

JAPAN EQUITY MONTHLY

November 2017

TOPIX gains 5.45% in October

The Japanese equity market rose in October, with the TOPIX (w/dividends) climbing 5.45% and the Nikkei 225 (w/dividends) rising 8.16%. Stock prices began the month higher, supported by improved business sentiment in the Bank of Japan's (BOJ) Tankan survey and receding geopolitical concerns after North Korea refrained from carrying out a missile test on the anniversary of the founding of its communist party.

Stock prices then continued to move upwards to the end of the month on a series of positive developments including the growing view that the BOJ will continue its large-scale monetary easing policy in response to the ruling party's victory in the lower house election in Japan as well as heightened expectations for a cut to the US federal business tax rate and other tax reforms following the passage of the government's budget proposal. All of the 33 TSE sectors posted gains during the month, with Nonferrous Metals, Electric Appliances, and Metal Products performing particularly strongly.

Exhibit 1: Major Indices (Last Month and Historic Changes)

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	22,011.61	8.1%	10.5%	14.7%
JGB Yield	0.071	+0.003	-0.012	+0.053
JPY/USD	113.37	0.8%	2.5%	1.7%
JPY/EUR	131.85	-0.8%	1.6%	8.5%
MSCI World	2,036.80	1.8%	3.9%	8.4%

Source: Bloomberg, as at 31 October 2017

Exhibit 2: Nikkei 225



Source: Bloomberg, as at 31 October 2017

Japan votes for stable progress

Japanese Prime Minister Shinzo Abe led his ruling coalition to a crushing win over a fragmented opposition in general elections on 22 October. Despite glimmers of progress early in the run-up to the election, opposition parties failed to offer anything better than Abe's platform for stable progress.

With the landslide win under his belt, Abe went back to business as usual on the policy front, emphasizing labour reforms. A near certainty that his administration will remain in place for the next few years means that a consumption tax increase planned for October 2019 will be the focus of his economic policy, with some fiscal expansion likely absorbing the impact of the hike. This approach seems sensible in view of a generally positive overall situation for Japan's economy and its favourable prospects over the next few years.

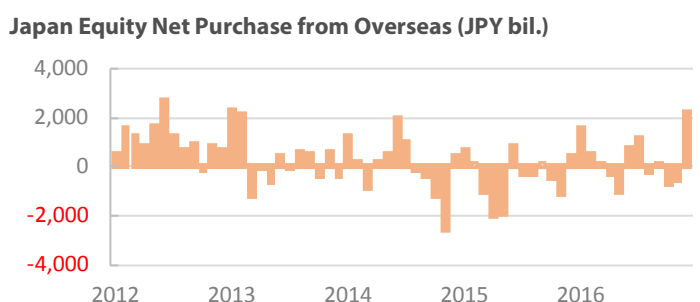
Fundamentals fueling Nikkei 225 growth

Shortly following the election, the benchmark Nikkei 225 index concluded a 16-day upward streak in which it posted a 21-year high. Market hopes for Abe's win were a factor in the climb of the index to nearly 21,700 at that point. But we believe the main driver in the rise was that investors have become more certain that deflation in Japan has come to an end. During the country's prolonged deflation in the aftermath of the collapse of its asset price bubble, Japan's corporate managers minimized their exposure to risk by cutting back on everything from inventories to jobs. They also hoarded cash. Growth was simply not on management horizons.

For the first time in about 20 years, Japanese corporate managers are seeing an expansion of demand, particularly in the US and elsewhere in Asia. US demand is mostly consumer-led, reflecting higher wages. Going forward, inflation should boost production and a need for more workers while feeding an appetite for capex. Corporate managers will likely become more prepared to spend so they can take on more business.

Having recently breached the 22,000-level, the Nikkei 225 appears a little expensive right now, so we are somewhat cautious in the short run. Still, we believe that there is upside potential for this benchmark over the long term, with fundamentals fuelling growth.

Exhibit 3: Major Market Indices



Source: Bloomberg, as at 31 October 2017

Exhibit 4: Major Index Performance, Indicators, and Valuation

Index	1-mth	3-mth	6-mth	1-yr	5-yr
Nikkei 225	8.1%	10.5%	14.7%	26.3%	133%
JGB Yield (%pt)	+0.003	-0.012	+0.053	+0.071	-0.645
JPY/USD	0.8%	2.5%	1.7%	8.0%	37%
JPY/EUR	-0.8%	1.6%	8.5%	14.6%	23%
MSCI World	1.8%	3.9%	8.4%	20.5%	55%
TOPIX	5.4%	9.1%	15.3%	26.8%	126%
TPX-100 (Large)	5.8%	8.9%	14.4%	25.1%	114%
TPX-400 (Mid)	5.3%	9.0%	15.2%	27.2%	143%
TPX-Small	4.4%	10.8%	20.6%	34.8%	151%

Sector (TPX-17)	1-mth	3-mth	6-mth	1-yr	5-yr
Elc Appl&Prec	8.2%	11.7%	24.4%	39.4%	173%
IT & Service	5.3%	8.7%	17.9%	27.2%	177%
Auto&Trns Eqp	3.7%	10.7%	13.1%	18.8%	99%
RawMatl & Chm	5.8%	10.3%	20.0%	37.3%	179%
Banks	4.8%	7.2%	7.4%	25.6%	72%
Machinery	7.7%	14.7%	20.7%	37.0%	150%
Transprt&Logi	4.1%	7.5%	10.6%	19.1%	106%
Const & Matl	6.3%	11.4%	21.9%	35.4%	168%
Fincl ex Bank	5.7%	5.3%	8.4%	24.3%	124%
Foods	4.9%	5.4%	10.5%	14.6%	126%
Retail Trade	3.5%	6.5%	8.2%	15.9%	130%
Pharmceutical	4.2%	7.0%	9.3%	12.4%	105%
Commr & WhTrd	3.3%	9.8%	15.2%	29.2%	92%
Real Estate	6.0%	5.1%	9.1%	12.5%	62%
Steel&Nonfer	6.1%	7.8%	17.6%	38.3%	89%
Elc Pwr & Gas	4.3%	0.0%	3.2%	12.3%	55%
Enrgy Resourc	1.1%	16.6%	14.1%	33.7%	37%

Valuation	Mth-end	3-mth	6-mth	1-yr	5-yr
TOPIX					
Div. Yield (e)	1.9%	2.1%	2.1%	2.0%	2.4%
Price/Earn (e)	15.7	14.4	13.8	15.4	15.0
Price/Book	1.4	1.3	1.2	1.3	0.9
MSCI World					
Div. Yield (e)	2.4%	2.5%	2.5%	2.6%	2.8%
Price/Earn (e)	18.0	17.5	17.1	17.5	13.5
Price/Book	2.3	2.3	2.2	2.1	1.7

Market Indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
Daily Turnover	56	50	49	48	46

Source: Bloomberg, as at 31 October 2017

(e) stands for consensus estimates by Bloomberg.
Turnover and market cap in JPY tril.
Net Purchase (JPY bil.) from Overseas is cumulative monthly.

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