

PREVIEW: Japanese LDP Leadership Election, 4th October 2025

BACKGROUND The LDP will elect its new president on 4th October following the resignation of PM Ishiba on 7th September. The winner will almost certainly become Japan's next PM, with the Diet vote slated for mid-October. The contest comes at a moment of weakness for the party: the LDP-Komeito coalition no longer holds a majority in either chamber of the Diet, after losing the upper house in July 2025 and already being short in the lower house since 2024, leaving the new leader judged primarily on their ability to unify the party and secure opposition cooperation, rather than pursue an ambitious policy agenda.

CANDIDATES: Five candidates are standing—Shinjiro Koizumi, Sanae Takaichi, Yoshimasa Hayashi, Toshimitsu Motegi, and Takayuki Kobayashi—though desks broadly expect the race to narrow to Koizumi and Takaichi in a second-round run-off.

- **Koizumi** is positioning himself as a reformist and generational figure, emphasising credibility, fiscal prudence, and policy continuity with Ishiba. His stance is viewed as Yen- and JGB-supportive, though offering limited near-term upside for equities.
- **Takaichi** is running on a conservative platform, emphasising fiscal expansion, stronger security policy, and higher defence spending. Her proposals are seen as equity-positive, especially for defence, nuclear and technology sectors, but negative for the Yen and JGBs, given the implications for issuance and continued accommodative bias.
- **Hayashi**, the Chief Cabinet Secretary and former foreign minister, highlights foreign policy credentials and a technocratic profile, backing gradual BoJ normalisation and balanced fiscal policy.
- **Motegi** is an experienced party operator and fiscally cautious, but has struggled to build momentum in the race.
- **Kobayashi**, the youngest contender, is focused on economic security and technology investment, but is not expected to attract sufficient backing.

POLLING: Surveys show a two-way contest between Takaichi and Koizumi, with Hayashi trailing.

- A Kyodo poll (11–12 Sept) placed Takaichi at 28.0%, Koizumi 22.5%, Hayashi 11.4%.
- A Nikkei poll in August on suitability as prime minister had Takaichi at 23% and Koizumi at 22%.

COALITION DYNAMICS: The first round will allocate 590 votes—295 from LDP lawmakers and 295 from rank-and-file members. If no candidate secures a majority, the top two advance to a run-off, where 295 Diet votes are combined with 47 prefectural bloc votes, giving Diet members greater weight. With major factions dissolved, bloc discipline has weakened, and lawmaker votes are expected to be driven by short-term calculations and personal loyalties. Coalition management will be a critical test for the next leader. Komeito's support remains vital to electoral viability, but tensions could increase if the LDP presidency shifts sharply to the right. Beyond Komeito, the LDP may need to reach out to the Democratic Party for the People (DPP) or Nippon Ishin no Kai to secure parliamentary numbers, though Ishin's rivalry with Komeito in Osaka could complicate such an arrangement.

RESULTS: First-round results are expected around 14:10 JST (06:10 BST / 01:10 ET) on Saturday, with a run-off scheduled for around 15:20 JST (07:20 BST / 02:20 ET) if no candidate wins outright. A Koizumi–Takaichi showdown remains the base case, with Diet votes decisive in the second round.

MARKET IMPACTS & SCENARIO TABLE

- **Yen / Bonds:** A Koizumi victory would likely be Yen- and JGB-supportive on expectations of fiscal prudence and continuity. A Takaichi outcome would weigh on the Yen and raise issuance concerns given her fiscal expansion agenda.
- **Equities:** Takaichi's platform is seen as equity-positive, especially for defence, nuclear and technology sectors. A Koizumi outcome would bring a more measured response, with stability supportive for financials.
- **Stability:** Minority status means that policy divergence will be constrained, with outcomes shaped heavily by coalition dynamics and opposition cooperation.

Candidate	Policy Stance	FX (JPY)	JGBs	Equities
Koizumi	Reformist, generational change. Fiscal prudence, cautious continuity with Ishiba. Gradual, continuity-focused.	JPY supportive (fiscal restraint reduces issuance risk).	Supportive (stable demand, lower issuance pressure).	Neutral / modestly positive (financials, stability theme).
Takaichi	Conservative platform. Expansionary fiscal policy, strong defence spending, accommodative monetary stance.	JPY negative (higher issuance, easing bias).	Bearish (higher supply risk, yields pressured).	Positive esp. defence, nuclear, tech.
Hayashi	Technocratic, foreign policy focus. Balanced fiscal approach, gradual BoJ normalisation.	Neutral / mildly supportive (seen as steady).	Stable / mildly supportive (gradual tightening bias).	Muted / selective (exporters, global policy continuity).

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