forecast tweaks. The size, composition, and funding mix of the supplementary budget and any concrete detail on tax relief will set the tone for fiscal-impulse magnitude and the issuance path that matters for long-end JGBs. Cabinet appointments and their policy lean will shape how persistent “team play” with the BoJ might be, while Diet arithmetic will determine the speed of implementation.

On the currency side, keep an ear trained on MoF rhetoric; if USD/JPY accelerates upward in thin liquidity or gaps on headlines, the bar for stronger communication falls. Globally, monitor the US government shutdown and US data for confirmation of disinflation and slowing nominal growth; a benign US backdrop softens the dollar’s carry advantage and assists the medium-term yen recovery thesis.

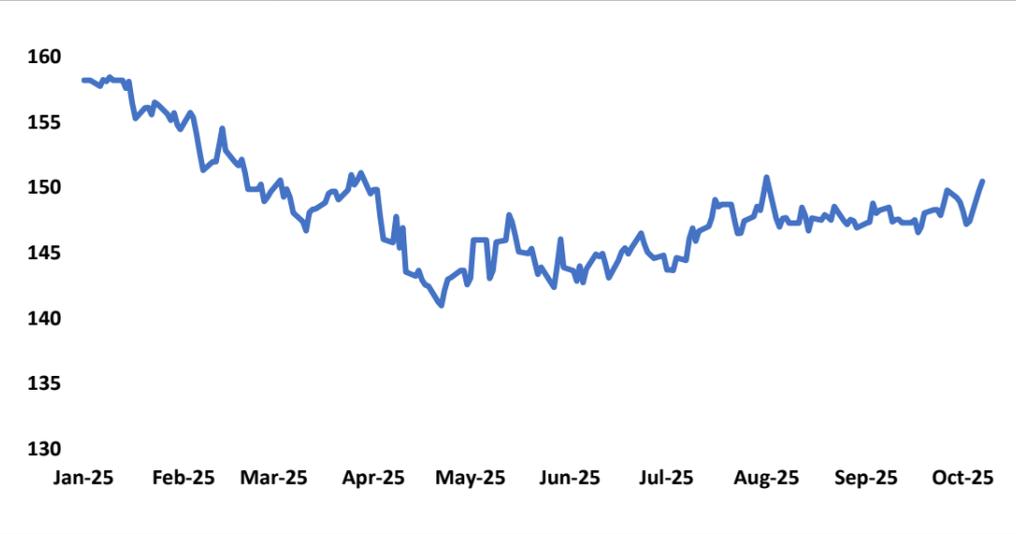
Meeting Date	Implied Rate	Basis Points
30 Oct 2025	0.54%	6.52 bp
19 Dec 2025	0.61 %	12.5 bp
23 Jan 2026	0.67 %	19 bp
30 Oct 2026	0.91 %	43 bp
18 Dec 2026	1.16%	68 bp

Next meeting probabilities: **No change 75 %**, **hike 25 %**

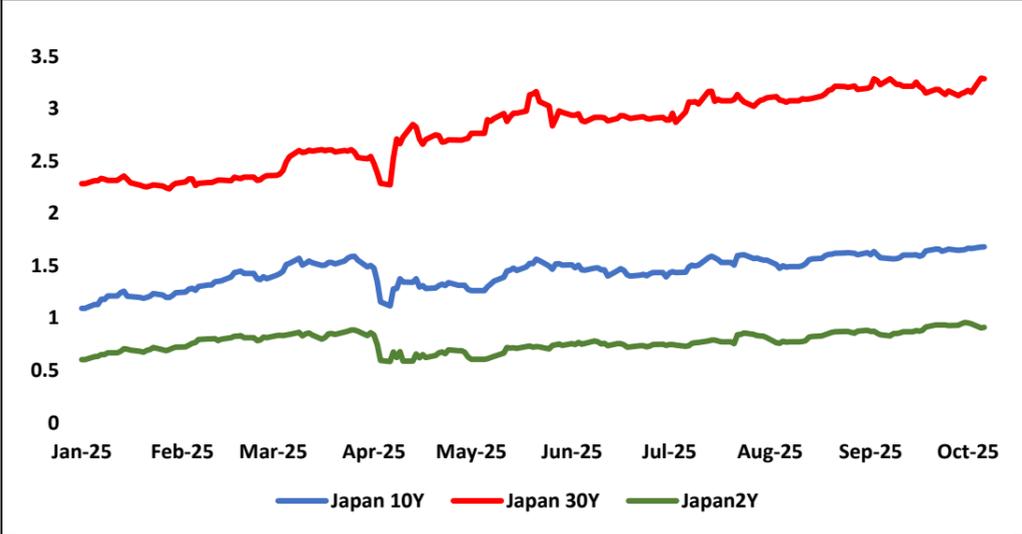
USD/JPY broke the 150.00 mark for the first time since Feb’25 after Takaichi victory

