

## JGB Insight

### Can Abe go on or not?

- ✓ Due to the Moritomo issue, moves to topple the Abe administration appear to be gaining momentum. At the moment, we see that the chance of Prime Minister Abe's survival is 50%.
- ✓ If he steps down, JGBs could move both ways: upward amid unwinding Abenomics; and downward amid growing caution about the Abe-led commitment on "bold monetary easing."
- ✓ Strong uncertainty remains about the political situation, but the BOJ is likely to conduct the current monetary policy in a matter-of-fact stance. The downside of JGBs will continue to be supported well by the BOJ.

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### Abe appears to be in more critical situation than ever

Due to the Moritomo school-related document falsification scandal, moves to topple the Abe cabinet appear to be gaining momentum. However, given the close relationship between Prime Minister Shinzo Abe and Minister of Finance Taro Aso—especially Mr. Abe's strong dependence on Mr. Aso, we think that the resignation of Mr. Aso alone is unlikely. It appears that Mr. Abe is in an either-or situation—i.e., both of them will survive or resign together. This is especially so, because the Aso faction is boasting the second biggest power within the LDP (Chart 1). Although Mr. Abe could be trying to clean things up most likely by using his privilege to dissolve the lower house, he appears to be in more critical situation than ever. Moreover, even if he makes it through, the probability of his winning the third straight term in September's LDP presidential election would be lower than it has been. At the moment, we think that the chance of Mr. Abe's survival is 50%.

### If Abe steps down

We would like to think about what if Mr. Abe steps down. In the case of the cabinet dissolution (i.e., without dissolution of the lower house), the LDP presidential election would be held immediately and then a new cabinet would be formed by a new prime minister from the LDP. Although it is also possible for Mr. Abe to run for the election, the probability of his victory appears quite low. It would be so at the September LDP presidential election as well. On the other hand, in the case that he dissolves the lower house for a snap election, it is possible for him to keep the prime minister seat. Given the current power balance between ruling parties and opposition parties (Chart 2), we think that it is highly possible that the ruling parties win the lower house election. Then Mr. Abe could have not only a good reason to stay in power but also time to revamp it within the LDP toward the September election with public opinion. In that case, the probability would also increase that Mr. Abe will win the third straight term as the LDP president in September.

### JGBs could move both ways; upward and also downward

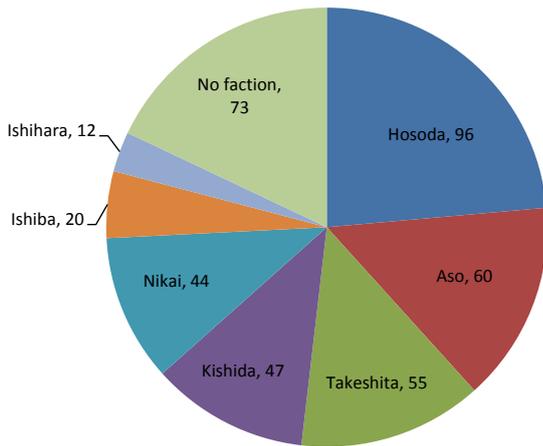
Either way, if the Abe administration collapses, initial market reactions would be lower stock prices/strong yen to unwind Abenomics. On the other hand, the JGB market could move both upward and downward as market participants can take it that (1) the BOJ's monetary policy stance is unlikely to change soon, irrespective of the political situation or (2) they may have greater caution about a weakening of commitment on "bold monetary easing"—one of "three arrows" under Abenomics. If the former becomes predominant, JGBs would rise in reaction to lower stock prices/strong yen, leading the JGB yield curve to flatten. However, if the latter becomes predominant, downward pressure on JGBs may intensify, putting the curve under steepening pressure.

### Irrespective of the political situation, the BOJ will conduct current monetary policy in a matter-of-fact stance

Both Mr. Abe and Mr. Aso will attend the intensive deliberation on the Morimoto school issue, called by the upper house budget committee, on March 19. The opposition parties will also try to lead the discussion to take a vote on summoning Nobuhisa Sagawa, a former MOF official and the key person on the issue, for testimony. If the vote takes place, Mr. Sagawa's testimony can be heard as soon as the end of the next week. We may see a critical move in the political situation as early as the week of March 25.

