

PM Takaichi Set to Dissolve Lower House at Start of Ordinary Diet Session 10-Year JGB Yield Approaching 2.2%, a 27-Year High

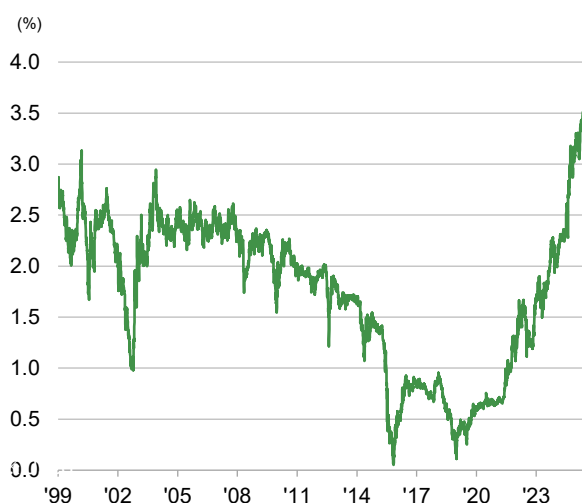
January 14, 2026

Fiscal Expansion and Inflation Pressures Rise on Expectations of Lower House Dissolution

It was reported that Prime Minister Takaichi informed senior LDP officials of her intention to dissolve the House of Representatives at the opening of the Ordinary Diet Session convening on January 23. This timing came as a surprise, as a spring dissolution—after the passage of the FY2026 budget—had been widely viewed as the most likely scenario. Many observers believe the prime minister aims to secure a firmer political base by calling an election while cabinet approval ratings remain high, thereby gaining enough additional seats to maintain a slim majority. However, it remains uncertain to what extent the high cabinet approval rating will translate into broader support for the LDP, whose party approval rating continues to languish. In addition, Democratic Party for the People (DPP) leader Yuichiro Tamaki has suggested that if the dissolution is timed in a way that jeopardizes passage of the budget within the fiscal year, the party may reconsider its cooperative stance toward the administration. This underscores that the decision requires careful consideration even for the administration. As a result, a high degree of uncertainty remains as to whether a snap election will actually be called.

Against this backdrop of rising expectations for a Lower House dissolution, long-term interest rates increased, particularly in the super-long end of the JGB curve, with the 10-year JGB yield approaching 2.2%. In the foreign exchange market, the Yen weakened further, trading in the JPY 159 per USD range. Behind these moves is the view that if the LDP-coalition government were to gain additional seats through the election—thereby strengthening the Takaichi administration—fiscal expansion, particularly demand-boosting measures, would accelerate. Combined with continued wage increases driven by structural labor shortages and sustained Yen weakness, inflationary pressures could intensify further, potentially forcing the Bank of Japan to consider earlier rate hikes. At the same time, the possibility remains that worsening Japan-China relations—such as China's tightening of export restrictions to Japan—could adversely affect Japan's economy and prices. We believe these developments warrant continued close monitoring.

30-Year Government Bond Yield



※Latest value as of January 13, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

10-Year Break-Even Inflation Rate (BEI)



※ Equivalent to the market's long-term inflation expectations; latest value as of January 13, 2026

Source: Bloomberg; Compiled by Daiwa Asset Management

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