

Japan Bridge Report:

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LDP: Style over Substance:

Shigeru Ishiba today prevailed in the LDP president election and will be elected Prime Minister on Oct. 1st. With its image dented by a political funding scandal, the LDP had to change its appearance. It chose the most sober looking political outsider to carry its new clean politics message, after initial attempts to make 43 year old Shinjiro Koizumi a telegenic puppet prime minister did not sufficiently rally the party base. With this new “style” the LDP can now ask for political forgiveness in the upcoming national Lower House elections.

In terms of policy “substance” however, Japan is back to where it was before Kishida suddenly bowed out. Ishiba has no plan of his own and will continue Kishida’s policy agenda, as he already confirmed. The current focus on wage growth augmented by income from dormant financial assets, increased productivity and labor mobility to productive areas will remain unchanged, together with a hands-off attitude towards BOJ.

Ishiba’s does have pet ideas that were dreamed up in solitude while he was exiled to the political desert, but the LDP surely did not elect him in order to implement those. The LDP as an institution will prevent any attempts at fiscal constraint via tax hikes or ideas like an Asian NATO from being pursued. What the LDP needs from Ishiba is only his caring focus on “safety and security” for the man in the street in order to win the upcoming Lower House elections, and next summer’s Upper House elections.

Key points:

- Ishiba will next week announce key positions in the LDP and his cabinet. Not having a base of his own he will need to draw on the advice of former prime minister Suga, and also include many of the other candidates in the LDP race. This will be the first test for the direction of the Ishiba administration.
- Lower House elections remain likely this November. Ishiba has stated that he first wants to announce his policy platform and also face the

opposition in the budget committed, but he also committed to seek a public mandate as soon as possible. The approval ratings honeymoon of a new administration can start to fade quickly, so the LDP will want to cash in on Ishiba's novelty as soon as possible.

- For the opposition CDP Ishiba is a tough opponent, exactly because he is so “non-LDP like”. LDP's coalition with Komei is solid, and we see little risk that the coalition would lose the majority in the Lower House.
- The Upper House election next summer will be more of a challenge as approval ratings may normalize by then.
- For BOJ, Ishiba's victory is a big relief. Without partisan interference Ueda will again be able to focus on the macro data, and as soon as the US rates path becomes clearer after the election, expectations for continued wage growth in Japan can lead to the next hike to 0.5%. We keep our base case scenario of January, assuming a US soft landing continues to be plausible.
- Supplementary budget: The LDP will not let Ishiba do without an economic package before the election, and after severe flooding during the summer, “safety and security” will be ideal spending areas. Last year the supplementary budget was ¥ 13tr, and we expect this year to be below that number. This should not have an impact on the JGB issuance calendar during this fiscal year, as pre-funded amounts will be used.
- Ishiba's market impact is mainly driven by the reaction of the currency, where expectations of a possible Takaichi win are being priced out, leading to a stronger Yen. The negative impact on the Nikkei to us is foremost a result of this FX swing, rather than any fundamental problem to Japan's growth outlook. The Kishida policy setting will be continued and we would not expect a break of 37,000. In rates, we expect a gradual move back towards 0.9% in 10yrs as the next step down in QT will cut another 400bn from monthly BOJ buying in October, together with positive Japan macro data going forward.

Political schedule:

Oct. 1: Ishiba to be elected prime minister and announce his cabinet
Oct. 4: Policy speech in the Diet
Oct. 7-9: Diet policy debate
mid Oct.: Budget committee with opposition questioning of prime minister
October : Instruction to bureaucracy to prepare a supplementary budget
possible Lower House election dates: Nov. 10th or Nov. 27th
(if LH dissolved)
December: Supplementary budget
late Dec.: Fiscal 2025 budget and JGB issuance plan released
Jan. 2025: Budget discussion towards passage until March fiscal year end
Summer 2025: Upper House election
October 2025: End of current Lower House term, if no early election.

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