

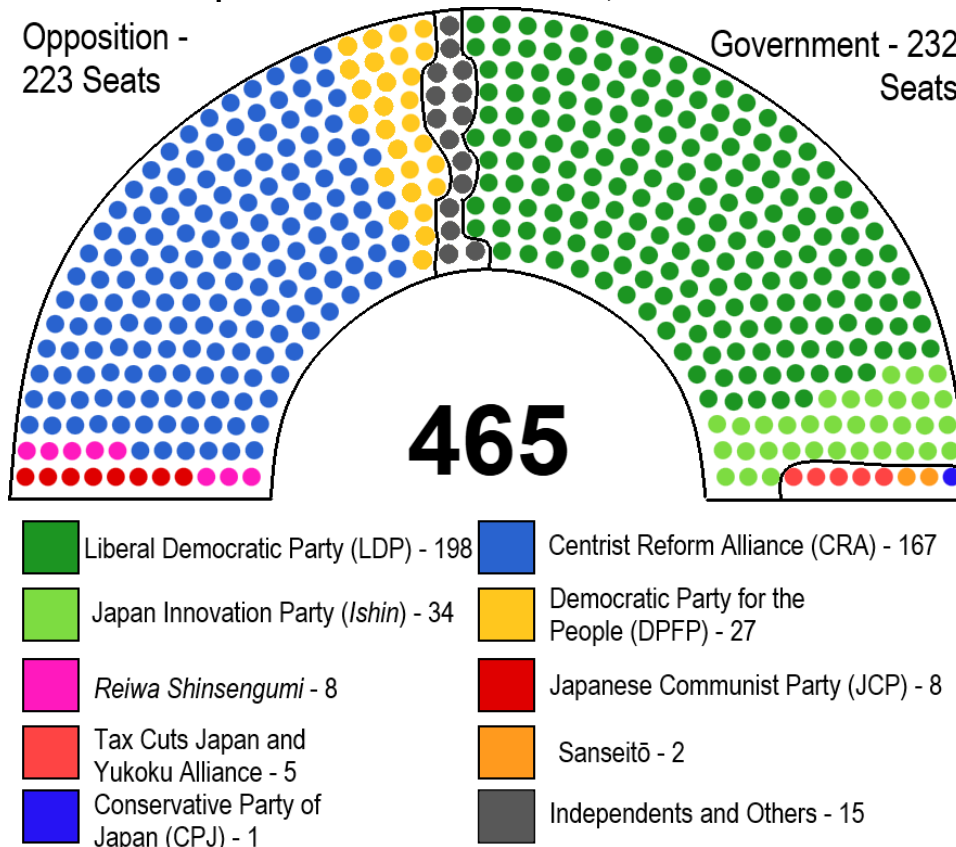
MNI POLITICAL RISK ANALYSIS - Japan Election Preview – February 2026

by Jonathan Cavenagh and Tom Lake

Japan holds a snap general election for the lower chamber of the National Diet, the House of Representatives, on Sunday, 8 February. The contest comes as part of an effort by Prime Minister Sanae Takaichi to reinforce her position as president of the governing Liberal Democratic Party (LDP) and take advantage of strong personal approval ratings to secure a majority in the lower House. Since winning the LDP presidency and taking over from Shigeru Ishiba, becoming Japan’s first female prime minister in October 2025, Takaichi has pursued a more robust stance in regional foreign policy and advocated for a “[responsible proactive fiscal policy](#)”. Markets will be watching the election closely for signs of whether Takaichi emerges emboldened or chastened from taking such a political gamble.

In this Election Preview, we outline the electoral system for the House of Representatives and the main parties contesting the vote, put together a chartpack of relevant opinion polling and predictions market odds, provide analysis of potential post-election scenarios with assigned probabilities, an outlook for the election from a financial market and macro perspective, and a round-up of analyst views on the vote.

Chart 1. House of Representatives at Dissolution, Seats



Source: shugiin.go.jp, MNI

Contents

Pages 2-3. Electoral System

Pages 3-4. Main Political Parties

Pages 4.7. Scenario Analysis

Pages 7-9. Markets and Macro Outlook

Pages. 10-12. Opinion Polling and Predictions Market Chartpack

Pages. 12-17. Analyst Views

Electoral System

On 19 January, Takaichi announced her intention to dissolve the House of Representatives on 23 January ahead of the election campaign formally getting underway on 27 January, marking the shortest election campaign in Japan's post-war history.

The general election will see all 465 seats in the lower chamber of the National Diet, the House of Representatives, up for grabs. Elections to the House use a parallel voting system, with 289 members elected in single-member constituencies via first-past-the-post, with an additional 176 elected in 11 multi-member constituencies using party-list proportional representation.

Those candidates standing from political parties legally recognised as such (five or more Diet members, or one or more Diet members and 2% or higher nationwide vote in a recent national election) can stand in a constituency as well as be put onto a multi-member constituency party list. This means if they lose in their constituency, they can still pick up a proportional seat. However, if a candidate wins less than 10% of the vote in their single-member constituency, they are also struck off the party list in the multi-member constituency.

Early voting began on 28 January and continues through until 7 February. In the 2024 general election, ~20.95mn cast their ballots early, equating to 20.2% of the total. Turnout in that vote stood at 53.84%. There is speculation that the figure could fall in 2026, with low early turnout expected due to the logistics of running such a short electoral campaign and heavy snowfall across areas of the country. On election day, polling stations will open at 0700JST (1800ET, 2300BST, 0000CET) and close at 2000JST (0700ET, 1100GMT, 1200CET). Exit polls will be published as polling stations close at 2000JST. Results will come through the night in Japan. In the event of a clear majority for the incumbent coalition, the result may be apparent by around midnight in Japan. However, if the count indicates that the seat total could come around the levels of a one-party majority, an 'absolute stable majority', or a supermajority, then it could be into the morning of 9 December when the result is confirmed.

Under the Constitution, a session of the National Diet has to take place within 30 days of the election to appoint a prime minister, setting a deadline of 10 March. In the event that the LDP-Ishin coalition maintains its overall majority, the reappointment of PM Sanae Takaichi could take place relatively quickly. Local media reports [suggest](#) that, in the event of an LDP majority, a new ordinary session of the Diet could be convened on 18 February, where

Takaichi would be re-elected, and her cabinet appointed. The PM and ministers would then deliver policy speeches on 20 February, ahead of a question period for party leaders in plenary sessions of both houses of the Diet on 25-27 February. Even in this accelerated scenario, the House of Representatives Budget Committee would begin its work on the FY26 budget on March 2. With deliberations on a provisional budget only likely to begin in late March, ahead of FY26/27 starting on 1 April, a provisional budget is likely to be required. This was last seen in 1990, a year that also saw a February election, with the final budget not coming until June.

