

THEMATIC

Japan: Policy continuity expected under Sugaonomics

Striving to consolidate power with a snap election, Mr. Suga vows continuity of Abenomics and hints at additional fiscal stimulus. Domestic politics aside, we expect global factors and positioning to play a key role for Japanese equities and currency.



CLAIRE HUANG
Macro-Strategist, EM



FEDERICO CESARINI
Cross Asset Strategist



ERIC MIJOT
Head of Developed Markets Strategy Research

Following Shinzo Abe's resignation over health issues, Yoshihide Suga was elected as the President of Liberal Democratic Party (LDP) and the 99th Prime Minister of Japan in mid-September. By design, Mr. Suga will serve out the remainder of Abe's term as LDP leader, which officially ends in Sep 2021. A month later, Japan's Lower House election is due to take place.

Political incentives for a snap election are strong. Polls indicate Mr. Suga started his term on a high note. His approval rating right after inauguration was higher than Abe's in 2012 and the third highest since 2000. If history is any guide, his approval rate will start to fall and the waiting strategy won't play out well. Instead, the new administration could utilize this honeymoon period, and consolidate power whilst it can. In addition, a snap election will leave the newly-merged opposition party CDP little time to bring the fractious opposition forces together.

End-2020 or early 2021 is more likely than a delay into summer. A snap election is likely to take place months before the Tokyo assembly elections in July and the Tokyo Olympics from 23 July to 8 August. As a prelude, we expect to see Suga administration introduce a third supplementary budget in October. The administration has also hinted at an expansive fiscal stance for FY2021. That said, remarks from the ruling coalition party Komeito and Mr. Suga have ruled out an election in October. They stated the government's top priority now is to bring Covid-19 under control.

Political stability is likely and will be supportive for markets. With a boost from the latest leadership reshuffle, the ruling LDP will likely hold onto power. Meanwhile, support for opposition parties has been fragmented. If LDP wins the general election, Mr. Suga will enjoy a greater chance to be re-

elected in the LDP leadership contest next year and remain in office until September 2024. This provides a period of stability and policy continuity for Japanese markets in the medium term.

Essentially, Sugaonomics promises a continuation of Abenomics. But Mr. Suga is also believed to be capable to drive forward reforms, thanks to his extensive experience and network. He has panned out a reform agenda with a near-term focus on digitalisation. Other ambitious goals include restructuring regional banks, rejuvenating SMEs, and reshoring of Japanese production chains.

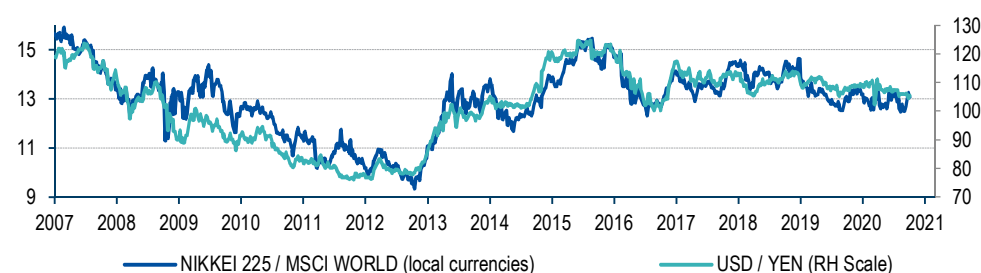
Market implications

With Mr Suga's election as President of the LDP, the initial response of the JPY was to strengthen, as investors started pricing in a possible end of *Abenomics*. Although the programme failed to achieve its targets, a significant shift in domestic policies seems unlikely at this stage. Odds remain in fact in favour of policy continuity in the short term and, as a result, we believe the JPY would be mainly driven by external risk factors. With expectations of a global recovery in 2021, sentiment normalization should offset any potential upside coming from the increased focus on domestic reforms, Sugaonomics should bring going forward.

As far as the equity market is concerned, Japan is one of the most cyclical markets globally. Industrials, which should be among the winners of the coming cycle, account for 20% of the market vs. 9.6% for the MSCI World. Japan is therefore a natural candidate to increase the cyclicity of a Global Equity portfolio, especially as the BoJ program to buy ETFs is helping to reduce market volatility; the new political situation should not be a game changer in this respect.

