

The Anchor Slips

The BOJ's September 2026 hike and the reshaping of global rates and capital flows

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Data as of September 18, 2026



1.25%

BOJ policy rate, the highest since 1995

Four takeaways



A dovish hike

+25bp to 1.25% on a 7-2 vote, yet the yen fell to the 158 area and the Nikkei rose about 1.5%.



Carry: chronic, not acute

The policy gap is still 2.6pp; tail risk now comes from intervention and a possible Fed pivot.



Treasuries lose a buyer

After FX hedging, Treasuries yield less than JGBs, adding Fed-independent pressure on the U.S. long end.



Japan's tug-of-war

The 3% debt-cost assumption has been reached, debt is ~248% of GDP, and dissent meets U.S. pressure.



What the BOJ did on September 18

POLICY RATE

1.25%

+25bp • highest since 1995

- Vote: 7-2
- Three months after June's hike, vs. six before
- Sixth hike since the March 2024 exit from negative rates

Governor Ueda's message



Data-dependent

The next step depends on prices; nothing is ruled out, but big or back-to-back hikes need clearly higher inflation risks.



Pre-emptive

Underlying inflation is not yet above 2%; the bank wants to act before it overshoots.



Two dissents

Asada and Sato, reflationists appointed by PM Takaichi, voted to hold.

August core CPI 1.7% (July 1.8%) • Reuters poll: 1.5% by March 2027, 1.75% by Q2 2027 • Next meeting Oct 29-30



A dovish hike: markets defied the textbook

USD/JPY

158 → 156

Yen hit a two-week low, then rebounded by more than 1 yen after a rate check

2-year JGB

1.82%

Front-end yields fell as expectations for the pace of hikes cooled

10-year JGB

2.99%

Slipped along with global yields

Nikkei 225

+1.5%

Near 65,000, lifted by the weak yen and AI/chip stocks

Why: the hike was fully priced—all 52 economists in a Bloomberg survey expected it—and two dissents lowered the expected pace of future hikes. Bitcoin rose 5.8%: no sign of carry unwinding.



