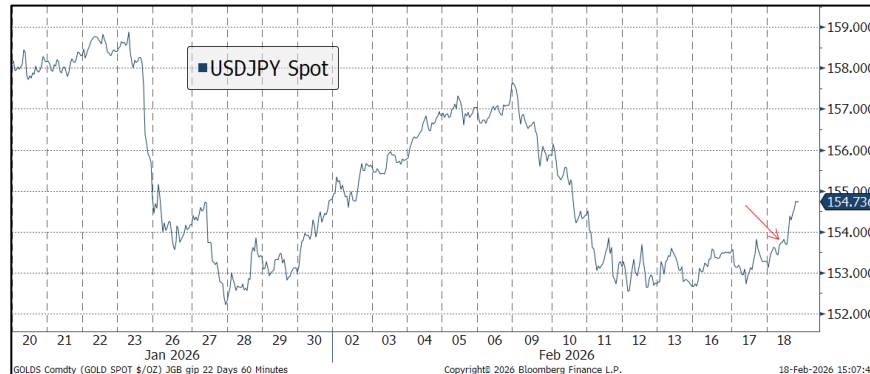


## Takaichi Unsettles the Yen

On a day when broad Dollar strength was the theme, driven by [reports of an escalating risk of conflict with Iran](#), Japan Prime Minister Takaichi's press conference upon her re-election to the premiership has gotten lost in the shuffle. But her comments were **not friendly towards the Yen.**



While the “Buy Japan” theme has dominated in the wake of Takaichi's landslide victory, and there is plenty to recommend her in terms of her leadership style and a robust security agenda, today's comments were a reminder that **her economic polices are unsound.**

Her economic platform is centered upon a security-focused industrial plan designed to trigger a self-reinforcing growth cycle. It's a Keynesian bastardization of supply-side economics, of which I'm skeptical.

[According to Nikkei News](#), Takaichi on Friday will present “a sweeping budgeting reform, placing strategic investments under a ring-fenced multiyear framework to enhance predictability and attract private capital.”

*To accelerate economic expansion, she will push aggressive investment-promotion measures anchored in multiyear appropriations and long-term funds, arguing that greater fiscal predictability is essential to unlock sustained corporate spending on research, development, and capital formation.*

*The draft calls for breaking with the entrenched practice of compiling budgets on the assumption that supplementary packages will follow.*

*Necessary expenditures should, as far as possible, be incorporated into the initial budget. The transition will amount to a two-year overhaul culminating in the fiscal 2027 budget.*

Breaking the supplementary budget habit is a laudable goal, but given Takaichi's proclivity for active fiscal policy and the fact she's allowing for a two-year transition, it doesn't sound like 2026 is going to be the first year in over 30 *without* a supplementary budget.

And ring-fencing spending tagged as "investment" isn't going to fool anybody either, although the Nikkei suggests she'll try:

*She will argue that placing strategic investments under a dedicated multiyear framework will contribute to lowering the debt-to-GDP ratio.*

As for the proposed 2-year elimination of the 8% consumption tax on food, which Takaichi had seemed to back away from during the campaign, it's back on, though consultations with the opposition are expected to run into early summer. Takaichi suggested today that tax cut will be in the form of a refundable tax credit, providing a cash benefit to low earners.

Takaichi's fiscal consolidation plan amounts to targeting a growth rate of debt below that of nominal GDP:

*Responding to market concerns over fiscal deterioration, Takaichi will pledge to cap the growth rate of government debt below nominal gross domestic product growth, thereby putting the debt-to-GDP ratio on a downward trajectory.*

This is where Takaichi's lack of fiscal credibility becomes dangerous. Her fiscal framework is built on a "supply-side spending spree," and she's benchmarking its feasibility by a metric dependent on strong nominal GDP growth. At the same time, she's fostering the impression of arm-twisting the BoJ.

Given her refusal to abandon the 2013 Government/BoJ "[joint statement](#)," which commits the central bank to "policy coordination," she has the motives and, unlike President Trump, the means to pressure her central bank governor.

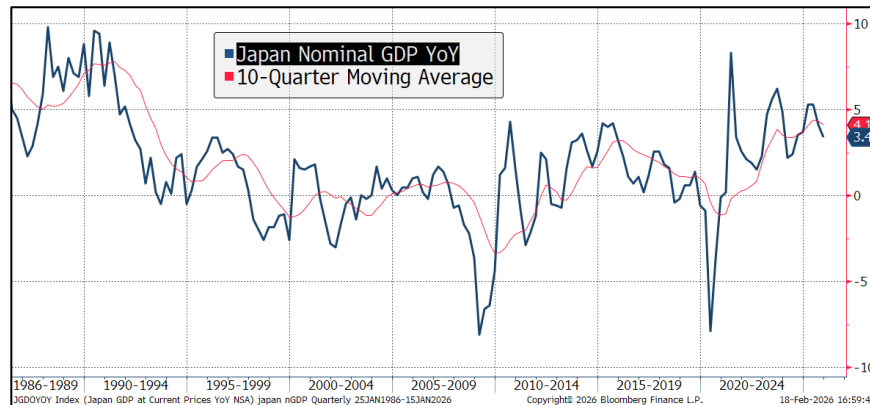
When asked today about her recent meeting with BoJ Governor Ueda, Takaichi declined to elaborate on what they discussed, but [said](#):

*"I hope the BOJ continues to work closely with the government and conduct appropriate monetary policy, so that it sustainably and stably achieves its 2% inflation target accompanied by wage gains, rather than price rises driven by cost-push factors."*

Once again, Takaichi reveals a troublesome blindspot when it comes to the economic basics.

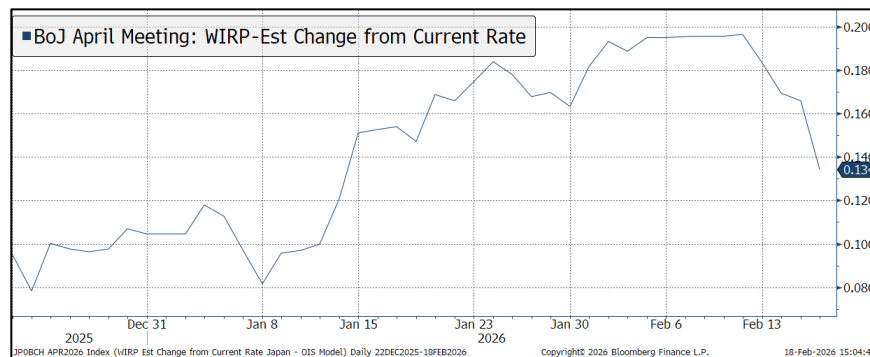
Japan has a 2% inflation target, and real potential growth is likely barely above zero. At 4% nominal GDP growth, we can't be blaming elevated inflation on supply factors or a "cost-push"

phenomenon.



Japan has an aggregate demand problem, and the Prime Minister needs to let BoJ Ueda get on with addressing it.

After peaking at +20bps, the Bloomberg WIRP function now shows an April BoJ hike at little better than a 50:50 proposition.



I don't know to what extent Takaichi is pressuring Ueda to "run it hot," and my expectation is still that the BoJ will come through with a 25bp hike in April. But if it begins to look like Ueda is stalling, JGBs and the Yen will be back in the soup.

To look on the bright side, all the key players – Takaichi, Ueda, and Finance Minister Katayama – are highly attuned to market feedback.

*\*TAKAICHI: CHECKING DAILY MARKET MOVES INCLUDING YIELDS, FX*

It's just not clear that the boss has gotten the message yet.