

Daiwa's View

Events and focal points after upper house election

- Constitutional revision, trade talks, Diet dissolution timing, and supplementary budget

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The voting and vote counting of the House of Councillors election are set for 21 July. According to nationwide surveys by major media, the ruling parties have dominated since the initial stage, maintaining the momentum toward the final stage. In checking the result of the election in terms of the number of seats, there are three key numbers—specifically 53, 63, and 85.

First, 53 is the number of seats needed for the ruling parties (LDP, New Komei Party) to secure the majority of the entire upper house (123, incl. 70 uncontested seats). Prime Minister Shinzo Abe set it as a bar for victory or defeat. Next, 63 is the number of seats needed for the ruling parties to gain the majority of 124 re-elected seats. LDP Secretary General Toshihiro Nikai and Executive Acting Secretary General Koichi Hagiuda also set it as a bar for victory or defeat. Third, 85 is the total number of seats supporting a change in the Constitution—LDP, New Komei Party, Japan Restoration Party, and independent candidates who favor a constitutional revision. The 85 seats enable them to maintain the “two-thirds” of the upper house, which is necessary to propose a constitutional revision at the Diet.

According to *Sankei Shimbun's* survey in the final stage, the ruling parties are expected to gain around 73 seats, higher than the majority (63) of re-elected seats. The LDP alone is projected to win around 60 seats. However, it is uncertain whether pro-constitutional revision forces will maintain the two-thirds. In addition, it appears difficult for the LDP alone to secure a majority.

Chart: Media Surveys for Upper House Election

	Headline	Ruling parties Majority of re-elected seats (63)	Pro-constitutional revision forces Two-thirds of entire upper house seats	Date
Asahi Shimbun	LDP and New Komei Party to gain majority of re-elected seats Uncertain whether pro-constitutional revision forces will maintain two-thirds	Ruling parties have momentum to far exceed majority of re-elected seats	Uncertain whether they will secure two-thirds	6-Jul
Jiji Press	Pro-constitutional revision forces likely to fail to secure two-thirds = Ruling parties to gain majority of re-elected seats —While Constitutional Democratic Party of Japan to increase seats, Democratic Party for the People is struggling	Ruling parties have momentum to far exceed majority of re-elected seats	They may fail to maintain two-thirds	14-Jul
Mainichi Shimbun	It appears difficult for pro-constitutional revision forces to maintain two-thirds LDP and New Komei Party defensive in one-seat constituencies	Ruling parties likely to exceed majority of re-elected seats	It appears difficult for them to secure two-thirds	15-Jul
Yomiuri Shimbun	Ruling parties to gain majority of re-elected seats LDP superior in one-seat constituencies	Ruling parties have momentum to exceed majority of re-elected seats	Key is whether they will be able to secure two-thirds	15-Jul
Kyodo News	LDP and New Komei Party solid to secure majority of re-elected seats —Uncertain whether pro-constitutional revision forces will maintain two-thirds	Ruling parties to gain more than 70 seats, topping majority of re-elected seats	Uncertain whether they will secure two-thirds	17-Jul
Sankei Shimbun	LDP and New Komei Party keeping momentum to gain majority of re-elected seats Pro-constitutional revision forces may fail to secure two-thirds	Ruling parties have momentum to exceed majority of re-elected seats	They may fail to maintain two-thirds	17-Jul

Source: Various media reports; compiled by Daiwa Securities.

After the upper house election, Prime Minister Abe plans to attend the G7 Summit in France and the African Development Conference in Yokohama. The Cabinet reshuffle and the nomination of new LDP officials are scheduled for mid-September. No change is expected for the main Cabinet members such as Cabinet Secretary Yoshihide Kan or Finance Minister Taro Aso. However, if the Cabinet is reshuffled, speculation on post-Abe activities would mount as slightly more than two years remain for his term as LDP president. Regarding LDP officials, a focal point is whether Secretary General Toshihiro Nikai will stay in his post.

