
OUR VIEW ON JAPAN'S UPPER HOUSE ELECTION

As it often is when Japan's Liberal Democratic Party (LDP) wins an election by an impressive amount, the initial equity market reaction was positive. But the ramifications of the ruling party's 10 July upper house election victory, including reaching the two-thirds coalition majority for constitutional change, will in the intermediate term be a function of what happens to the global economy and geopolitics in the months and quarters ahead. One would think that "now or never" would be the slogan for the party which has long advocated constitutional reform, but Prime Minister Kishida is from what is historically a more dovish faction and, thus, may push neither quickly nor deeply for such reform. That said, under his leadership (although such was influenced by the powerful, more hawkish factions, including that of Shinzo Abe) defence spending has been set to rise significantly and Japan is increasing its military posture, with complaints against negative developments being more forcefully voiced. Events in Ukraine and in the Asian sphere, including North Korea, may speed up this process, as might strong public statements from the more hawkish factions about honouring the party platform and the legacy of Abe.

Regardless of what happens in the political and economic spheres ahead, the victory should assure LDP dominance for several years ahead, and, thus, continued political stability, in spite of the senseless single horrible act last weekend. This contrasts to what seems to be a maelstrom of political instability in the West, which will likely worsen even further ahead. While political stability is no guarantee of great success in economics or risk market performance, the fact that the LDP is pro-business and that it does not seem to be placing undue new burdens on the economy or corporate sector ahead, should clearly be seen as a generally positive backdrop. Indeed, a strong push to start nuclear reactors again will likely become a prevalent LDP theme now, which should help curtail inflation for both consumers and businesses, while also helping meet climate goals. Some of this effort was deemphasised prior to the election so as to avoid negative reaction by some voters, but the strong election result of a more conservative party that strongly advocates nuclear power will likely allow for speedy action now. One item to remember too is that the bureaucracy is very strong in Japan, which also generates political stability, but if it slows down this push, it could be seen as a negative development by risk markets, as Japan is deeply vulnerable to any further energy shocks, especially if the Sakhalin project flows are disrupted by Russia.

In sum, the equity market deemed the election as a positive for Japan. The country's global standing may also improve even further by the fact that a record number of women were elected.

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