Maybank

FX

Global

FX Flash

JPY and Election Concerns

LDP Coalition Fails to Secure Majority

Over the weekend, the LDP plus its ally Komeito failed to secure a majority in the House of Representatives in the Japanese General Election. **LDP and Komeito themselves won 215 seats out of 465, which is short of the 233 needed.** Prime Minister (PM) Shigeru Ishiba had called for the elections in an attempt to get a fresh mandate (after being PM for less than a month) but instead, the elections look to have resulted in a more complex situation for the LDP. The LDP we believe can still form the government and Shigeru Ishiba would stay as PM too given 1) the party would find it difficult to blame him for the losses given his short tenure so far and 2) the LDP can still form the government with the support of other opposition groups via partnerships or in coalition (Ishiba did say that the LDP is not thinking of broadening its coalition, which hints that partnerships could be the working model instead). Ishiba himself has already indicated that he would continue as PM given his comments that “national policies cannot stagnate for even one moment”.

How Much Did the Election Result Drive USDJPY Today?

Just after the completion of the elections on Sunday, the USDJPY climbed higher on Monday to break above the 152.00 resistance level. At time of writing, it was last seen trading at around 153.22, having come off its day high. The pair’s move may have created the impression that the election result weighed quite substantially on the JPY. However, we did not necessarily see similar moves elsewhere in the market. The Nikkei 225 and TOPIX actually rallied today despite initial expectations of a decline. Also, compared to about a week back, the yield curve is actually flatter although we note that the 10Y yield did rise more than the 2Y over a one-day period. Given these movements in other assets classes, we are made to somewhat believe that the election itself may not necessarily have had such a heavy impact on the USDJPY today. Prior to the results, polls were already implying a risk that the LDP and Komeito may lose their majority and that equities were already underperforming compared to the rest of the world. Markets therefore could have already leaned towards pricing in a more uncertain scenario of the Ishiba administration being ousted but that is looking less likely to happen.

Rather, the climb of USDJPY post the elections we believe may have been driven more by the jump in UST yields today with the US presidential elections (5 Nov 2024) just about a week away and the upcoming key US data/events happening this week (e.g. NFP, JOLTS, quarterly treasury refunding, PCE core). There would also be a Fed decision due next week on the 7 Nov, just after the US presidential elections. Going forward, we see that these external events related to the US are likely to play a bigger part in determining USDJPY movements.

We do take note of a BOJ decision due on Thursday but we expect a hold and Ueda himself had already hinted about the possibility of no hike in Oct as he said he believed that they have time. We also see that Ueda may continue to try to imply only a gradual pace of tightening on the part of the central bank. The impact on the currency from the central bank decision and words we believe is likely limited given the market pricing. The OIS is implying of a low likelihood of a move come the Oct meeting and already indicates a reasonable chance of a BOJ move come Jan 2025, which would be in line with a gradual pace of BOJ hiking.

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Going forward, a special parliamentary session has to be held within 30 days following the election (27 Oct 2024) to select the prime minister. According to a Kyoda news article, which quoted sources, Ishiba had initially considered 7 Nov 2024 to form a new government but the plan is now revised to allow more time to try to conjure up a majority for the prime ministerial vote. Ishiba's need to garner support does though raise concerns about him having to compromise on less fiscal tightening. However, whilst we do think that he may need to slack somewhat on the fiscal side, he would not though veer too much towards the loose policies of Abenomics. Meanwhile, further into 2025, there would be have to be a House of Councilors election that needs to be held by 27 Jul 2025.

Where would the USDJPY Head Near Term?

As mentioned, US events and data are looking to be the biggest drivers for the USDJPY move into the next two weeks. At this point, market still looks to be continuing to ramp up bets on a Trump win and for that matter Republican sweep as implied by continued rises in UST yields (given concerns of tariffs being inflationary) and Trump Media and Technology Group. Additionally, risks of strong US data readings related to jobs could also be keeping markets on the edge. At this point, we are staying wary of further upside risks for the USDJPY even as the pair appears stretched at this point and bullish JPY positioning has already substantially come off. We are though cognizant of further jawboning from government officials and the risk of intervention limiting the upside.