If pro-constitutional revision forces maintain the two-thirds against expectations in the pre-election surveys, a constitutional revision may be strongly recognized at the time of the Cabinet reshuffle and the nomination of LDP officials. In addition, the forces are likely to aim to enact a bill regarding amendment of the national referendum act at the extraordinary Diet session in autumn (policymakers had decided to continue to deliberate on the bill at regular Diet session).

Meanwhile, even if the forces fail to maintain the two-thirds, they would continue with activities toward a constitutional revision. In fact, at a debate among party leaders on 3 July, Mr. Abe stated that "Some in the Democratic Party for the People are supporting a constitution revision. I would like to form a consensus in this situation." He appears to be trying to activate the discussion by involving opposition parties under the assumption that pro-constitutional revision forces will fail to maintain the two-thirds.

A constitutional revision is Mr. Abe's ardent wish. At the same time, maintaining the momentum itself is likely to play a role in keeping his centripetal force for the remaining two years. As a prerequisite to achieve the legacy of constitutional revision, he needs to avoid a lame-duck situation. This time around, a double election for the upper and lower houses was avoided. However, the timing to dissolve the lower house will remain key from the aforementioned viewpoint.

Chart: Near-term Political and Economic Schedule in Japan

Jul-19	4	Public notice on upper house election
	21	Voting day of upper house election
	29~30	BOJ Monetary Policy Meeting (Outlook Report)
Aug-19	25	G7 Summit (Biarritz in France)
	28	The 7th Tokyo International Conference on African Development (Kanagawa)
	TBD	Cabinet-level Japan-US trade talks
	End-month	Deadline of FY20 budgetary request
Sep-19	First half	Cabinet reshuffle
	17~30	UN General Assembly (New York)
	18~19	BOJ Monetary Policy Meeting
Oct-19	1	Consumption tax hike (8→10%)
	22	Enthronement Ceremony
	30~31	BOJ Monetary Policy Meeting (Outlook Report)
Nov-19	14	<i>Daijosai</i> (Imperial Great Thanksgiving Ceremony)
	Middle of month	Deadline for US to decide whether it will impose tariffs on imported cars
Dec-19	18~19	BOJ Monetary Policy Meeting
Jan-20	TBD	Convocation of regular Diet session
Apr-20	19	Ceremonial investiture of the Crown Prince
Jun-20	TBD	End of regular Diet session
Jul-20	24	Tokyo Olympics (through 9 Aug)
Aug-20	25	Tokyo Paralympics (through 6 Sep)
Dec-20	by end-2020	Target of enforcement of revised Constitution
Sep-21	30	End of term of LDP president
Oct-21	21	Expiration of Lower House members' term of office

Source: Various media reports; compiled by Daiwa Securities.

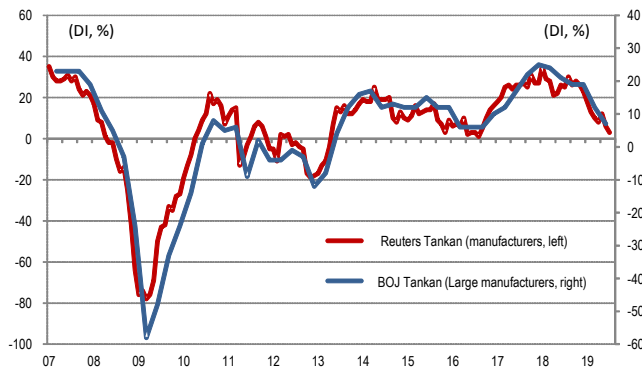
If Prime Minister Abe tries to dissolve the lower house once again by September 2021—the end of his term as LDP president—there would be three possibilities in timing. First is an election prior to the end of the term in 2021. However, this entails a risk of becoming a kind of “trapped dissolution.” Next is an election in 2020 after the Tokyo Olympics/Paralympics. That said, in this timing, less than one year is left until his term of LDP president expires. The third possibility is a snap election in 2019.

In the case in 2019, however, the timing is limited. This year, the consumption tax is to be hiked on 1 October, which is followed by the Enthronement Ceremony on 22 October (national holiday) and *Daijiosai* (Imperial Great Thanksgiving Ceremony) in mid-November. Therefore, some are pointing out the possibility of dissolution at end-November and an election in December.