Main Political Parties (Ordered by Seats at Dissolution)

- **Liberal Democratic Party** – LDP – Leader: **Sanae Takaichi**, 64 (*PM 2025-, LDP President 2025-, Minister of State for Economic Security 2022-24, Minister for Internal Affairs and Communications 2014-17 and 2019-20, Junior ministerial offices 2006-7, Member of House of Representatives 1993-2003 and 2005-*) – Conservatism, Japanese nationalism, centre-right, big-tent – Founded: 1955 – Seats in House of Representatives 198/465 – Seats in House of Councillors 101/248 – In Government? Yes
- **Centrist Reform Alliance** – CRA or *Chūdō* – Co-leaders: **Yoshihiko Noda**, 68 (*PM 2011-12, CRA co-leader 2026-, CDP leader 2025-26, President of the Democratic Party of Japan 2011-12, Minister of Finance 2010-11, Member of House of Representatives 1993-97, 2000-*) and **Tetsuo Saito**, 73 (*CRA co-leader 2026, Chief Representative of Komeito 2024-26, Minister of Land, Infrastructure, Transport and Tourism 2021-24, Minister of Environment 2008-09, Member of House of Representatives 1993-*) – Centrist, Japanese liberalism – Founded: 2026 – Seats in House of Representatives 172/465 – Seats in House of Councillors: CDP: 40/248, Komeito: 21/248 – In Government? No
- **Nippon Ishin no Kai** – Japan Innovation Party – Ishin – Co-leaders: **Hirofumi Yoshimura**, 50 (*Ishin co-leader 2024-, Governor of Osaka Prefecture 2019-26, Mayor of Osaka 2015-19, Member of House of Representatives 2014-15*) and **Fumitake Fujita**, 45 (*Ishin co-leader 2025-, Ishin secretary-general 2021-24, Member of House of Representatives 2019-*) – Centre-right, conservatism, economic liberalism, libertarianism, federalism, decentralisation – Founded: 2015 – Seats in House of Representatives 34/465 – Seats in House of Councillors 19/248 – In Government? Yes
- **Democratic Party for the People** – DPFP/DPP – Leader: **Yūichirō Tamaki**, 56 (*DPP Leader 2018-, Kibō no Tō Leader 2017-18, House member 2009-*) – Centre/centre-right, moderate conservatism, populism – Founded: 2020 – Seats in House of Representatives 27/465 – Seats in House of Councillors 25/248 – In Government? No
- **Reiwa Shinsengumi** – Founder & Co-Leader: **Taro Yamamoto**, 51 (*Reiwa leader 2019-, Member of House of Councillors 2013-19 and 2022-26, Member of House of Representatives 2021-22, TV and Film Actor 1990-2013*) – Left-wing, progressivism, left-wing populism – Founded: 2019 – Seats in House of Representatives 8/465 – Seats in House of Councillors 6/248 – In Government? No

- **Japanese Communist Party** – JCP – Chairperson: **Tomoko Tamura**, 60 (*JCP Chair 2024-*, *Member of House of Councillors 2010-*) – Far-left, communism, Marxism, pacificism, progressivism – Founded: 1922 – Seats in House of Representatives 8/465 – Seats in House of Councillors 8/248 – In Government? No
- **Tax Cuts Japan and Yukoku Alliance** – Leaders: **Kazuhiro Haraguchi**, 66 (*Minister of Internal Affairs and Communications w/DPJ 2009-10*, *Member of House of Representatives 1996-*) and **Takashi Kawamura**, 77 (*Member of House of Representatives 1993-96, 1996-09, 2024-*) – Ultraconservative, medical conspiracism, far-right – Founded: 2026 – Seats in House of Representatives: 5/465 – Seats in House of Councillors: 0/248 – In Government? No
- **Sanseitō** – Japanese: ‘Political Participation Party’, English: ‘Party of Do It Yourself!’, DIY – Secretary General: **Sohei Kamiya**, 48 (*DIY Secretary General 2020-*, *Member of House of Councillors 2022-*, *Member of Suita City Council 2007-12*) – Right-wing, Japanese nationalism, populism, ultraconservatism, anti-immigration, anti-vaccination – Founded: 2020 – Seats in House of Representatives: 2/465 – Seats in House of Councillors: 15/248 – In Government? No
- **Conservative Party of Japan** – CPJ – Leader: **Naoki Hyakuta**, 69 (*CPJ leader 2023-*, *Member of House of Councillors 2025-*) – Far-right, ultranationalism, populism – Founded: 2023 – Seats in House of Representatives: 1/465 – Seats in House of Councillors: 2/248 – In Government? No
- **Social Democratic Party** – SDP – President: **Mizuho Fukushima**, 70 (*SDP chair 2003-13 and 2020-*, *Member of House of Councillors 1998-*, *Minister of State for Consumer Affairs and Food Safety 2009-10*) – Centre-left/left-wing, social democratic, progressivism, pacifism – Founded: 1996 – Seats in House of Representatives 0/465 – Seats in House of Councillors 2/248 – In Government? No
- **Team Mirai** – Mirai – Leader: **Takahiro Anno**, 35 (*Team Mirai leader 2025-*, *Member of House of Councillors 2025-*) – Technocratic, E-democracy, pluralism – Founded: 2025 – Seats in House of Representatives: 0/465 – Seats in House of Councillors: 1/248 – In Government? No

Scenario Analysis

LDP Secures Solo Majority on the Back of Takaichi Wave – 60% Probability

- The most likely outcome of the snap general election looks to be the LDP winning an overall majority of 233 seats or more on its own. PM Takaichi called the election with the expectation that her personal popularity, demonstrated in very high approval ratings for her government, would be enough to carry her LDP, recording much lower support levels, over the finishing line. Opinion polling in the last days of the campaign show that this is a strong possibility.
- Takaichi’s more overtly nationalist/patriotic (depending on the voter’s viewpoint) stance on the regional political environment, most notably in taking a more hardline attitude towards China’s actions in East Asia, has garnered significant support among voters on the right. Moreover, Takaichi’s pledges of fiscal stimulus and reductions in the consumption tax have gone down well with a population struggling with cost-of-living issues.

