

APAC Quarterly

Japan's inflation problem



Summary

- Japan's inflation picked up further in July, with labour shortages and higher commodity prices likely to keep cost pressures elevated
- Potential rate hikes from Bank of Japan (BoJ) and rising term premia may continue to lift Japanese Government Bond (JGB) yields, increasing portfolio risks
- Gold should remain relevant for local investors both as an inflation hedge and portfolio risk diversifier
- During the first half of 2026, bullion and jewellery buying softened but local gold ETFs saw solid inflows.

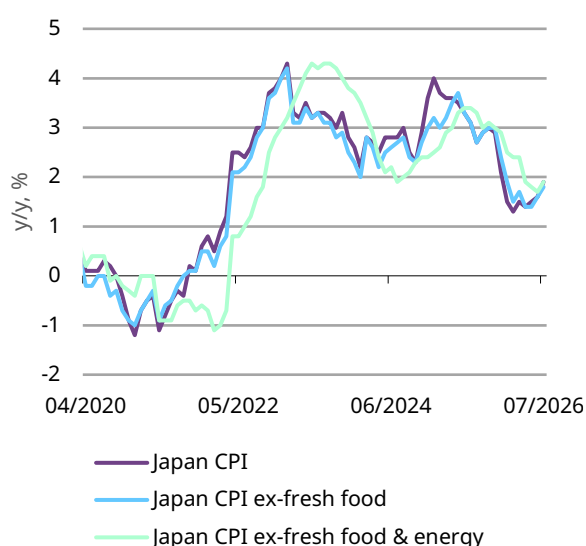
Inflation remains a problem in Japan

Japan's inflation picked up in July, with the headline print rising three months in a row. Meanwhile, the core-core reading (ex-fresh food and energy) also bounced (**Chart 1**).

- For one, **costs of imported goods have been surging**, reaching a record high in July. Japan's high reliance on imported commodities now translates to higher inflationary pressure.¹ And commodities, including energy and metals, may become more expensive due to solid demand globally and supply disruptions, among other factors, as the World Bank predicts²
- Secondly, the intensifying wage-price spiral is keeping Japan's inflation elevated...and this is a structural issue. **Japan's labour market remains structurally tight** (**Chart 2**) as an ageing population continues to shrink the workforce. Furthermore, stricter immigration policies may limit foreign labour supply growth.³ As a result, labour shortages have supported another strong Shunto wage round, with pay increases averaging 5% in 2026, three consecutive years near multi-decade highs.⁴

Chart 1: Inflation ticked up in recent months

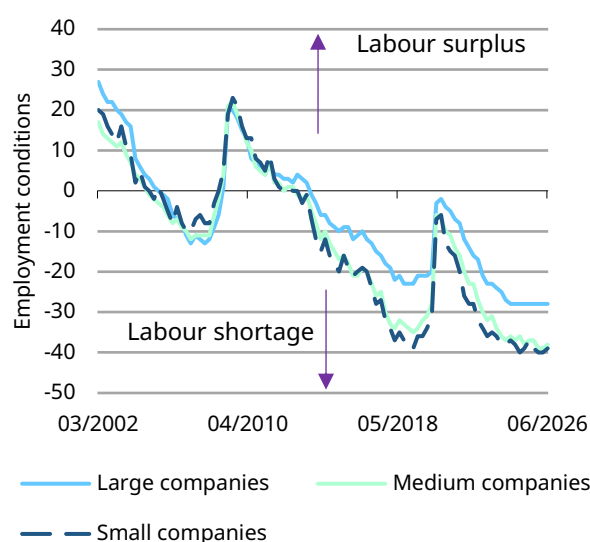
Headline and core Japanese inflation*



*Based on monthly data of Japan CPI, Japan CPI ex-fresh food, Japan CPI ex-fresh food & energy, data as of July 2026.
Source: Bloomberg. World Gold Council

Chart 2: Structural tightness in Japan's labour market

Tankan Labour Conditions Index*



*Based on quarterly data as of Q2 2026.
Source: Bloomberg. World Gold Council

1. For more, see: [What Does Japan Import the Most? Top Imports \(2026\)](#), 19 March 2026.
2. For more, see: [Commodity Markets Outlook, April 2026](#), 30 April 2026.
3. For more, see: [Japan's "Foreigner Policy" Skirts Key Issues: No Orderly Coexistence Without Plan for Immigration | Nippon.com](#), 27 February 2026.
4. For more, see: [Japan's 2026 wage talks result in third year of gains above 5% - The Japan Times](#), 3 July 2026.

