Honebuto Shock: Japan Courts a Truss-Like Redux

Bill Campbell, Portfolio Manager, Global Sovereign & Emerging Markets | July 2026

The draft of Prime Minister Sanae Takaichi's *Honebuto* economic blueprint, released in late June, dropped the consolidation language that had anchored Japan's fiscal management principles since the first Basic Policy (Honebuto) was release in 2001, and the response was immediate.[1] The 10-year Japanese government bond (JGB) on July 9 spiked to 2.88%, a level unseen since 1996; the 30-year traded above 4%. The yen fell past 162 to the U.S. dollar. Debt and FX markets have started to voice an opinion. Indeed, this might be what a bond market sounds like when clearing its throat before a scream.

Markets christened this reaction the "Honebuto shock," and the consensus interpretation is fiscal dominance. Having committed to more than 370 trillion yen of public-private investment through fiscal 2040, the government is calling for monetary policy "in coordination with" that growth agenda. In the eyes of the financial markets, this demand for the subordination of monetary policy to a political platform only adds fuel to the fire beneath a central bank already under criticism for what critics deem an overly cautious rate-hiking path.

The Honebuto shock is evidence that the bond market has captured the government. The United Kingdom ran this experiment four years ago, and the rhyme is uncomfortable. In September 2022, the short-lived government of then-Prime Minister Liz Truss announced roughly 45 billion pounds of unfunded tax cuts while pointedly sidelining the Office for Budget Responsibility, much akin to the deleting of the consolidation language from the Honebuto draft. The market reactions in the U.K. foreshadowed the Honebuto shock: a selloff led by the ultralong end, with 30-year gilt yields surging more than a full percentage point in days, and a currency falling alongside bonds.[2] When a bond market sells off in tandem with its own currency – as JGBs and the yen did this month, and gilts and the pound in 2022 – that is the signature of sovereign credibility in question.

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Such twin repudiations by bonds and currency mark moments when investors stop pricing policy and start pricing credibility, or the lack of it. In both cases, domestic institutions presumed to be captive buyers accelerated the market response. In Britain, falling gilt prices turned pension funds operating leveraged liability-driven strategies into forced sellers. In Japan, a new solvency regime penalizes life insurers' long-duration JGB holdings. In addition, regional Japanese banks are already near their limits on interest-rate risk. Both these items have sidelined a buyer base that was supposed to act as a shock absorber during episodes of illiquidity.

Even the immediate political reactions appear to rhyme. In the U.K., within 10 days of the mini-budget, Truss's government abandoned its most inflammatory measure, abolition of the 45% top rate of income tax, and brought forward the medium-term fiscal plan in a bid to reassure markets. This finds its echo in Tokyo's hurried rewriting of the blueprint's wording and cabinet ministers protesting that markets misread their intentions.

Governments that have to explain what they meant have already lost the argument. The lessons of the Truss episode are three, and none is comforting for Takaichi's government. First, in an inflationary world, the bond market's patience is measured in days, not fiscal years. The era in which deficits were a problem for the next decade ended when central banks stopped absorbing the paper. Japan, where the Bank of Japan (BOJ) is retreating from a market it once owned, has lost its buyer of last resort at precisely the moment it has proposed leaning on it hardest.

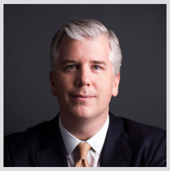
Meanwhile, the BOJ is playing a dangerous game by remaining cautious on raising interest rates. June producer prices rose 7.1% year-over-year, above expectations, and the oil market's renewed climb has put price pressures back at the top of investors' worry list alongside the fiscal imbalance. This is the precise combination under which delaying hikes becomes a politically perilous course of action rather than the safe one. The scenario the market fears is a central bank that falls behind inflation and must then chase it with larger, later increases.

Second, when a government dismantles fiscal orthodoxy in the name of boldness or newness, the repercussions can be dramatic. The Truss government discovered that the Office for Budget Responsibility's dull arithmetic was worth tens of basis points of term premium. Tokyo is discovering the price of a deleted sentence about fiscal discipline. On July 21, the cabinet will formally adopt the final Honebuto document. A text that restores the draft's original spirit – or doubles down on "coordination" of policy – would validate the fiscal-dominance read, and bonds and the currency market will be quick to respond.

There is a paradox at the center of the Takaichi trade, and it is now binding. The rally in Japanese equities to record highs was premised on the old Abenomics mix: a weak yen and an accommodating central bank. But the fiscal program unveiled by the Takaichi government is precisely what is forcing yields higher and putting the yen on intervention watch. The government cannot have the 370 trillion yen blueprint and the 2021 policy mix at the same time. Every basis point the long end adds to the government's funding bill strengthens the case for higher policy rates at the BOJ. Tightening is no longer defiance of the growth strategy; it is the prerequisite for financing it.

In such scenarios, the verdict of recent history points to the vital importance of an independent central bank. The Bank of England intervened to stabilize the gilt market, but it never surrendered the tightening cycle. Within weeks, the fiscal program was gone, the chancellor was gone, the prime minister was gone, and the policy rate kept rising. In an inflationary world, fiscal dominance, it turns out, is a hypothesis that survives only until tested. Prime Minister Truss lasted 49 days against the gilts market.

The Takaichi government should not assume the JGB market, having found its voice, will prove more patient than the gilts market that laid low the Truss government in 2022. In today's inflationary climate, fiscal credibility is earned, not presumed – even in the G-7 countries. And a G-7 sovereign who embarks on unfunded fiscal expansion risks courting a buyers' strike. We are keeping a close eye on Japanese markets, and remain underweight duration across developed markets as fiscal risks continue to lurk across their bond markets.' ■



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Endnotes

[1] Honebuto no hōshin (骨太の方針), literally "Big-Boned Policy" and pronounced ho-ne-bu-to, is an idiomatic phrase in Japan for Basic Policy on Economic and Fiscal Management and Reform, a draft drawn up yearly by the Council on Economic and Fiscal Policy chaired bv Japan's prime minister. https://www5.cao.go.jp/keizai-shimon/index_en.html

[2] Bill Campbell, "Commentary: Debt, currency and inflation crises – the U.K.'s object lessons for the G-7," Pensions & Investments, Oct. 18, 2022. https://doubleline.com/wp-content/uploads/2022/10/UKs-Object-Lessons-for-the-G-7_Campbell-10-18-22.pdf

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