- It is unclear whether, if the LDP secures its own majority, it will go back into coalition with Ishin, seek an alternative partner (likely the DPFP), or look to go it alone in government. The LDP has history of maintaining coalition governments even when it holds a majority, having sat in government with Komeito on several occasions since 1998, even when it was not mathematically necessary. Given that even if it secures a majority in the lower house, the LDP would still be reliant on other parties in the House of Councillors, some sort of coalition post-election looks a likely outcome.
- In this scenario, it is possible that the LDP alone, or almost certainly in coalition, would secure an 'absolute stable majority'. This comes at the 261-seat mark. If an 'absolute stable majority' is secured, then the government gains control of the process all standing committees in the lower house (where legislation is debated and amended, and can be delayed before reaching the floor). It ensures the government gets to elect all committee chairs, which in turn guarantees that its bills will reach the chamber floor. It also gives the government the ability to control the legislative timetable, without the need for opposition support. While not as powerful as a supermajority, this outcome would make for much smoother policy-making after the election.

LDP-Led Coalition Wins Two-Thirds Supermajority – 20% Probability

- Securing a two-thirds supermajority in the House of Representatives (310 of 465 seats) for the LDP-Ishin government (or indeed an LDP-DPFP government) would mark a notable achievement for Takaichi, having come from a low base in terms of seats following the 2024 general election.
- This outcome would provide the government with the ability to enact legislation even if it is subsequently rejected by the House of Councillors (where the government does not hold a majority). It would also enable the lower house to pass constitutional amendments, but this would be held up in the House of Councillors, where a supermajority is also required for passage.
- A supermajority for the government would give even greater impetus for Takaichi to pursue her full policy programme. While Takaichi has spoken of her admiration for the former British Prime Minister Margaret Thatcher, it is another erstwhile British PM that markets may be minded to invoke in this scenario, Liz Truss. The latter's 'mini-budget' in the autumn of 2022 contributed to market on the back of perceptions that tax cuts would not be funded, risking the credibility of UK government assets. Takaichi's major [programme of fiscal stimulus](#) without associated increases in revenue or cuts to government spending elsewhere [have raised comparisons](#) to the situation faced by Truss.

LDP Falls Short, Needs Coalition Partner To Govern – 15% Probability

- Should the LDP fall short of a one-party majority, it could well threaten Takaichi's position, given that the election would have essentially been called for nothing, with the LDP ending up where it started before the vote.
- Nevertheless, even if the LDP does not win a single-party majority, it is overwhelmingly likely to lead the next government, given that it has potential coalition allies on the centre-right in the form of Ishin or the DPFP. Both of these parties (likely

to take third and fourth place) would find it more difficult to work with the more avowedly centrist CRA in coalition.

- Without the mandate of a one-party majority, if Takaichi remains in place as PM, she would almost certainly be restricted in her ability to enact significant fiscal stimulus. This is due to the fact that Ishin would push for a more fiscally conservative package, and because, with Takaichi weakened, the fiscal hawks within the LDP centred on the former faction led by erstwhile PM Taro Aso would be able to exert more influence.
- An LDP underperformance could come as a result of an outperformance by the far-right *Sanseito*. Having secured a strong result in the 2025 House of Councillors election, the party is now looking to gain greater representation in the lower house. However, Takaichi's 'outsider' status has taken some of Sanseito's momentum. An 'assassin strategy' of targeting LDP lawmakers who are either new, with little in the way of name recognition or local support base, or related to scandals involving [party factions](#) or the [Unification Church](#), could see the party outperform expectations.

LDP Wins Solo Supermajority in Best-Ever Performance – 5% Probability

- Securing 310 seats for the LDP outright would mark the party's best-ever performance in a lower house election and would set the stage for a single-party government. Even though the LDP does not hold a majority in the upper house, it would still be able to push through legislation even if it did not have the requisite votes.
- While this may be viewed as a positive from a policy-enactment standpoint, it could deal some damage to the perceptions of the government if it is viewed as forcing through legislation without the backing of both houses of the National Diet in an overstep of its democratic boundaries.
- Such a result would potentially set Takaichi up to serve as prime minister for a sustained period of time. The last three prime ministers before Takaichi: Yoshihide Suga, Fumio Kishida, and Shigeru Ishiba served for a cumulative five years (with Kishida accounting for three of these). A supermajority would set up Takaichi to serve the entirety of the next term, running to 2030, and potentially longer.
- During the campaign, Takaichi has focused almost solely on cost of living issues and fiscal stimulus. However, with such a supermajority, she could prove inclined to pursue the security aim that evaded her mentor, former PM Shinzo Abe, during his time in office: the amendment to Article 9 of the Japanese constitution. This is the article that renounces the use of war and stops Japan from having a standing army.
- Foreign policy hawks have for years sought to change the article to allow for the development of Japan's Self Defence Forces into a fully-fledged army, but have run into opposition, both parliamentary and among the public. Such a robust endorsement of Takaichi's government could give renewed impetus for such a push, especially given the increasing concern among US allies in Asia regarding Washington's commitment under the Trump administration to the collective defence of its allies in the region in the event of a conflagration.

Wildcard Scenario: CRA Outperforms Amid Massive Polling Error

- The calling of a snap election, and especially one with such a short campaign period, always raises the risk of unexpected outcomes. While pre-election opinion polling has shown the CRA falling well short of a majority, if the wave of support for PM Sanae Takaichi undershoots expectations, it could see the CRA pull off an astounding win.
- The poor weather across swathes of Japan in recent days, including snowstorms that have killed scores, could see turnout fall below what is expected. In recent years, turnout has averaged around the 52% mark. This rose to 58% in last year's House of Councillors election, as previous non-voters flocked behind the far-right Sanseito party. Those parties with long-standing voter bases and campaign networks, such as the CDP and Komeito, which united to form the CRA, could stand to benefit in a low-turnout scenario.
- The short election campaign and lack of preparation mean the LDP and Ishin are contesting one another in +80 single-member constituencies. Splitting the conservative vote in these seats could see CRA candidates win on relatively low vote shares.
- A scenario in which an LDP-Ishin or LDP-DPPF coalition falls short of a majority, or where the CRA emerges as the largest party, would almost certainly mark the end of Takaichi's short tenure as prime minister as she would carry the blame for calling the snap election. In terms of policy implications, it would be an extremely unclear situation. The identity of the next LDP leader could change the party's policy priorities, and if the CRA were able to lead the next government, there is some uncertainty as to the policy priorities given that the CDP-Komeito alliance only formed a few weeks ago.