Everyone is tightening at once

ECB

Sep 10

+25bp

Deposit rate 2.50%

Fed

Sep 16

+25bp

3.75%–4.00%

BoE

Sep 17

Hold, 6–3

3.75%

BOJ

Sep 18

+25bp, 7–2

1.25%

Long-end yields at multi-decade highs

Common driver: an energy shock, with WTI near \$101

Bund 10Y

3.38%

highest since 2011

Gilt 30Y

5.89%

highest since 1998

JGB 10Y

3.02%

first above 3% since 1996

JGB 30Y

4.19%

record high

UST 10Y

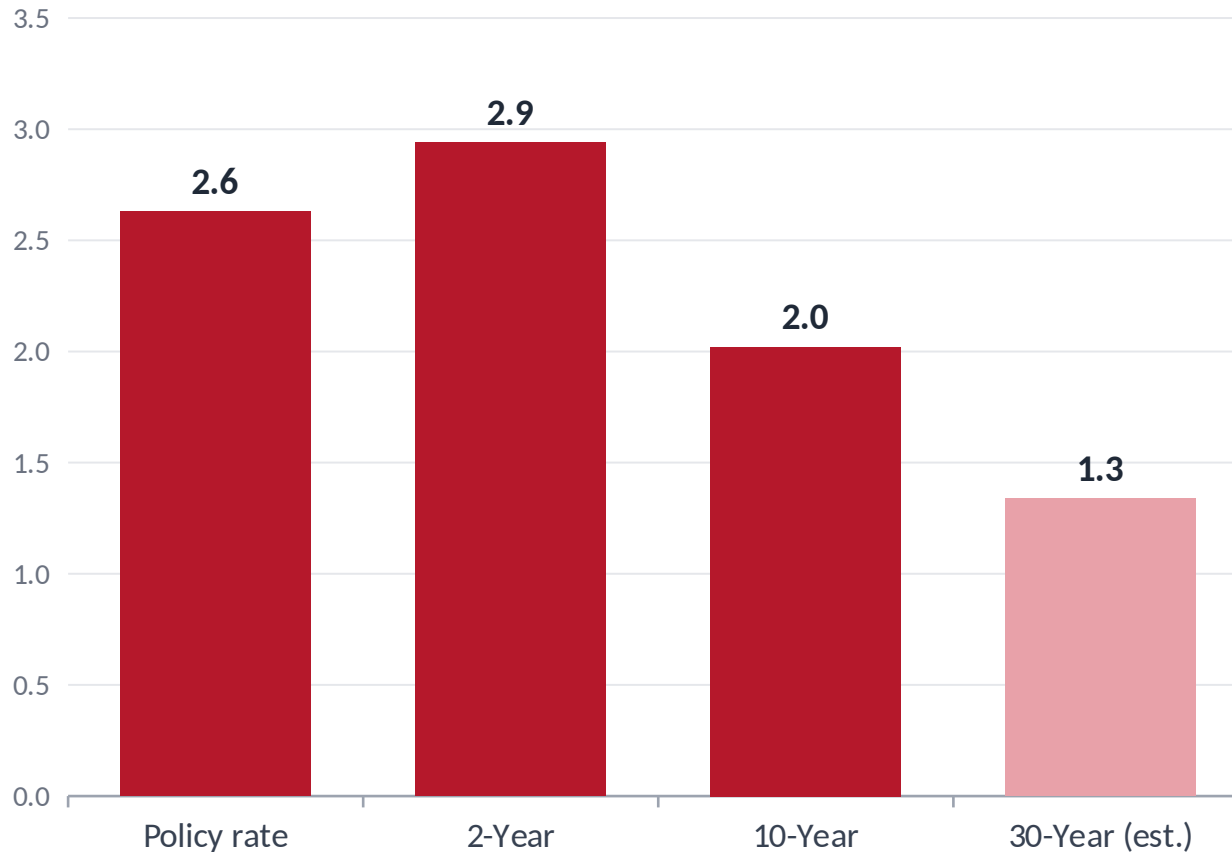
5.01%

near a 2007 high



Carry trade: chronic shrinkage, not a stampede

U.S.-Japan spread (percentage points)



Sources: U.S. Treasury; Trading Economics; Atlantic Council (BIS); author's calculations. 30Y JGB estimated at ~4%.

Why no August-2024 repeat



Fully priced, dovish delivery

Two dissents cut expectations for the pace of hikes



Unwinding started early

Sep 3: yen +2% in a day, touching 155.28



Money can stay home

JGB yields at multi-decade highs

Size of the trade: \$261bn in direct bank borrowing, ~\$1tn including derivatives (BIS)



The tail risk now comes from officials



An official floor

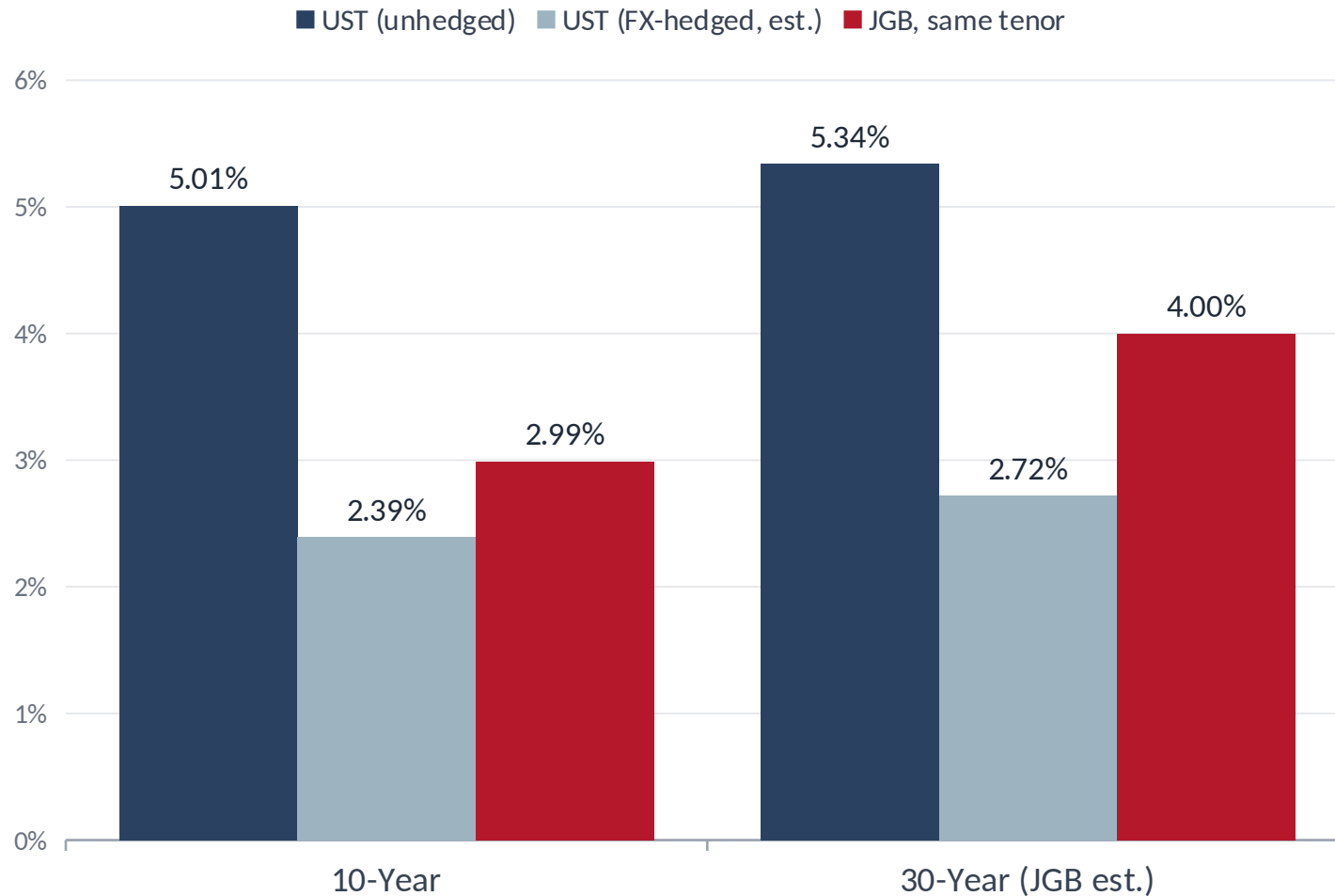
Intervention risk around 158–160 makes yen shorts asymmetric: limited carry income, large jump risk.