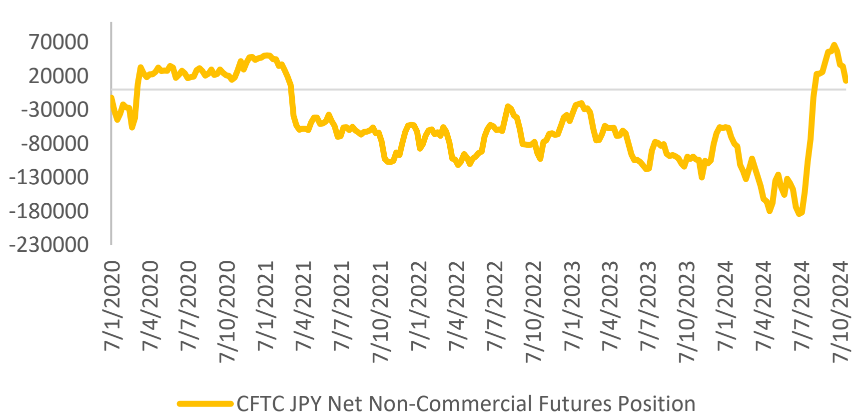
In the medium term, we continue to stick to our forecast expecting that the USDJPY would come off in time given our expectations that the Fed would continue to ease as US data cools. Our economist sees a further 50bps of Fed cuts this year and another 125bps cuts next year. We also stick to our view for the BOJ to continue on its gradual hiking cycle seeing the possibility of a 25bps hike in Dec 2024 (although our forecast can be skewed to a later date if political uncertainty persists) and 50bps next year as a virtuous wage-price cycle becomes more entrenched. The US – JP yield differential should therefore narrow more in favor of the JPY.

Table 1: USDJPY Forecasts

Forecast	4Q 2024	1Q 2025	2Q 2025	3Q 2025
USDJPY	138.00	136.00	134.00	132.00

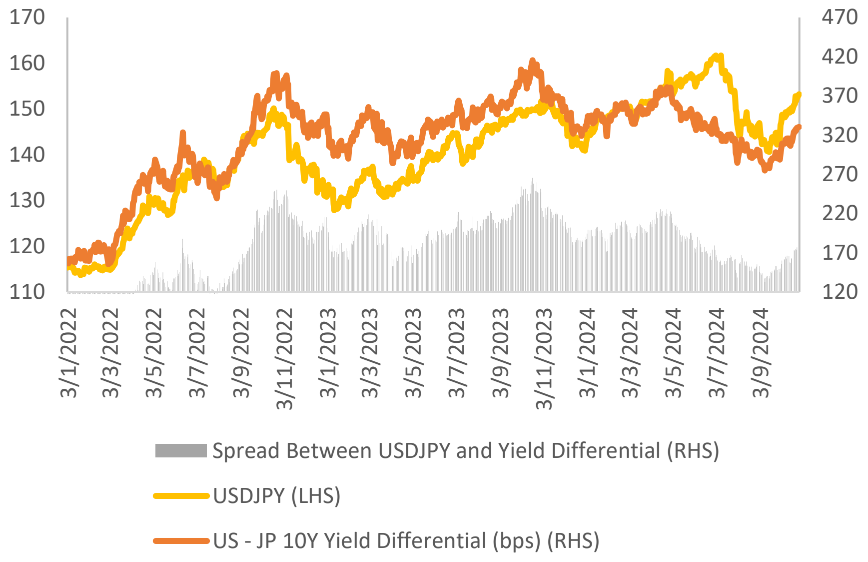
Source: Bloomberg, Maybank FX Research & Strategy

Chart 1: Bullish Positioning Has Come off Quite a Bit



Source: Bloomberg, Maybank FX Research & Strategy

Chart 2: US - JP Yield Differentials Has Guided USDJPY Higher in Recent Weeks



Source: Bloomberg, Maybank FX Research & Strategy

Chart 3: Technicals Imply Pair is Stretched on the Upside

Resistance Levels: 155.00 and 160.00 (Both Key Psychological Levels)

Support: 151.45 (200-dma) and 144.00

Source: Bloomberg, Maybank FX Research & Strategy

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