Markets & Macro Outlook

The outcome of the Japan election is likely to be a key focus point for markets, particularly if the result delivers a strong result for current PM Takaichi.

Broader JGB pressures...

Since Takaichi became PM in 2025, the general consensus trade for markets in Japan has been for a pro-growth agenda, via supportive fiscal policy. This has generally involved higher local equities, a weaker yen and higher JGB yields, particularly for longer-dated bonds. The chart below plots the 10yr, 20yr and 40yr outright JGB yields. The trend move higher in yields accelerated into late 2025 and surged in January as the election was confirmed, and a sales tax cut was the main discussion point amongst the major parties.

...Particularly around the 5yr

Looking at recent JGB market developments: This week's 10- and 30-year JGB auctions appear poorly timed. Yesterday's 10-year auction was underwhelming, with the bid-to-cover ratio falling below its 12-month average, while the lowest accepted price also printed slightly weaker than pre-auction expectations. Attention now turns to the 30-year supply due tomorrow.

The yield curve remains at its steepest on record, although it has traded within a well-defined range since mid-year. Since late last year, the 2s/5s segment has seen the most pronounced steepening. As a result, the 5-year sits in a relatively unfavoured part of the curve.

Several factors continue to weigh on the 5-year sector:

- A potential fiscal boost under a Takaichi administration would imply increased debt supply, adding pressure to the sector. In December, the Japanese government announced plans to raise issuance of 2- and 5-year JGBs from January 2026 to help fund stimulus. At the January auction, 5-year issuance rose by around ¥100bn, while issuance for 10- to 40-year tenors was left unchanged.
- Should renewed yen weakness bring forward BOJ rate hikes relative to current pricing, 5-year yields would face upward pressure.
- The 5-year has recently been, and is likely to remain, a preferred duration to short for more aggressive traders. In particular, the strategy of shorting 5-year versus 30-year bonds to express flattening themes appears to have further room to run as the BOJ moves closer to another hike.

Chart 2. JGBs 2/5 Curve



Source: Bloomberg

USD/JPY Dips Likely To Remain Supported

The weaker yen angle came from the perspective that Takaichi is considered a monetary policy dove and would likely push the central bank to keep a modest pace of rate increases.

A large portion of the leveraged short Yen positions being built up heading into the elections has been washed out thanks to the Fed/MOF rate check after the BOJ rate decision. This large move lower was more down to overextended positioning than fundamentals, and as we head toward this weekend's election, all the reasons for the Yen short will come back to the fore. This should see USD/JPY, which has lost its immediate upward momentum, remain well supported on dips as the market looks toward the 160.00 area once again.

Chart 3. Spot USD/JPY



Source: Bloomberg

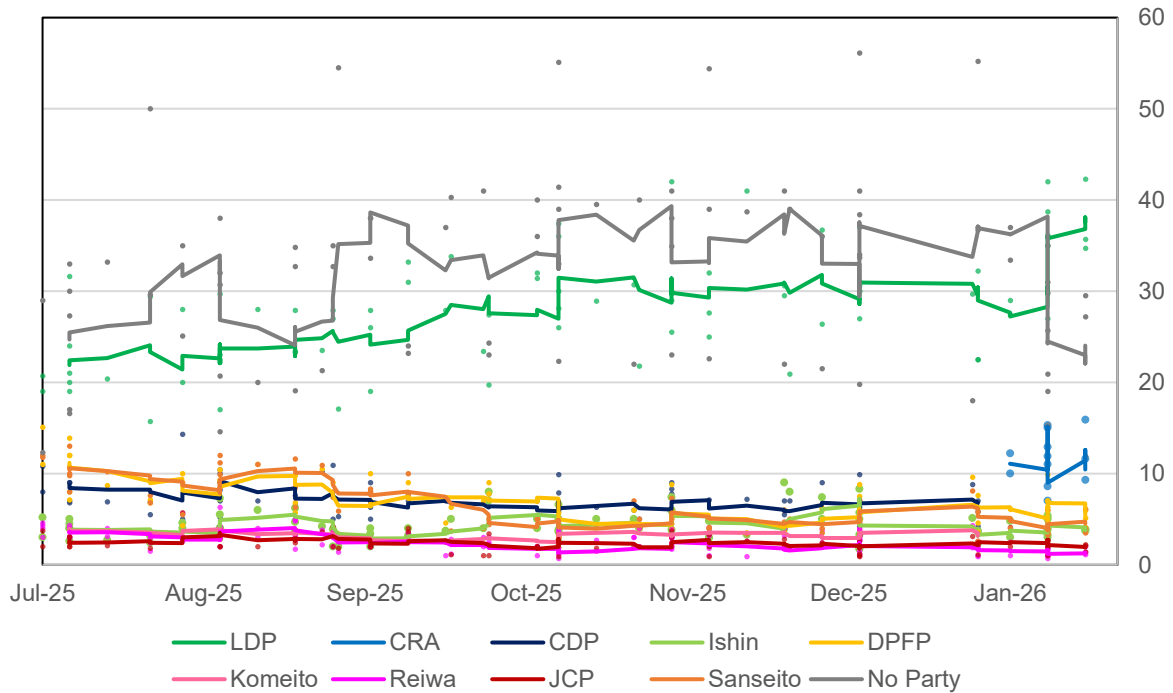
A strengthened Takaichi, post the election, could see these trends continue or strengthen. It is, however, important to note that to some degree, markets have likely already priced in a strengthened Takaichi hand.

Market focus is likely to be on the fiscal outlook and the extent to which the government wants to push its pro-growth agenda via fiscal policy. At this stage, there isn't much detail on how the sales tax cut will be funded. The Takaichi government has aimed to play down fiscal/debt fears, but the market is not convinced yet.

The BoJ did manage to raise rates in December last year, not long after Takaichi came to power, so we would see risks of pushback on further BoJ hikes.

