Daily Dose of Macro & Markets 19th August 2025: “Japan’s Nikkei Breakout: Should It Be Chased?”

The ‘Daily Dose of Macro & Markets’ is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday and Thursday morning (early London time).

Governor Ueda Comments post 30th/31st July Monetary Policy Meeting

“inflation now is led by supply factors, not demand”; “hiking rates when prices supply led can raise questions”; “don’t think risk of falling behind the curve is high”; “underlying inflation rising but yet to reach 2%”;

Sources: Governor Ueda, 31st July 2025, BOJ Press Conference

Japan’s Nikkei Breakout: Should It Be Chased?

Back in May, the market was heavily focussed on the back up in Japanese 30 and 40 year bond yields. Those yields had accelerated sharply, roughly doubling since the start of 2024 (from around 1.5% to just over 3%). A fiscal crisis in Japan was being discussed by market participants with possible spillover effects into the UK (& potentially even the US) bond market. Since May, though, those yields have traded broadly sideways and stabilised. According to Bloomberg, Japanese 30 year bond yields are currently 3.15%, while 40 year yields are 3.37% (levels first reached in May).

Helped by that stabilisation, the Nikkei has broken out (to the upside) from a 17 month trading range, and is now making new highs (fig 1). That breakout occurred shortly after the latest BoJ monetary policy meeting (30th/31st July). Governor Ueda’s comments certainly had a more dovish tone, as he pushed the idea that ‘inflation is now led by supply factors, not demand’ (amongst other key comments – see quotes above). All of which has added to more dovish expectations in the market (albeit the rates curve had already priced out some of the hikes earlier this year).

Also helping the stock market (in local currency terms), the YEN has recently been weakening again. That happened after the Japanese currency, once again, failed earlier this year (in late April) to break through key resistance at the 141 level against the USD (i.e. on 22nd April 2025). As highlighted in our SHORTView publication (8th July 2025: “SELL YEN (& BUY USD, EUR or CHF?)”), that was a key resistance level both in January 2024 & then again in September that year. Of note, in that respect, ‘technical analysts’ claim that once a level has been support/resistance three times, it becomes confirmed as a key solid support/resistance level (i.e. ‘resistance’ in this instance).

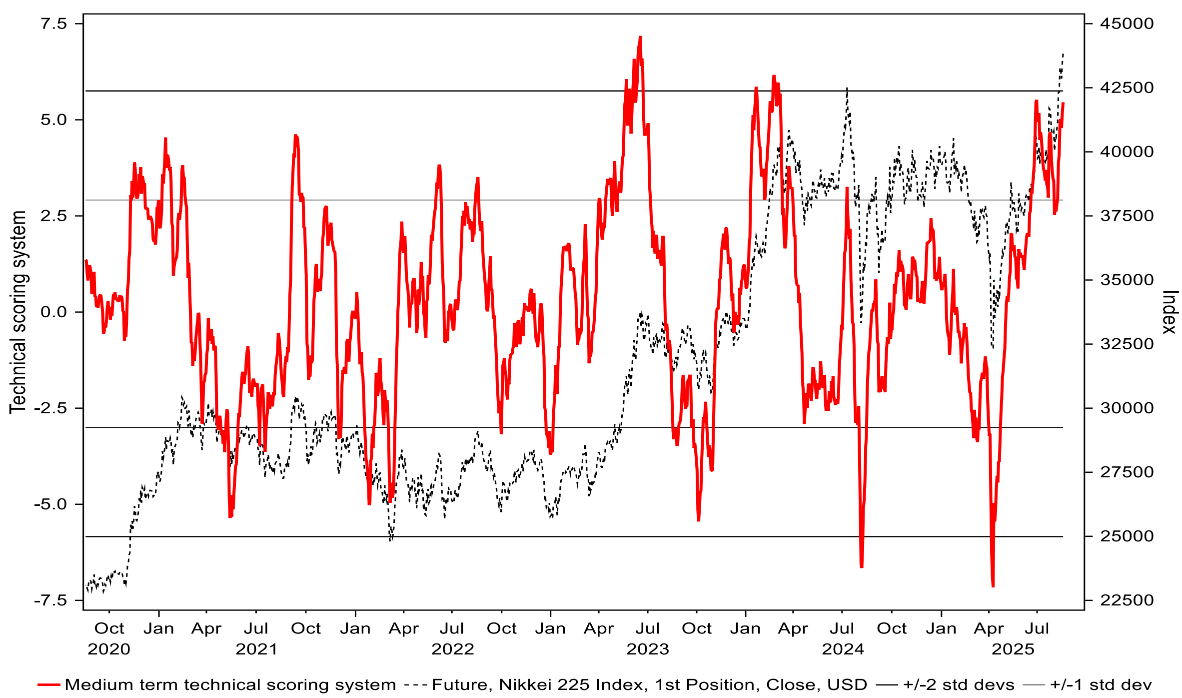
With the fiscal concerns quietened down, therefore, the BoJ more dovish, the currency weakening and some of the macro data improving (e.g. Tokyo house prices +11% Y-o-Y; manufacturing production +3% Y-o-Y in June; & Q2 non-manufacturing Tankan survey close to its highest since the early 1990s), Japan’s market rally and Nikkei breakout should have further to run, albeit the market will first need to work off its overbought set-up (see our medium term technical scoring system for the Nikkei 225, which is back on SELL, fig 2). Equally, it’s also a market to own hedged (especially if our expectations of a continued YEN weakening are correct).