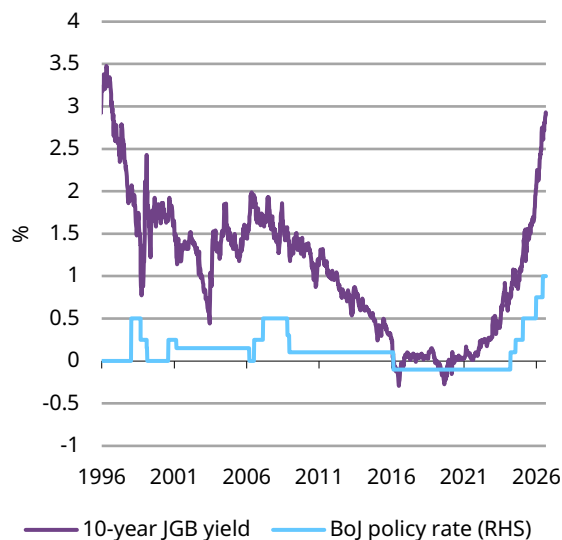


What's next: sticky inflation, rising rates and higher risks from bonds?

- Inflation will remain an issue in Japan amid rising imported commodity prices and higher wages. One of the major drivers behind the BoJ's June rate hike was the upside risk to inflation, which may "...deviate upward to a level above the price stability target of 2%..."⁵
- JGB yields surged to 3% in early September, the highest in 30 years (**Chart 3, p2**). Intensifying investor expectations of further rate hikes from the BoJ amid inflation concerns has been driving yields higher. Meanwhile, the Takaichi administration's expansionary fiscal stance, coupled with rising social security costs and increased defence spending, is keeping Japan's public debt at record highs and exerting upward pressure on bond yields, a trend likely to persist. Rising yields and higher inflation, as we have already analysed, tends to increase the correlation between bonds and equities, raising portfolio risk (**Chart 4**).

Chart 3: JGB yields surged to multi-decade highs

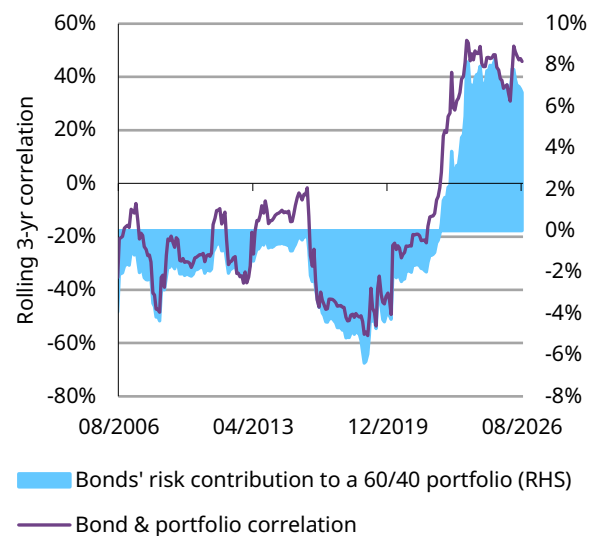
10-year JGB yield and policy rate*



*Weekly averages to 4 September 2026.
Source: Bloomberg. World Gold Council

Chart 4: JGBs not so safe for portfolios right now

Correlation between JGBs and local equities, and JGBs' risk contribution to a 60/40 portfolio*



*Data between January 2006 and August 2026 based on monthly returns of BPI JGB Index and the TOPIX Index. The portfolio consists of 40% JGBs and 60% TOPIX. Risk contribution calculated as the share of risk that bonds contributed (volatility*correlation*weight).
Source: Bloomberg. World Gold Council