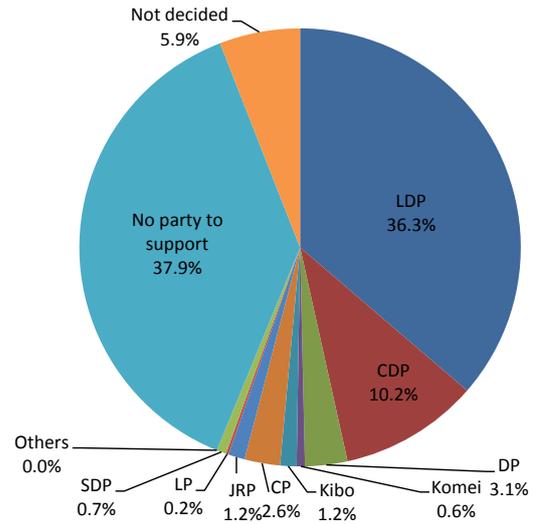
While the political situation is getting chaotic, the government's nomination for BOJ governor and deputy governors was approved at plenary sessions both at the lower and upper houses today (Mar. 16). Governor Haruhiko Kuroda will start his second term from April 9 and Masayoshi Amamiya, a BOJ executive director, and Masazumi Wakatabe, a professor at Waseda University, will be deputy governors from March 20. Despite strong uncertainty about the political situation, the BOJ is likely to conduct the current monetary policy in a matter-of-fact stance. We think that the downside of JGBs will continue to be supported well by the BOJ.

Chart 1: Breakdown of LDP Members by Faction



Note: Shinzo Abe is from the Hosoda faction.  
Source: Liberal Democratic Party

Chart 2: Political Party Approval Rating: March 2018



Note: based on the poll taken from March 9 to 11  
Source: NHK

### [BOX] March BOJ JGB Purchase Schedule

(Yen billions)

BOJ offer day / JGB auction day	(BOJ start day/ MOF settlement day)	Up to 1 year	Over 1 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 to 25 years	Over 25 years	JGB Linker
3/1/18 TH	3/20/18	<b>10Y JGB Auction</b>						
3/2/18 F	3/6/18		250.9	330.6	450.6			25.3
3/5/18 M	3/7/18	<b>30Y JGB Auction</b>						
3/6/18 T	3/20/18		250.2	330.5		191.3	70.7	
3/8/18 TH	3/12/18	<b>AEL (2Y, 5Y, 10Y and 20Y JGBs with over 1 to 5 years to maturity)</b>						
3/9/18 F	-	<b>BOJ MPM (Day 2)</b>						
3/12/18 M	3/14/18				450.4	190.9	70.4	
3/13/18 T	3/20/18	<b>5Y JGB Auction</b>						
3/14/18 W	3/16/18		250.2	330.3	451.3			
3/15/18 TH	3/20/18	<b>20Y JGB Auction</b>						
3/16/18 F	3/20/18	50.3				190.7	70.5	
3/19/18 M	3/22/18		◎	◎	◎			
3/20/18 T	3/23/18	<b>AEL (10Y and 20Y JGBs with over 5 to 15.5 years to maturity)</b>						
3/21/18 W	-	<b>Public Holiday (Vernal Equinox Day)</b>						
3/22/18 TH	3/26/18				◎	◎	◎	
3/23/18 F	3/27/18		◎	◎				○
3/26/18 M	3/28/18							
3/27/18 T	3/20/18	<b>40Y JGB Auction</b>						
3/28/18 W	3/30/18	○				◎	◎	
3/29/18 TH	4/15/18	<b>2Y JGB Auction</b>						
3/30/18 F	4/3/18		◎	◎	◎			

Note: ◎ Scheduled by the BOJ, ○ Daiwa forecast; BOJ MPM (Day 1 on Mar. 8) in blue  
Source: Bank of Japan, Ministry of Finance, Daiwa Securities

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