Illustrating the importance of currency weakness to the Nikkei's performance in recent decades the market, if priced in gold, instead of breaking out to record highs (as it has priced in YEN), has made no gains (in aggregate) since the 1970s.

Fig 1: Nikkei 225 candlestick shown with key moving averages

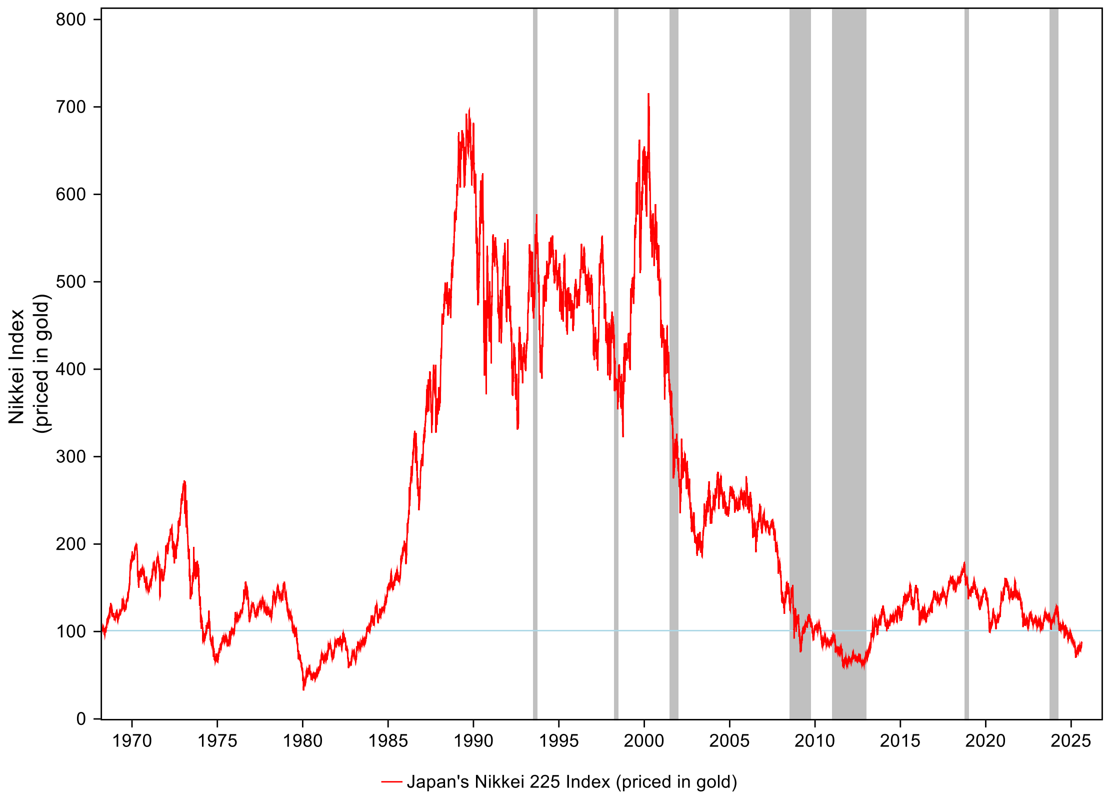
Source: Longview Economics, Macrobond

Fig 2: Medium term technical scoring system (Nikkei 225) vs. Nikkei 225



Source: Longview Economics, Macrobond

Fig 3: Japanese Nikkei 225 index (priced in gold)



Source: Longview Economics, Macrobond