Gold's relevance to Japanese investors rising

- **What's next for gold?** Gold rose 7% in yen terms and 4% in USD between January and August.⁶ Changes in investor positioning, interest rate expectations and dollar strength have been key drivers. Going forward, short-term US Treasury yields – largely dependent on expectations of the Fed's future actions – may induce periods of volatility for gold. But mounting concerns over US government debt and the Treasury department's intervention could provide support. Elevated geopolitical risks and growing portfolio diversification needs, reflected in notable global gold ETF inflows in August and continued strength in central bank buying, should keep gold firmly in focus for investors
- **Gold as an inflation hedge:** Over the past 20 years gold has delivered a robust annualised return of 12%, compared with 4% for cash investments, while yen holdings lost 1% per year.⁷ The contrast is even starker in real terms: after adjusting for inflation, cash and yen holdings lost most of their purchasing power, while gold preserved its value and generated attractive real returns (**Chart 5**)
- **Gold to diversify portfolio risks:** As shown above, rising inflation and yields usually weaken the status of bonds as a portfolio risk hedge. Historical records show that gold has enhanced returns and been an effective risk diversifier, due to its low/negative correlation with risk assets. Our analysis, based on a typical Japanese corporate pension portfolio, shows that adding just 5% gold reduces overall portfolio volatility and improves returns (**Chart 6, p3**).

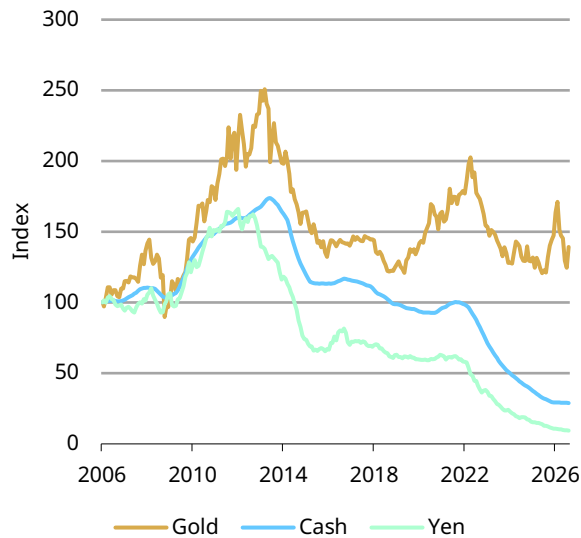
5. For more, see: [News List: 日本銀行 Bank of Japan](#), 24 June 2026.

6. Based on the LBMA Gold Price PM in USD and yen as of 31 August 2026.

7. Based on the monthly LBMA Gold Price PM in yen, cash index constructed by the Japan 3-month TIBOR rate and the yen index between January 2006 and August 2026.

**Chart 5: Gold preserves purchasing power**

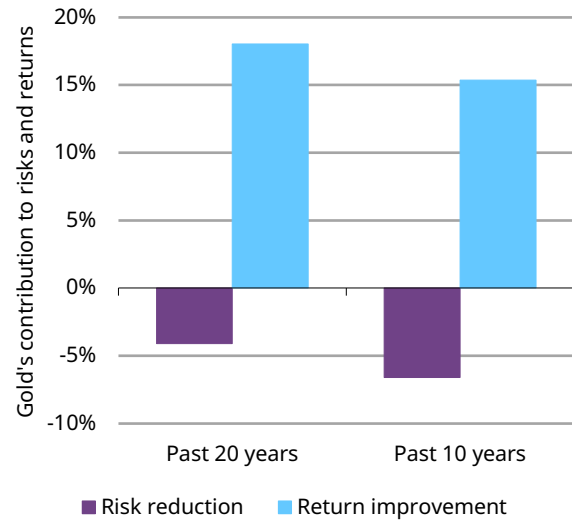
Gold, Japanese cash investment and yen adjusted by CPI*



*January 2006=100. Based on monthly data of the LBMA Gold Price PM in yen, TIBOR 3-month rate, Japanese CPI and JPY/USD. Data to August 2026.
Source: Bloomberg. World Gold Council

Chart 6: Gold reduces portfolio risks and improves returns

A typical Japanese corporate pension portfolio's volatility and returns after adding gold*