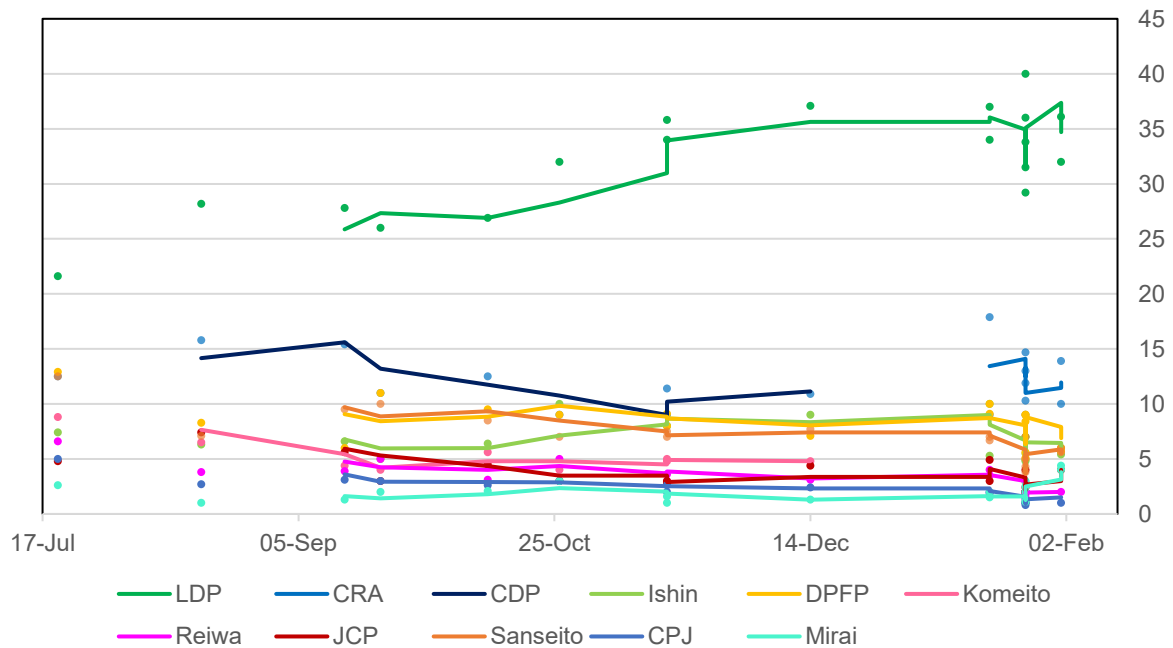
Opinion Polling & Predictions Market Chartpack

Chart 4. Party Identification Opinion Poll, % and 6-Poll Moving Average



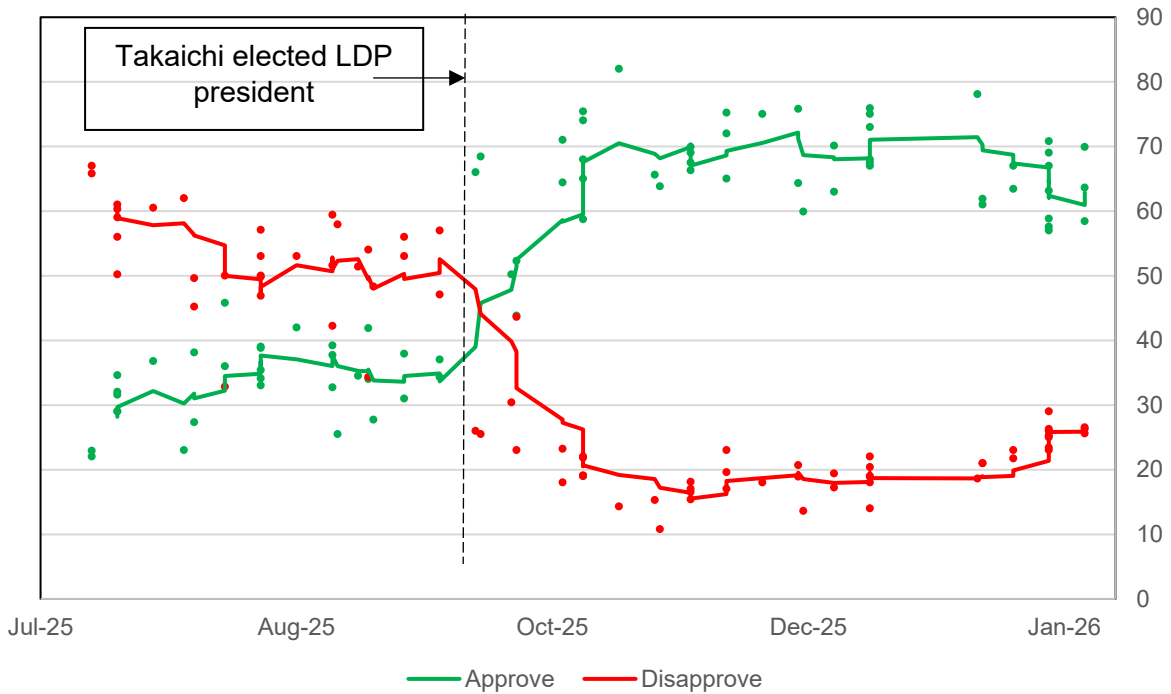
Source: JNN, Kyodo News, Senkyo.com, NHK, Jiji Press, Yomiuri/NNN, Sankei/FNN/Asahi, ANN, Mainichi/SSRC, Nikkei/TV Tokyo, MNI