Concerns about the fiscal outlook in Japan sent the yen to a more than seven months low against the dollar

USD/JPY broke the 150.00 mark for the first time since Aug’25 after Takaichi victory (Fig 4)

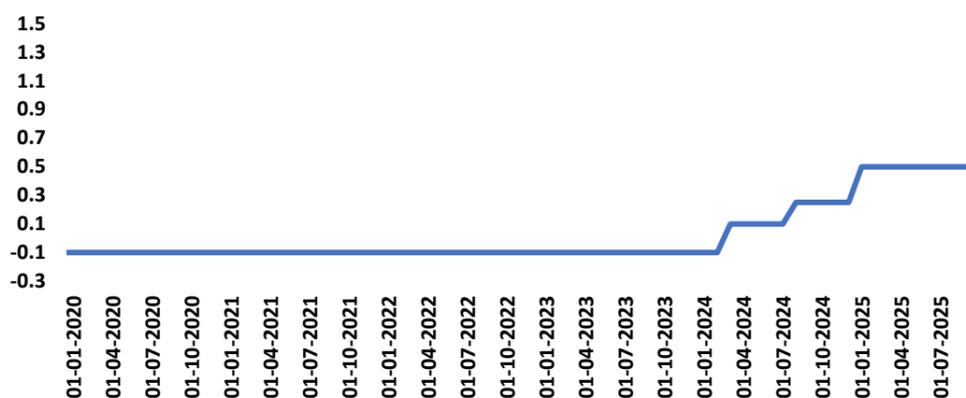


Steeper JGB curve after Takaichi victory while 30Y reached all time high (Fig 5)

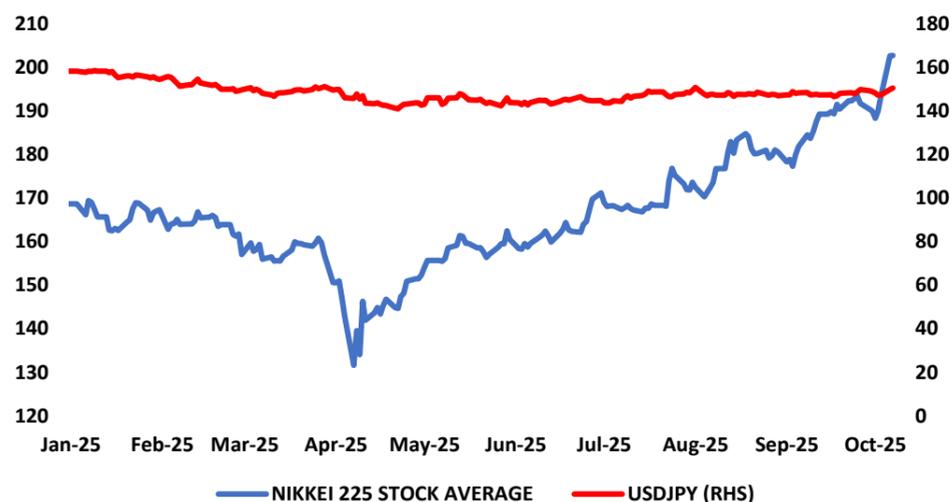


Source: Cogencies & UBI Research

Markets expect the BoJ to remain put during this Oct'25 BoJ policy meet and a total of 12bps rate hike by end of this year (Fig 6)



USD/JPY trades higher ~2% after Sanae Takaichi won the LDP leadership contest while Nikkei has gained ~6% (Fig 7)



Source: Refinitiv & UBI Research

Banking & Economic Research Team

Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank

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