

Daiwa's View

Towards the start of the Kishida administration

- Investor sentiment likely to calm slightly following the election

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Daiwa Securities Co. Ltd.

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Yesterday, the 10-year JGB yield declined slightly from 0.07% to 0.065%. The LDP presidential election went into a runoff. When the victory of Fumio Kishida became certain, in line with the consensus before the election, the yield hit 0.05% at one point, with the elimination of a factor of uncertainty being viewed positively.

The biggest factors of uncertainty for JGB yields had been the LDP presidential election and the radical unwinding of the easing of BOJ Governor Haruhiko Kuroda if Taro Kono, who is distancing himself from Abenomics, had been elected and become prime minister. Regarding the election, based on the gap between the number of votes by rank-and-file party members and that by Diet members, it is obvious that implied support by former Prime Minister Shinzo Abe had an influence on Kono's defeat and Kishida's victory in the leadership election. It is highly likely that former Prime Minister Abe will remain influential with the new administration and with the eventual process of determining the successor of BOJ Governor Kuroda. It would appear that the peak of concern among investor sentiment has passed.

That said, the range of JGB yields edging up slightly since the latter half of September has been caused by multiple issues, such as fiscal policy (concerns about additional issuance of JGBs), the announcement of the Quarterly Schedule of Outright Purchases of Japanese Government Bonds at end-September (worries about cuts in purchase amounts), factors related to end-1H FY21, and rising US yields. Some of these issues have yet to be dealt with, while others need to be confirmed. Some time will be required before investor sentiment recovers to previous levels.

The Quarterly Schedule of Outright Purchases of Japanese Government Bonds for Oct-Dec 2021 is scheduled to be announced today after the close of the market. With the long-term yield rising to around the 0.05-0.10% range, the announcement of a reduction of the purchase amount at this time would easily increase upward momentum. With regard to the new administration, which will commit to large-scale fiscal spending in order to respond to the pandemic, we cannot rule out the risk that it could develop a sense of distrust regarding the policy mix (although this will not be stated publicly) if the BOJ were to reignite upward yield pressure by announcing a cut in the purchase amounts in operations on the day after the presidential election. It is slightly more likely that the BOJ will keep today's Quarterly Schedule unchanged, as that would be a small sacrifice to make for a greater cause.

Regardless of who becomes prime minister, the important near-term challenge for the BOJ is still responding to the pandemic. (In his interview with *Nikkei*, published on 9 Sep, Governor Kuroda assured that even if fiscal policy became more aggressive, yields would remain at low levels, and, therefore, the situation would allow the effects of fiscal policy to be exhibited further.) Given the aforementioned involvement by Abe in the LDP leadership election, if Kishida does demonstrate his own unique political qualities with the change in administration, we think that will happen sometime after next year's upper house election at the earliest. Although we have recently seen a slight increase in media coverage on [the topic of a revision to the joint statement \(accord\)](#), this is likely to quiet down for now.

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