Chart 5. Opinion Poll, Proportional Vote, % and 3-Poll Moving Average



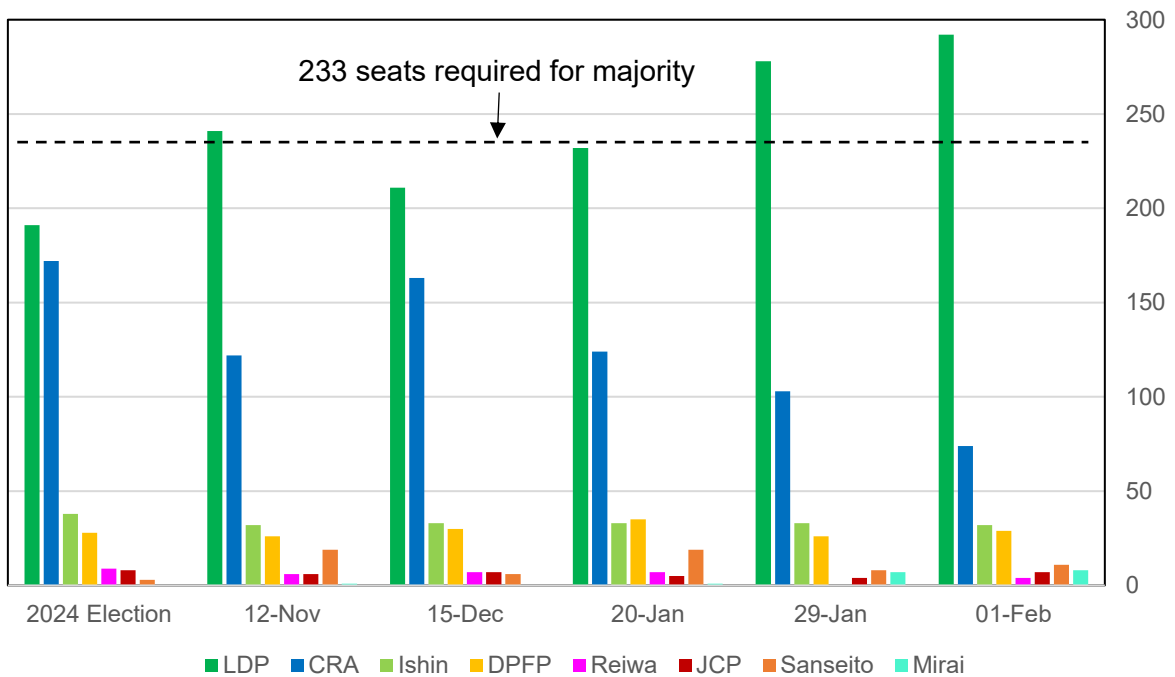
Source: JNN, Kyodo News, Senkyo.com, Yomiuri/NNN, Sankei/FNN/Asahi, ANN, Nikkei/TV Tokyo, MNI

Chart 6. Cabinet Approval/Disapproval Rating, % and 6-Poll Moving Average



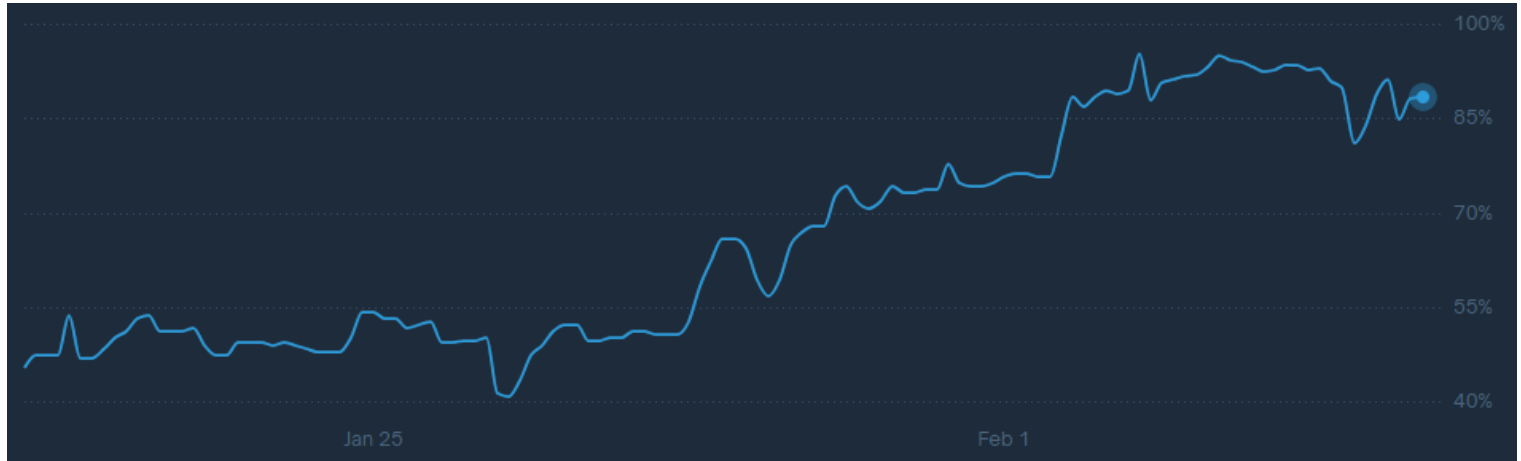
Source: JNN, Kyodo News, Senkyo.com, NHK, Jiji Press, Yomiuri/NNN, Sankei/FNN/Asahi, ANN, Mainichi/SSRC, Nikkei/TV Tokyo, Morning Consult, MNI

Chart 7. Opinion Polling Seat Projections



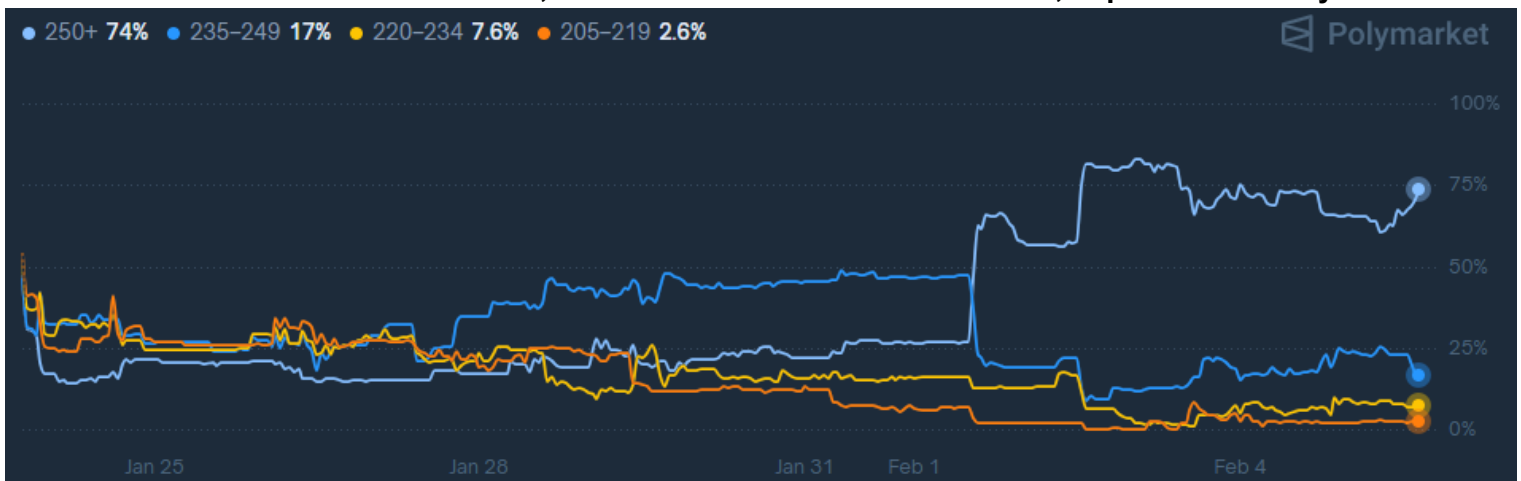
Source: Asahi, Mainichi, Asahi TV News, Weekly Genai, Shukan Bushun, Ministry of Internal Affairs and Communications, MNI

