Daiwa Securities

FX Pulse

Gradual increase in reflationary tone under the Takaichi administration

- Appointing a succession of reflationists to government-related councils
- If more reflationists are appointed as BOJ policy board members, it could lead to a weaker yen

FICC Research Dept.

Kenta Tadaide
81-3-5555-8466
kenta.tadaide@daiwa.co.jp

Asuka Ichikawa
81-3-5555-8761
asuka.ichikawa@daiwa.co.jp

Daiwa Securities Co. Ltd.

Upside capped by risk-off sentiment and caution about currency intervention

Last week, the rise in the USD/JPY rate paused, as the stock market correction progressed and risk-off sentiment intensified. With growing caution over high valuations in AI-related stocks, the yen's movements this week will likely depend on stock prices. If stock prices rebound, the USD/JPY rate is likely to test the upside again.

The Dollar Index (DXY) bounced off the 200-day moving average on 5 November. The USD/JPY rate appeared to have broken above the upper resistance line in the low Y154 range, but the subsequent move toward a weaker yen has lacked momentum. For the USD/JPY rate, it seems that not only the stock market decline but also verbal warnings against yen depreciation from Japanese currency authorities have capped the upside, ahead of the key Y155 level.

Finance Minister Satsuki Katayama stated at a press conference after the cabinet meeting on the morning of the 4th that she was "monitoring recent currency movements with a high sense of urgency." However, since she had also stated at a press conference after the cabinet meeting on 31 October that she was "monitoring excessive fluctuations and disorderly movements in the forex market, including speculative trends, with a great sense of urgency," there is no change in the tone of the verbal intervention. On 5 November, Vice-Minister of Finance for International Affairs Atsushi Mimura expressed his view that the recent movement of the yen is "deviating from fundamentals" amid the divergence between the USD/JPY rate and the Japan/US interest rate differential.

Gradual increase in reflationary tone under the Takaichi administration

On 4 November, the Takaichi cabinet established the "Japan growth strategy council" as the body for formulating and promoting growth strategies within the "Japan growth strategy headquarters," which serves as the command center for economic policy. This council is composed of 12 experts from academia and the business world. Among them, two private-sector economists were appointed: Mr. Takuji Aida from Crédit Agricole Securities and Mr. Goushi Kataoka from PwC Consulting, a former BOJ policy board member. Both are regarded as reflationists who emphasize fiscal expansion and monetary easing.

Furthermore, on 7 November, it was announced that Mr. Masazumi Wakatabe, a professor at Waseda University and former BOJ Deputy Governor, and Mr. Toshihiro Nagahama from the Dai-ichi Life Research Institute would be appointed as expert members of the Council on Economic and Fiscal Policy, which investigates and deliberates on important matters concerning economic and fiscal policy. Mr. Wakatabe is a leading reflationist scholar, while Mr. Nagahama advocates prioritizing economic growth over fiscal discipline. These appointments underscore the Takaichi administration's strong inclination toward fiscal expansion.

In its Basic Policy on Economic and Fiscal Management and Reform, the former Ishiba administration had aimed for a primary balance surplus “as early as possible" during FY25-26. However, Prime Minister Sanae Takaichi stated at the House of Representatives Budget Committee on the 7th regarding the primary balance surplus target, “we intend to withdraw the concept of a single-fiscal year primary balance” and “we are considering a revision toward confirming the balance over a multi-year period.”

Regarding monetary policy, on 5 November, Mr. Fumitake Fujita, co-leader of the Japan Innovation Party (JIP) called for monetary policy operations that do not dampen the new administration’s economic policies, while showing understanding for the direction of interest rate hikes. Mr. Fujita stated that if the BOJ were to “immediately raise rates” while aiming for the passage of a supplementary budget in the current Diet session, it would be “like stepping on the accelerator and the brake at the same time,” and that the BOJ “should consider the timing a little more cautiously." He also pointed out that now is not the time for “monetary policy with too much impact.”

Mr. Fujita acknowledged that “there is ample scope to consider a rate hike at an appropriate time” and expressed agreement with the BOJ’s approach to normalize policy “gradually and moderately to avoid market disruption.” However, the JIP had been seen as respecting the BOJ’s independence and accepting monetary policy normalization. Therefore, its entry into the ruling coalition gives the impression that it is moving closer to the Takaichi administration’s stance.

Looking at the lineup of party executives and cabinet members, the initial impression was that the Takaichi administration would maintain a minimum level of fiscal discipline and not blindly oppose the BOJ’s normalization. However, the appointments mentioned above suggest a strengthening of the reflationary stance within the administration. In the first half of next year, two BOJ policy board members will see their terms expire (member Asahi Noguchi on 31 Mar and member Junko Nakagawa on 29 Jun), and it seems highly likely that reflationists will be appointed as their successors. In July 2027, two hawkish members, Hajime Takata and Naoki Tamura, will also have their terms expire. If the market becomes conscious of the growing presence of reflationists within the BOJ once again, yen-selling pressure could intensify.

IMPORTANT DISCLOSURES

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Ratings
Issues are rated 1, 2, 3, 4, or 5 as follows:
1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

Target Prices
Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

Disclosures related to Daiwa Securities
Please refer to https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/e_disclaimer.pdf for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings
This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)
If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- 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.
** The ratio of margin requirements etc. to the amount of the transaction 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.
Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association