Finalised on 24/09/2020

1/ Japan: Equity Market and FX



Amundi Research Center



Find out more about
Amundi publications
research-center.amundi.com

Emerging Private Equity
Money Markets Find Monetary
Foreign Top-down Policies
Exchange Corporate Equities Bottom-up
Sovereign Bonds Forecasts
ESG Fixed Income Yield Real Estate
Quant Investment Asset
Strategies Allocation

DISCLAIMER

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.mscibarra.com).

In the European Union, this document is only for the attention of "Professional" investors as defined in Directive 2004/39/EC dated 21 April 2004 on markets in financial instruments ("MIFID"), to investment services providers and any other professional of the financial industry, and as the case may be in each local regulations and, as far as the offering in Switzerland is concerned, a "Qualified Investor" within the meaning of the provisions of the Swiss Collective Investment Schemes Act of 23 June 2006 (CISA), the Swiss Collective Investment Schemes Ordinance of 22 November 2006 (CISO) and the FINMA's Circular 08/8 on Public Advertising under the Collective Investment Schemes legislation of 20 November 2008. In no event may this material be distributed in the European Union to non "Professional" investors as defined in the MIFID or in each local regulation, or in Switzerland to investors who do not comply with the definition of "qualified investors" as defined in the applicable legislation and regulation. This document is not intended for citizens or residents of the United States of America or to any "U.S. Person", as this term is defined in SEC Regulation S under the U.S. Securities Act of 1933. This document neither constitutes an offer to buy nor a solicitation to sell a product, and shall not be considered as an unlawful solicitation or an investment advice. Amundi accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material. Amundi can in no way be held responsible for any decision or investment made on the basis of information contained in this material. The information contained in this document is disclosed to you on a confidential basis and shall not be copied, reproduced, modified, translated or distributed without the prior written approval of Amundi, to any third person or entity in any country or jurisdiction which would subject Amundi or any of "the Funds", to any registration requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this material is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching applicable legal or regulatory requirements. The information contained in this document is deemed accurate as at the date of publication set out on the first page of this document. Data, opinions and estimates may be changed without notice.

You have the right to receive information about the personal information we hold on you. You can obtain a copy of the information we hold on you by sending an email to info@amundi.com. If you are concerned that any of the information we hold on you is incorrect, please contact us at info@amundi.com.

Document issued by Amundi, "société par actions simplifiée" - SAS with a capital of €1,086,262,605 - Portfolio manager regulated by the AMF under number GPO4000036 - Head office: 90 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - www.amundi.com
Photo credit: ©MDelporte - iStock/Getty Images Plus - Suriyapong Thongsawang

Chief editor

BLANQUÉ Pascal, Group Chief Investment Officer

Editor

DEFEND Monica, Global Head of Research

With Global Research contributors

AINOUZ Valentine, Deputy Head of Developed Markets Strategy Research, CFA
BELLAICHE Mickael, Fixed Income Strategist
BERARDI Alessia, Head of Emerging Markets Macro and Strategy Research
BERTONCINI Sergio, Head of FI and FX Research
BLANCHET Pierre, Head of Investment Intelligence
BOROWSKI Didier, Head of Global Views
HUANG Claire, EM Macrostrategist
CESARINI Federico, Cross Asset Strategist
DELBO' Debora, Global EM Senior Strategist

With the Amundi Insights Unit contribution

BERTINO Claudia, Head of Amundi Investment Insights Unit
FIOROT Laura, Deputy Head of Amundi Investment Insights Unit
DHINGRA Ujjwal, Amundi Investment Insights Unit

Conception & production

BERGER Pia, Research
PONCET Benoit, Research

Deputy-Editors

BLANCHET Pierre, Head of Investment Intelligence
BOROWSKI Didier, Head of Global Views

DROZDIK Patryk, EM Economist
GEORGES Delphine, Fixed Income Strategist
HERVE Karine, EM Senior Economist
LEONARDI Michele, Cross Asset Analyst
MIJOT Eric, Head of Developed Markets Strategy Research
LETORT Valérie, Fixed Income Strategist
PERRIER Tristan, Global Views Analyst
PORTELLI Lorenzo, Head of Cross Asset Research
USARDI Annalisa, Senior Economist, CFA
VARTANESYAN Sosi, EM Senior Economist

LICCARDO Giovanni, Amundi Investment Insights Unit
PANELLI Francesca, Amundi Investment Insights Unit