Regarding the trade issue, November will have the deadline for US President Donald Trump to decide whether he will impose tariffs on auto/autoparts imported from nations/regions such as Japan and EU. However, partly due to pressure from farmers, who are president’s power base, the US is also committed to lowering tariffs on US agricultural products imposed by Japan. The possibility of an early conclusion thus comes in sight. Specifically, there is a media report saying that Japanese Minister in charge of Economic Revitalization Toshimitsu Motegi and US Trade Representative Robert Lighthizer will have a couple of meetings in August and then Mr. Abe and Mr. Trump will sign an agreement when the UN General Assembly is held in September. Under the agreement, Japan is expected to open the agricultural product market, while the US is likely to lower tariffs on autoparts.

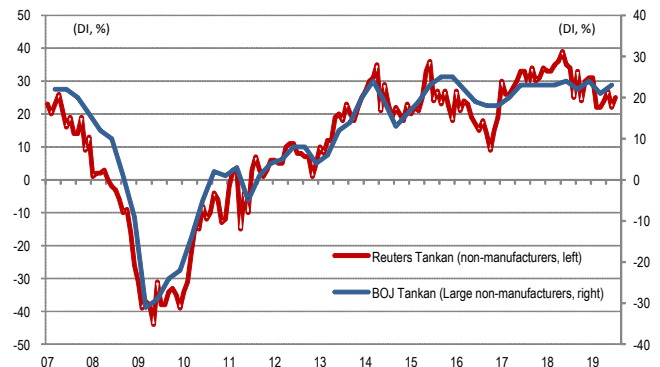
In forecasting Japan’s economy, it is important to see whether an early conclusion will be realized. In the July Reuters Tankan survey (released 18 Jul), business sentiment among non-manufacturers remained solid, while that among manufacturers continued to worsen. In this situation, the consumption tax hike is to be implemented on 1 October, as mentioned above. Japan’s economy has substantial downside risk from October¹.

Chart: BOJ Tankan and Reuters Tankan (manufacturers)



Source: BOJ, Reuters; compiled by Daiwa Securities.

Chart: BOJ Tankan and Reuters Tankan (non-manufacturers)



Source: BOJ, Reuters; compiled by Daiwa Securities.

The Basic Policy on Economic and Fiscal Management and Reform 2019, which was decided by the Cabinet in June, states that “the government will pay full attention to downside risks emanating from abroad and quickly grasp the impact on the economy and financial market. At the same time, it will conduct expeditious macroeconomic policy without hesitation if risks emerge.” In addition, at a press conference on 13 May, Cabinet Secretary Yoshihide Kan also stated that “it would be natural to make various judgments, carefully observing the condition,” implying the need for additional economic measures. We thus expect a supplementary budget to be compiled at the extraordinary Diet in early October.

Given the condition of tax income and surplus, we think JGB issuance will be increased in the case of the implementation of economic measures. However, the government is expected to cope with it by reversing front-loading refunding bonds, which is unlikely to lead to market issuance. Nevertheless, the market will likely continue to watch the timing/scale of economic measures.

¹ Refer to our 9 Jul report [Daiwa's View: Can Japan's economy weather consumption tax hike \(household version\)?](#)

Recently, we often hear ex-BOJ officials' remarks pointing out the possibilities that the BOJ will increase the JGB purchase amount, alongside the news on a possible increase in JGB issuance in the government's economic measures. These remarks are also garnering attention in terms of the BOJ's monetary policy. Depending on the economic condition after the consumption tax hike in October, speculation on additional easing by the BOJ is expected to become the market's main theme.

■ ◆ **BOJ governor Haruhiko Kuroda (20 Jun 2019)**

• Under the current yield curve control (YCC) policy, we set the operational target of the 10-year JGB at around 0% only in terms of monetary policy. The purpose is not to help government financing. However, from the viewpoint of policy mix (fiscal and monetary policy), if the BOJ needs to maintain the current YCC policy, a rise in the long-term interest rate due to an increase in JGB issuance would be prevented. In that sense, the YCC could result in the policy mix—cooperation between fiscal policy and monetary policy.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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