



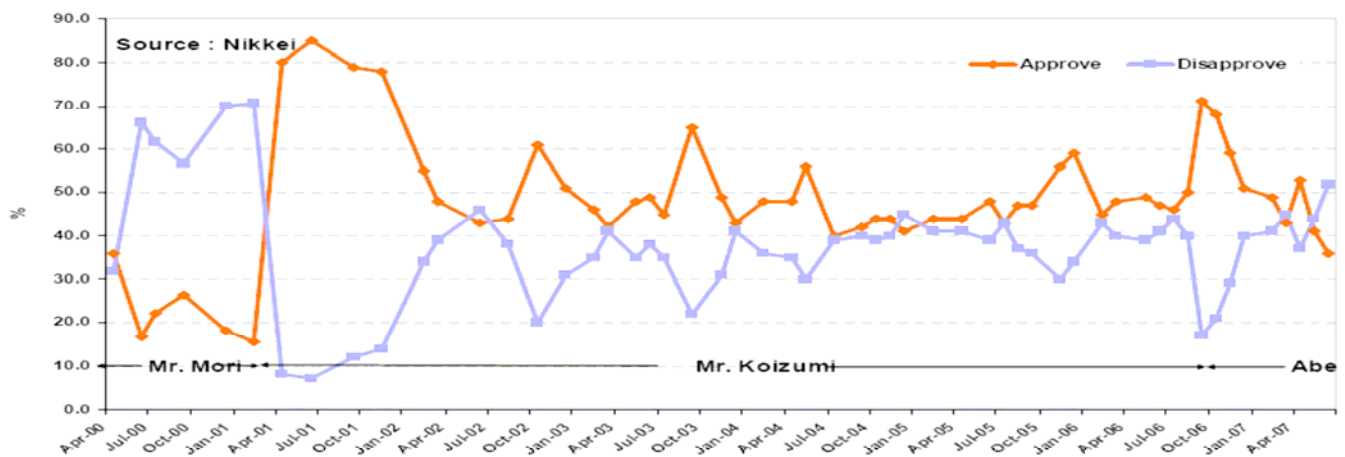
Member of Cat Group

Zurich, 2nd July 2007

Japanese Politics – Upper House Elections

Both LDP's and Mr. Abe's popularity have plunged on the back of the recent pension scandal. Successive governments have lost 50 mn pension records, potentially jeopardising retirement benefits.

Japanese Cabinet Popularity



Source KBC Financial Products

The future of Prime Minister Shinzo Abe is uncertain. In Japan, Upper House Elections for 121 of the 242 seats will take place on the 29th of July 2007. There, the LDP and coalition party New Komeito must reach the majority of at least 64 seats to remain in control of the Upper House. Latest polls show lower figures. If such a political defeat happened, Mr. Abe could be expected to step down and accept failure of his short reign.

There are, so far, 3 possible candidates.

1. Sadakazu Tanigaki, former Finance Minister. He ran against Mr. Abe last autumn for PM and lost to Shinzo Abe. He is a fiscal hawk who might prompt an earlier consumption tax rise. This would be negative for the stock market.
2. Taro Aso, current Foreign Minister, would be expected to run business as usual.
3. Former Peruvian Prime Minister Alberto Fujimori, held in house-arrest in his Chilean exile upon his possible extradition to Peru, has announced that he will run for Senate in the Upper House for the Japanese opposition party People's New Party. The Japanese law does not exclude candidates who are currently not free of their movements to run for Senate...

2nd Quarter 2007 Tankan In Line

Today's release for 2Q Tankan figures showed that Japanese corporates' expectations of their business environment to remain unchanged. The Large Manufacturing Index even gained from 20 to 22. This confirms general opinion that interest rates will not rise in the near future.

Don't hesitate to contact us for more information.

Your Cat team