

# JAPAN'S ELECTION: ABE'S CONTINUED FOCUS ON THE ECONOMY

The result of Japan's recent Upper House election suggests two things: that Japan is more stable politically than other major countries, and that Prime Minister Abe is clearly going to prioritize the economy. Indeed, he commented on the details of his fiscal policies directly after the election, and while he didn't refer to the scale of the supplementary budget in his comments, the market switched from pre-election expectations of JPY 5 trillion to something closer to the JPY 10-20 trillion level.

New fiscal stimulus measures are likely to include issuing premium shopping coupons, frontloading construction of the high-speed maglev train network, boosting agricultural exports, developing ports for cruise ships, and implementing scholarship grants. While the election result amounts to a vote of confidence for Abenomics overall, this does not mean that we should now expect to see many other policies that have not previously been announced or put into practice. Instead, the market will focus its interest on the progress of policies that have already been initiated.

The Prime Minister issued an order to draft a supplementary budget proposal immediately after the election. The market is, in a sense, bound to hope for short-term economic stimulus that could potentially be generated by one of the few stable governments in the world. On the other hand, expansion of the budget by approximately JPY 10-20 trillion is still subject to the problem of how to fund it, and even with the headline figure of JPY 10-20 trillion, the implementation period may turn out to be unclear, causing a lingering risk of doubt that the policy will have an immediate effect.

Looking at monetary policy, the election result will not likely affect the Bank of Japan (BOJ)'s additional easing. The potential delay in the global economic recovery brought on by Brexit, coupled with the stronger yen's deflationary effects, will likely oblige the BOJ to take some action, including additional purchases of government bonds, REITs and ETFs at the coming board meeting on July 28-29.

Now that support for amending Japan's constitution can, in theory, be tallied up to reach two-thirds of the Upper House, the business community has started to demand that the government put economic policy on the front burner. Even if the amendment is approved by parliament, it will need to be put to a national referendum afterwards. As opinion poll results show that Japan's population is not particularly positive about amending the constitution, it is unlikely that the actual debate will start until the economic environment improves further, regardless of the Prime Minister's desire to move

forward. Furthermore, even if the number of supporters for revising the constitution is sufficient, a unified amendment proposal has not been agreed on, and it will be difficult to reconcile differences of opinion even within the supporting side. The Prime Minister is also aware that his cabinet's approval rating depends on its economic policies rather than on amending the constitution. Consequently, there is little risk of economic policies taking a backseat, thus causing disappointment in the market.

In sum, the Upper House election result is unlikely to usher in any significant changes beyond large fiscal stimulus measures. Indeed, we are not worried that the Prime Minister will focus on constitutional reform before the economy recovers sufficiently. Even after that, it will take time to initiate the complicated constitutional discussions, even with his alliance partners. For further confirmation of our views in this regard, we will closely observe what kind of message the government puts out with the cabinet reshuffle scheduled for early August.

## Important Information

This document is prepared by Nikko Asset Management Co., Ltd. (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute investment advice or a personal recommendation and it does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this material will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor a guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realized. Investors should be able to withstand the loss of any principal investment. The mention of individual stocks, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document,

provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association/Japan Securities Dealers Association.

**United Kingdom and rest of Europe:** This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules).

This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the FCA (122084). It is directed only at (a) investment professionals falling within article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, (as amended) (the Order) (b) certain high net worth entities within the meaning of article 49 of the Order and (c) persons to whom this document may otherwise lawfully be communicated (all such persons being referred to as relevant persons) and is only available to such persons and any investment activity to which it relates will only be engaged in with such persons.

**United States:** This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments. This document should not be regarded as investment advice. This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity.

**Singapore:** This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you

**Hong Kong:** This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong.

**Australia:** Nikko AM Limited ABN 99 003 376 252 (**Nikko AM Australia**) is responsible for the distribution of this information in Australia. **Nikko AM Australia** holds Australian Financial Services Licence No. 237563 and is part of the Nikko AM Group. This material and any offer to provide financial services are for information purposes only. This material does not take into account the objectives, financial situation or needs of any individual and is not intended to constitute personal advice, nor can it be relied upon as such. This material is intended for, and can only be provided and made available to, persons who are regarded as Wholesale Clients for the purposes of section 761G of the Corporations Act 2001 (Cth) and must not be made available or passed on to persons who are regarded as Retail Clients for the purposes of this Act. If you are in any doubt about any of the contents, you should obtain independent professional advice

**New Zealand:** Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562) holds Managed Investment Scheme Manager licence in New Zealand and is part of the Nikko AM Group. This material is for information purposes only. It is NOT intended for or directed towards retail investors but is for the use of researchers, financial advisers and wholesale investors. It has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. A reader must not rely on the information as an alternate to expert and customised advice from their trusted financial/legal adviser.