Chart 5. Predictions Market, 'Will the LDP Win a Majority?', % Implied Probability



Source: Polymarket

Chart 6. Predictions Market, Number of LDP Seats After Election, Implied Probability



Source: Polymarket

Analyst Views

Goldman Sachs

- Almost all parties have pledged to cut the consumption tax. In our view, a consumption tax cut limited to food items, and for 2 years, as per the ruling coalition's pledge, would be unlikely to undermine Japan's fiscal position at this stage. However, we see a high risk of the cut becoming permanent, given the considerable political effort required to restore the tax rate once lowered.
- A permanent consumption tax cut, combined with increased defense spending and higher interest payments, would bring forward the timing of the government debt-to-GDP ratio moving onto a long-term upward trajectory.
- If the ruling coalition were to maintain its majority in the Lower House (or if the LDP alone were to secure an outright majority), it is unlikely that the FY2026 initial budget bill, approved by the Takaichi cabinet in December 2025, would be significantly revised. However, if the ruling coalition were to win a landslide victory as some media

analyses predict, the strengthening of PM Takaichi's leadership would increase the possibility of a spur to fiscal expansion.

- In particular, from mid-2026 onward, discussions on the consumption tax cut (the cross-party National Council is expected to proceed with discussions from spring to summer) and the materialization of growth strategy investments based on the PM's own proactive fiscal policy (expected to be announced alongside the Basic Policy for Economic and Fiscal Management and Reform around June) would likely progress, raising market concerns about fiscal risks from FY2027 onward.
- ...except for a scenario where PM Takaichi scrapes by with a narrow increase in seats for the ruling coalition, fiscal expansion risks appear to be generally skewed to the upside.
- We believe the BOJ's stance is shifting from its previous cautious approach to one oriented toward steady rate hikes, as the BOJ becomes more conscious than before of the risks of delaying hikes, amid a growing recognition that the realization of its price stability target is steadily drawing nearer. Given this, and taking into account the moderate pace of rise in the economy and prices, we believe the BOJ will revert its pace of rate hikes to a semi-annual schedule with the next rate hike at the July meeting.

ING

- ...reducing inflation became a primary focus of the election campaign. Takaichi resumed energy subsidies last year via the supplementary budget. We see the impact of the subsidy from the recent sharp decline in inflation readings. The focus has now turned to food prices. The food consumption tax rate of 8% is expected to reduce inflation by approximately one percentage point though at a cost of ¥5 trillion revenue loss (6% of total tax revenue). Although households may benefit from lower living costs, markets are worried about fiscal stability due to uncertain funding for the tax cuts.
- However, after experiencing recent market volatility, Takaichi has adopted a more cautious stance on food tax cuts. She has avoided directly addressing the proposal during the campaign, focusing instead on “responsible and proactive public finances”. Now she remains vague on implementation timing and prefers to “accelerate the discussion” to keep the agenda neutral.
- If the LDP secures a majority in the lower house, Takaichi could speed up tax cut talks. She will argue that she has the public mandate. But a consensus still needs to be reached by the national council. The same should apply in case there is a super majority.
- ...the LDP has not specified when the tax cut might take effect. Additionally, the party has made explicit commitments to lowering Japan's debt-to-GDP ratio and implementing fiscal reforms. Therefore, the LDP is anticipated to devise strategies that prevent a sharp increase in the fiscal deficit.
- ...we anticipate that government spending will rise further to address issues related to an ageing population and increased welfare needs. We expect investment in automation and digital technology to lead to higher expenditures as well. Due to Takaichi's significant spending plan, the goal of achieving a primary budget surplus by fiscal year 2025/2026 was not met and has been postponed. We do not expect an

abrupt rise in debt issuance under the Takaichi administration, but we still believe her policy stance should keep pressure on JGB yields.

- A positive election result for the LDP that would pump more air into the 'Takaichi trade' is a USD/JPY positive. USD/JPY could even approach 160/162 levels again on the back of this. Officials in Tokyo have made it clear they are uncomfortable with those kinds of levels, which, while good for exporters, also stand to increase import prices at a time when the government is trying to ameliorate the cost-of-living crisis. Therefore, FX intervention near 160/162 looks likely.

Natixis

- During the short election period, a potential reduction to the consumption tax became the focal point of the campaign. After [the] opposition proposed to lower or to eliminate the tax, Takaichi's Liberal Democratic Party (LDP) joined the bandwagon. As these proposals are likely to deteriorate Japan's fiscal position, the bond market reacted negatively...
- ...public opinion surveys by major Japanese media suggest that the LDP is heading to win an absolute majority, which could be regarded as the most bond market friendly result. The LDP will have less need to negotiate policies with other parties, which should, in principle, stem off the need to offer fiscal goodies to keep the support of opposition parties.
- If the LDP doesn't succeed in winning an absolute majority, financial markets could respond negatively, pushing JGB's yields even higher. This could also raise concerns about a potential intervention in the JGB market, especially after the verbal intervention on the Yen on January 23rd with the support of the Fed.
- Within this scenario of lack of absolute majority, the LDP will have less bargaining power to negotiate policies with its coalition partner, Japan Innovation Party (JIP). Furthermore, the Democratic Party for the People (DPP), which was once considered as a potential partner, has a much more aggressive position on the reduction of the consumption tax from the current 10% to 5%, which would further deteriorate Japan's fiscal balance.

