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**Mitsubishi UFJ Trust and Banking
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Naoya Oshikubo, Chief Market Economist
Global Asset Management Business Office



Outlook Following Prime Minister Ishiba's Resignation Announcement

On 7 September, Prime Minister Ishiba announced his intention to resign. He stated that he had made this decision once a conclusion had been reached in tariff negotiations with the United States. Amid growing calls for him to take responsibility following the party's defeat in the July Upper House election, momentum within the Liberal Democratic Party (LDP) for an early presidential election also appears to have prompted his resignation. Following the announcement of his resignation, the need to confirm support for the presidential election scheduled for 8 September has been averted, thereby averting the risk of a decisive split within the LDP.

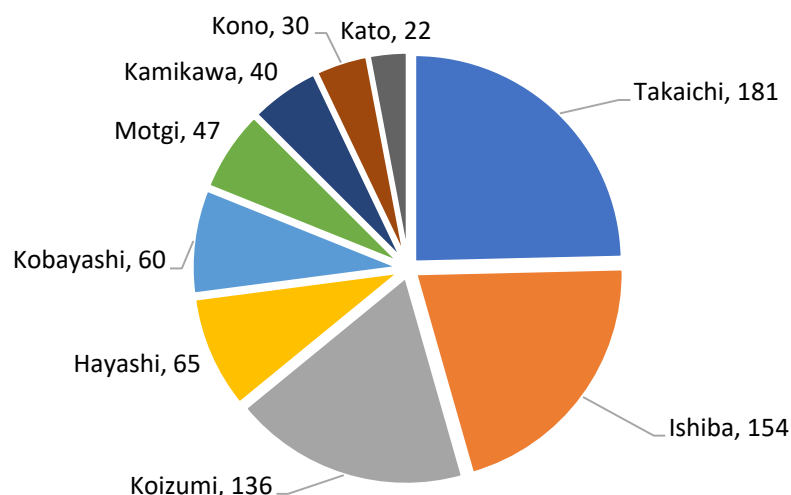
Prime Minister Ishiba instructed Secretary-General Moriyama to proceed with a regular extraordinary Presidential election. Regarding the next Presidential election, Secretary-General Moriyama stated, "It is important to explore a format that allows party members to participate directly as much as possible." While the immediate focus is on whether the election will be limited to Diet members or conducted as a full-scale election involving party members, Secretary-General Moriyama's remarks suggest a full-scale election is highly probable. If a full-scale election is chosen, an election period of at least 12 days will be required. Consequently, the Presidential election is likely to be held in early October, with a new president expected to be elected around mid-October. A decision on the election method and schedule is anticipated within this week.

Regarding potential candidates for the next presidency, those who received significant votes in the 2024 presidential election are seen as strong contenders (see Exhibit 1). There are also a number of potential alliance scenarios with other parties. Ms. Takaichi and Mr. Koizumi are considered the most likely winners, although Mr. Hayashi, Mr. Kobayashi and Mr. Motegi are also potential candidates. Had Prime Minister Ishiba remained in office, he was expected to advance policies in cooperation with the Constitutional Democratic Party. Following his withdrawal, however, the minority ruling LDP's choice of cooperation partner will depend on the next president. If Ms. Takaichi wins, the LDP is likely to cooperate with the National Democratic Party, which advocates expansionary fiscal policies. If Mr. Koizumi wins, cooperation is expected with the Japan Innovation Party. As opposition parties are all calling for tax cuts, and public support for the cash handouts promoted by Prime Minister Ishiba was low, the next president is likely to pursue expansionary fiscal policies, including tax cuts. This would be positive for the Japanese stock market.

Of all the candidates for the next prime minister, Ms. Takaichi is considered the most positive for the Japanese stock market. She is seen as the heir to Abenomics and has clearly opposed the Bank of Japan raising interest rates, evoking the image of 'expansionary fiscal policy + the Bank of Japan's dovish monetary policy'. In light of the high probability of a Fed rate cut in September, it is now also necessary to consider positive scenarios for the Japanese stock market.

Conversely, while the likelihood of expansionary fiscal policies, including tax cuts, under the next governor is higher, this could put upward pressure on Japanese long-term interest rates. However, the imminent resumption of Fed rate cuts is likely to put downward pressure on US long-term rates. Accordingly, we expect the net effect to be only a modest rise in Japanese long-term interest rates. With regard to foreign exchange, concerns over near-term political uncertainty may exert downward pressure on the yen. However, considering the persistent downward pressure on the dollar resulting from the Fed's resumption of rate cuts, the dollar-yen exchange rate is expected to remain within the 145–150 yen range.

Exhibit 1
Results of the First Round of Voting in the 2024 LDP Presidential Election (Full-Scale Election)



Source: Nikkei, MUFG: Trust Bank

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