

Japan Perspective from SuMi TRUST

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The End of “Suganomics”

On 3rd September 2021, Prime Minister Suga announced at a meeting of the Liberal Democratic Party (LDP) board members that he will not run for the LDP presidency, with the election scheduled to take place on 29th September. Prime Minister Suga will step down after his term as LDP president expires on 30th September, bringing an end to his short-lived one-year administration that began on 16th September 2020. The Suga government's approval rating fell to 34% in August, the lowest level since its inception, according to a Nihon Keizai Shimbun poll, amid criticism of the government's handling of the Covid-19. In addition, the LDP's defeats in two local elections (the Tokyo assembly election and the Yokohama mayoral election), which were positioned as preliminaries to the lower house election, raised concerns within the LDP that the party would lose the lower house election unless Suga were replaced. These concerns appear to have effectively forced Suga out of office.

On 29th September, the LDP is expected to elect a new president of the LDP. The election will be followed promptly by an extraordinary Diet session to elect a new Prime Minister and appoint cabinet ministers. With the term of office of members of the House of Representatives due to expire on 21st October, a lower house election is likely to be held after the dissolution of the extraordinary Diet session and the LDP will face the election under the new Prime Minister, which is expected to be held in October or November.

At the moment, former foreign minister Fumio Kishida, Taro Kono and minister in charge of Administrative Reform, and former general affairs minister Sanae Takaichi have announced their intention to run for the LDP presidency. Kishida is a flawless allrounder but less charming, whilst Kono is a strong character with popularity among the young generation, and Takaichi aims to become Japan's first female prime minister. Kono and Kishida, who are popular with the public, are seen as the leading candidates while Takaichi, who brings much fanfare, is a rival horse. If Kono, Kishida, or Takaichi become the new Prime Minister, they all are expected to continue the so-called "Abenomics" policy, which was handed down from the previous Abe administration to the Suga administration. The Suga administration's policy pillars, such as digitalisation, decarbonisation and corporate governance reform, are likely to be retained as important national policies over the medium to long term.

Meanwhile, under the new Prime Minister, we can expect to see more major economic measures than under Suga. Whereas Suga was negative on the idea of providing another cash handout, Kishida has already announced a range of direct financial support measures, such as rent subsidies, financial support for companies and benefits for people in difficulty. It can be assumed that the other candidates will also announce support measures, and the new administration will be more expansionary in its fiscal policy in the short term than the Suga administration. If the new Prime Minister can demonstrate to the public that the government has been renewed under his/her leadership, we believe that the likelihood of a change of government following the defeat of the LDP in the lower house election is quite low, given that there is no opposition party strong enough to threaten the LDP. In our view, the probability of the LDP maintaining its single-party majority has increased in the wake of Suga's replacement.

As the influence of faction leaders and veteran members of the House such as former Prime Minister Abe declines, voting by young councillors has become more critical than ever in deciding the LDP presidency. Current members who won their seats in the general election of 2012, when the LDP won back the House of Representatives, have been elected three times since. Their number is 84 today, which is a significant force. Including those who were elected for the first time in the 2014 and 2017 elections, 46% of the House members have been elected three times or less.

Currently, the average age of the 276 LDP members in the House of Representatives is 59, and half of them are under 60 years of age. Nearly half of the members of the Liberal Democratic Party's House of Representatives are young with a relatively short political career. Regardless of which faction they belong to, they will carefully scrutinise public opinion and determine the winning horse. The LDP presidential election will strongly reflect the intentions of a new generation. Kishida is trying to attract young members of the Diet by promoting young members to key positions. Kono is relatively young at 58 years old, and has long been a favourite among young members of the Diet. Considering the support among young councillors, one of these two individuals is likely to win the LDP presidential election. Whoever becomes the new prime minister, it is clear that we should see a rapid transformation to political rejuvenation.

The Japanese stock market rose sharply on the back of Suga's announcement to step down as Prime Minister, with the TOPIX hitting a 30-year high. Stock prices were supported by a lower risk of a big defeat for the LDP in the general election and expectations for major economic measures. In the past, share prices often rose around the time of a general election, and the Japanese stock market is likely to look for further upside in the near term. In fact, looking back on the House of Representatives elections since 2005 (there have been five), the stock price performance during the election period (about one month from the day before the dissolution to just before the voting day) was positive all five times with both the TOPIX and Nikkei 225 recording average returns of +6.4% and +7.3%, respectively. We believe that Japanese stocks, which have lagged behind the rest of the world, will outperform as the vaccine programme progresses and the spread of the COVID-19 shows signs of peaking out. As the new Prime Minister is expected to provide financial support to households and to the travel and food service industries, which were hit badly by the Covid-19, we believe that reopening stocks in particular are likely to outperform.

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