

JAPAN IS READY FOR TRUMP

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Against the initial risk-off shock reaction in Japanese markets, I think Japan is actually well prepared for a Trump Presidency. In my view, Team Abe will surprise by speedy and constructive counter policy - a sizable fiscal "war chest" has been put aside already, de-facto monetized by a BoJ committed to cap borrowing costs at zero percent.

Moreover, once the dust settles and White House top-down economic policy leadership is re-established in Washington, corporate Japan could well benefit -- approximately 14 percent of the profits that Japan Inc makes comes from north-America based production; so Trump's promise of a sizable cut in corporate taxes could well add at least a couple of percentage points to Japanese earnings next year.

Be prepared....

Team Abe has been in power for almost four years, is well-coordinated and based on a two-thirds supermajority in parliament. Arguably, it is the most stable and coordinated policy regime in the world. Added bonus -- unlike Europe, Abe's financial regulators preside over a stable and well-capitalized banking system.

....and act

Ability and willingness to act is based by Team Abe's commitment to massive fiscal countermeasures -- ¥28trn, or 5.5% of GDP, were ratified by Abe's cabinet in early August. Clear speak -- the "war chest" has been put together ahead of time. No question that "Trump Risk" was a key motivation. Now, should Trump deflation risks rise, added fiscal boost can come quickly, and likely to be monetized by the BoJ.

What about the Yen?

Today's "risk off" reaction --Yen strength, Nikkei crash-- is de-facto standard procedure market reaction. Whether it turns into a genuine crash depends on Trump's ability to demonstrate policy leadership. If, as I suspect, he presents a credible team of professionals in his policy team over the next four-six weeks, risks of a sustained rot should recede. The sooner the deal-maker and pragmatist capitalist replaces the divisive campaigner, the better.

For currencies, a key force should be US trade policy -- if America turns outright protectionist by imposing tariffs on imports a structural downshift in the dollar is likely. Here, in my personal view, the hope is that President Trump turns out to be a pragmatist and deal maker. U.S. industry, which relies for almost half of its sales on the rest of the world, is poised to work overtime to prevent a Washington-led global trade war.

Note here that not proceeding with TPP is not the start of a trade war. It merely keeps the status quo -- no added benefits, but also, on its own, no added damage. As discussed, tariffs or not tariffs are the litmus test.

Meanwhile, Trump's election promise of ending tax inversions and incentivizing re-patriation of overseas earnings should, at the margin, add to the demand for dollars.

Domestic agenda

In Japan, the TPP legislation is poised to pass parliament regardless. This is because the added support for farmers and regional economies is integral part of Team Abe's domestic policies -- with or without the potential trade liberalization.

Meanwhile, Abe's personal ambition of re-writing Japan's constitution to allow greater self-

dependency and independence is possibly being turbo-charged by a Trump Presidency. Ditto for chances of a successful Abe-Putin meeting later this year.

For next year, team Abe will have to find a new way to engage with China more constructively. However, here Japan is poised to wait and see how President Trump will deal with China. In my personal view, the more hard-line Trump is, the more likely a Japan-China rapprochement becomes.

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