*The hypothetical corporate pension portfolio consists of Japanese bonds (18.7%, based on BPI JGB Index); foreign bonds (17.1%, Bloomberg Global Agg Index ex-Japan); Japanese equities (9.5%, TOPIX Index); foreign equities (13.7%, MSCI World Index ex-Japan); alternatives (19.9%, an equally weighted index of TOPIX Real Estate Index, FTSE PE/VC Index, S&P Infrastructure Index & Barclay Equity Long/Short Index); general account (16%, which is a hypothetical index assuming 1.5% fixed annual return); short-term bonds (5.1%, BPI JGB 1-3 yr Index) and gold (LBMA Gold Price PM). Asset allocation weights based on Pension Fund Association's most recent data. All calculations are based on monthly JPY values between January 2006 and August 2026. As the amount of gold increases other assets are proportionately decreased⁴⁵.
Source: Bloomberg. World Gold Council

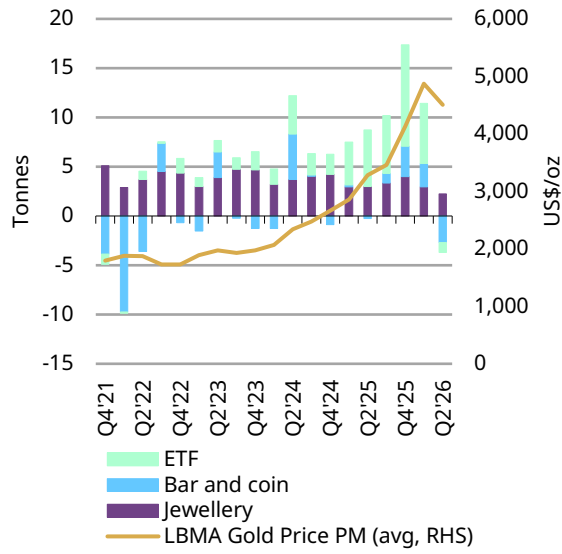
Gold demand and supply trends in Japan

- In Q2, Japanese consumers bought 2.2t gold jewellery, 25% down y/y and 24% lower q/q, as the volatile gold price continued to exert pressure (Chart 7, p4). Meanwhile, net bar and coin investment flipped negative in the quarter, to -2.7t. Local gold ETF holdings were down 1t in the quarter – and remained stable so far in Q3. The weakening gold price momentum, surging local bond yields and strong equity performance all diverted investor attention away from gold. The country's recycled gold supply was down slightly to 7.6t amid a lower gold price (Chart 8, p4)
- During the first half of 2026, Japan witnessed lower gold jewellery consumption (5t, -13% y/y) amid a much higher gold price compared to the same period in 2025. And due mainly to Q2's negative numbers, bar and coin demand in H1 resulted in a mild 0.3t dis-investment. Gold ETFs saw healthy inflows, adding 5t to holdings between January and June, and pushing the total to 71.4t. Rising geopolitical risks and the strong gold price momentum – mainly in Q1 – supported gold ETF buying. Recycled gold supply in H1 totalled 15t, mildly lower y/y.



Chart 7: Investment demand flipped negative in Q2

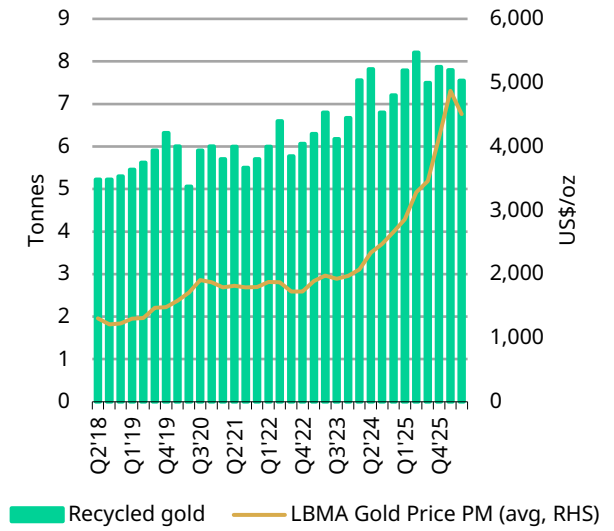
Gold demand by sector in Japan*



* Data to Q2 2026.
Source: ICE Benchmark Administration, Metals Focus, World Gold Council

Chart 8: Recycling pulled back but stayed elevated

Recycled gold supply in Japan by quarter*



*Data to Q2 2026.
Source: ICE Benchmark Administration, Metals Focus, World Gold Council



World Gold Council

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We drive industry progress, shaping policy and setting the standards for a perpetual and sustainable gold market.

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