The combination to fear

A U.S. growth scare forces Fed cuts while the BOJ keeps hiking: an August-2024-style squeeze.



After hedging, Treasuries yield less than JGBs



\$1.2tn

Japan's Treasury holdings, the largest foreign position (12.8%)

-4.1%

Yen-terms FX loss as USD/JPY fell from 163.73 to ~157, about two years of the 10Y spread



Early signs of a fading bid



Life insurers

Higher hedge ratios; foreign assets have started to shrink (BIS, March 2026)



Foreign holdings

Treasuries held abroad fell to \$9.25tn in July, a nine-month low



FIMA repo

Japan's MOF will borrow dollars against Treasuries rather than sell them



Joint intervention

Partly aimed at keeping a yen/JGB rout from spilling into Treasuries

What it means for the U.S. curve

Front end

Set by the Fed: 2s10s narrowed from 33 to 25bp in the hike week

Long end

Gains a Fed-independent upward force as the JGB anchor flips



Spillovers: equities, Asian FX and gold



Long-duration assets

A 10-year Treasury near 5% raises the discount-rate ceiling for growth and AI valuations.



Japanese equities

The Nikkei near 65,000 rides the weak yen; exporters are most exposed to a yen rally.



Asian currencies

Yen weakness risks competitive devaluation; Korea has intervened to buy won.



Gold

Around \$4,350: a hedge as sovereign bonds' safe-haven role erodes.



Japan's fiscal math and policy tug-of-war

3%

Long-term rate assumed for FY2026 debt service, now reached

248%

Government debt to GDP

4.19%

Record 30-year JGB yield (Sep 1)



Domestic pull

Two board members appointed by PM Takaichi dissented against the hike



External push

Treasury Secretary Bessent urged decisive steps at the G20

Every BOJ meeting is now a potential global risk event



Three scenarios

BASE CASE

Orderly repricing

Trigger

BOJ hikes about once a quarter (to ~1.75% by mid-2027); the Fed hikes once more

Market implications

Term premium drifts up; the yen ranges under official defense; long-duration valuations stay capped

RISK

Faster Japanese tightening

Trigger

A renewed yen slide or inflation surprise forces back-to-back hikes (Nomura's extreme case: three straight meetings)

Market implications

Sharp yen rally; faster carry unwind; pressure on exporters and the U.S. long end

TAIL

Two-sided squeeze

Trigger

A U.S. growth scare pushes the Fed to cut while the BOJ keeps hiking

Market implications

August-2024-style stampede; risk assets slump; the yen surges; volatility spikes



What to watch

Key dates

Oct 16

U.S. TIC data (August): Japan's holdings

Oct 27-28

FOMC: ~55% hike probability priced

Oct 29-30

BOJ Outlook Report: pace of hikes

Nov 5

Bank of England: three members favor a hike

Dec 8-9

FOMC with dots: ~90% hike odds by Dec 9

Price signals



USD/JPY 158-160

The official intervention zone



30Y JGB above 4%?

Gauge of Japanese repatriation



30Y UST auctions near 5.3%

Indirect-bidder share as a proxy for foreign demand

Sources and disclaimer

- Bank of Japan; Federal Reserve; ECB; Bank of England policy announcements (September 2026)
- Bloomberg; CNBC; Reuters; Nikkei Asia; Japan Times; Trading Economics (Aug–Sep 2026)
- Council on Foreign Relations; Atlantic Council; BIS data via The Market Cap; Congressional Research Service
- U.S. Treasury yield curve and TIC data; Japan MOF intervention data

For research and discussion only; not investment advice. Hedged-yield figures are rough estimates; market data may be revised.