Saxo Bank

- We think the election has turned into a live test of fiscal credibility. At the centre of the campaign is a very tangible cost-of-living pledge: a two-year suspension of the 8% reduced consumption tax on food (the reduced rate that has been in place since the 2019 move to a 10% standard rate). More broadly, the campaign rhetoric leans toward bigger fiscal support—tax relief and higher spending—alongside a push to fund priorities like security/defence and industrial policy.
- Scenario A — Strong win / clear mandate
 - Higher probability of fiscal expansion and cost-of-living relief measures.
 - A strong mandate can go two ways: it can enable bigger fiscal promises, but it can also make it easier to soften or phase in policies that would otherwise unsettle bond investors—because leadership can compromise from a position of strength.
- Scenario B — Win, but tighter-than-expected

- Policy still leans supportive, but implementation can become slower and more negotiated.
- Markets focus more on funding mechanics than headline promises.
- Scenario C — Messy result / coalition friction
 - Highest risk of a policy uncertainty premium.
 - Delays and diluted packages can reduce the growth impulse while keeping fiscal debates noisy—often the least comfortable mix for markets.
- We think the BOJ won't react to the election headline itself, but it may react to the consequences: If fiscal policy lifts inflation expectations or keeps price pressures sticky, the BOJ may face a stronger case for faster normalisation. If yen weakness feeds imported inflation, the BOJ can become more FX-sensitive at the margin. Risks: If yields rise sharply and tighten financial conditions, the BOJ may prefer caution to avoid destabilising growth.
- Japan's snap election is a test of mandate, but the market is testing something else: credibility. If bond demand stays stable, fiscal impulse can dominate. If the super-long end wobbles, credibility limits will set the boundary conditions for everything else, including yen, rates, and equities.

SEB

- Based on approval ratings Takaichi should be able to capture a strong majority on the February 8 election day. However, election outcome uncertainty is elevated as the previous coalition partner has switched to the opposition, and Takaichi being popular among the younger cohort that have a lower participation rate when it comes down to actual voting.
- Assuming a strong Takaichi majority on the February 8th election a return to max risk premium would imply USDJPY at 160, while a poor outcome for Takaichi could see USDJPY retrace towards 151.
- How things play out in Japan is increasingly important globally as the steepening/dysfunction of the Japanese bond market risks causing 'term premium' contagion globally. This could perhaps be a reason why the US Treasury/Fed would consider helping with currency intervention in order to change the narrative.
- ...the short squeeze in Yen has been limited and far from the unwind seen in late summer 2024. I.e. this would imply that the FX reaction to intervention could still be sizeable. A counterpoint, however, could be that the election outcome will have a muted FX response with traders knowing that intervention is likely on a sharp move...
- Beyond interventions, there is no quick fix to undo the current Japanese market dynamics as long as Takaichi commands a parliament majority and stays the policy course.

TD Securities

- We expect the LDP to win >233 seats, which would probably give the ruling coalition an absolute majority in the Lower House, effectively overruling opposition opinions in the Lower House.

- In voters' eye, we believe the CRA's election manifesto looks similar to LDP & Ishin, with no clear differential to sway voters to the CRA. More importantly, the CRA's lack of popularity among voters was evident in the last year Upper House election; Komeito suffered a bruising defeat while the CDP didn't manage to gain any seats despite LDP's missteps.

Possible Scenarios for the Ruling Coalition in the Lower House Election

Scenarios	Seats Needed	Probability	Policy Implications
Ruling Coalition Lose Majority	<233	1%	PM Takaichi vows to resign. Another LDP leadership race is likely
Simple Majority	233-243	4%	Minimum to Govern and Elect the PM
Stable Majority	243-260	30%	Able to select their own Chair for all 17 standing committees (SC) in the Lower House. Ruling Coalition gets 50% of the seats in each of these SC too
Absolute Majority (Baseline Scenario)	≥261	65%	Majority of members in all the SC. No need to compromise with opposition members. Last achieved during Kishida's term

Source: TD Securities

- An absolute majority in the Lower House would allow the ruling coalition to pass Takaichi's preferred policies/ legislation quickly and remove the need to compromise with the DPP and other opposition parties. [...] Markets will welcome the end of political uncertainty in Japan, albeit they still have to deal with PM Takaichi's bold fiscal intentions. PM Takaichi wants to ramp up investment and spending, deviating from LDP's traditionally conservative stance and towards "growth-focused" policies.
- Senior LDP members would try to restrain PM Takaichi's intentions given concerns on the lack of new funding avenues and weakness in the JPY. However, Takaichi's standing within the LDP is likely to be iron-clad if she leads the ruling coalition to an absolute majority...
- If Takaichi ramps up fiscal spending for her "growth-focused" policies and overly relies on deficit-financing government bonds, the downward trajectory for gross debt-to-GDP will be put to question, which may explain the violent dislocation in JGBs weeks ago.
- Absolute Majority Scenario (65%):
 - FX: USDJPY could pop higher by 2-3 figures, with the 160 level marking a key resistance level which also attracts onshore media attention. In case of a rapid move beyond 160, we expect the MoF to intervene in the FX market, possibly with the help of the US since the reaction in JGBs and the JPY may spill over to the US market.
 - Local Rates: JGB yields shoot higher, lending a steepening bias. We expect 10y to sell off by 10-15 bps and the 30y by 15-25bps. Markets are likely to mark inflation swaps higher and wider, and we forecast a lift in term premium. Markets are also likely to price in a full 25bps hike at its April meeting, earlier than our BoJ call for a July hike.
- Stable Majority Scenario (30%):
 - FX: We expect JPY weakness in this scenario with USDJPY moving higher but falling short of the 160 level.

- Local Rates: JGB yields rise and curve steepens. 10y yield +5bps and 30y +10bps.
- Simple Majority Scenario (4%)
 - FX: This scenario can potentially lead to some relief in markets as Takaichi fails to secure a large majority which can keep expectations of some form of checks and balances on her big fiscal plans. We expect USDJPY to move lower in this scenario towards 155.
 - Local Rates: JGB yields to rally in this scenario and curve flattens as fiscal concerns recede. 10y -5bps and 30y -10 to -15bps. Markets are likely to shave odds to the BoJ hiking at its Apr meeting towards 50-60%.

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