

# JAPAN EQUITY MONTHLY

January 2018

## TOPIX gained on positive Q3 GDP growth

The Japanese equity market rose in December, with the TOPIX (w/dividends) climbing 1.57% on-month and the Nikkei 225 (w/dividends) rising 0.32%. The market seesawed in the first half of the month on a mix of positive and negative factors. While stocks were initially weighed down by heightened risk aversion stemming from uncertainty around the relationship between the US administration and Russia, they later found support from Japan's revised Q3 GDP figure, which was upgraded from preliminary estimates on higher capital spending.

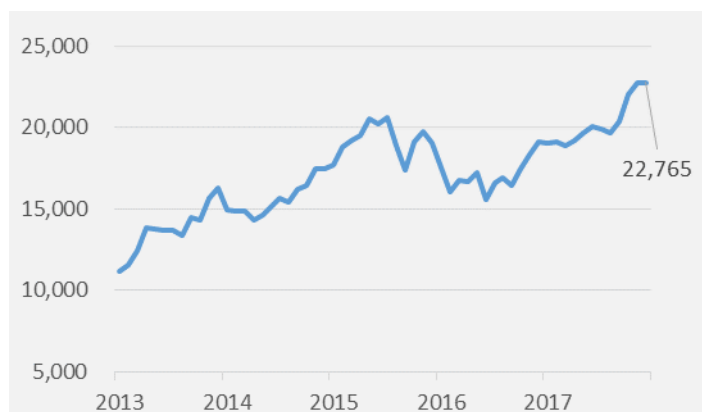
The market continued to rise in the latter half of the month, buoyed by better-than-expected US economic indicators and the yen's depreciation against the US dollar after US tax reform expectations sent US long-term interest rates higher. Of the 33 TSE sectors, 27 including Oil & Coal Products, Mining, and Wholesale Trade posted gains during the month, while six sectors including Information & Communication, Other Products, and Electric Power & Gas saw declines.

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

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	22,764.94	0.2%	11.8%	13.6%
JGB Yield	0.048	+0.009	-0.020	-0.038
JPY/USD	112.69	0.3%	0.2%	0.3%
JPY/EUR	135.28	1.7%	1.8%	5.4%
MSCI World	2,103.45	1.3%	5.1%	9.8%

Source: Bloomberg, as at 29 December 2017

### Exhibit 2: Nikkei 225



Source: Bloomberg, as at 29 December 2017

## Earnings growth likely to remain robust

December was a month of good news, with the Japanese economy in its longest growth streak in over two decades, and business sentiment picking up. We expect Japan's positive economic growth trend to carry on into 2018.

Corporate earnings will be underpinned by favourable external factors, such as continued global economic growth and strength in US consumption. We forecast double-digit earnings per share (EPS) growth (between 10-15%) for Japanese equities in 2018. Notably, we see the export sector benefitting from healthy external demand.

## Consumption tax hike in 2019 will help reduce government debt

Recently, Prime Minister Abe reaffirmed his commitment to the consumption tax hike planned for October 2019, stating the government will proceed unless the economy suffers a shock such as a major financial crisis.

The consumption tax was initially scheduled to be raised from 8% to 10% in 2015, but it was postponed twice to ensure Japan's economic recovery was on firmer footing. While the imminent tax hike could weigh on market sentiment in the near term, the added tax revenue would help reduce the government's debt burden, and is a reflection of its commitment to fiscal reform. We believe the reform will improve investor sentiment in the long run.

## Wages and capital expenditure should pick up

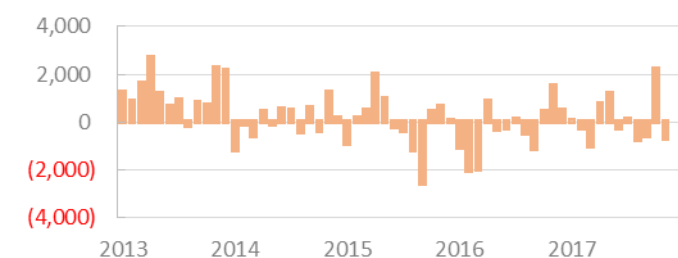
Demand has grown steadily in Japan, prompted by fiscal and monetary stimulus. This resulted in unemployment reaching a 24-year low in December. However, wages have not yet picked up significantly. We think this will change in 2018 as management attitudes shift.

As the global economic recovery appears increasingly entrenched, managements are starting to be convinced of the sustainability of their companies' volume growth. Employees, too, are beginning to expect wage increases as they shift out of a deflationary mindset. In addition, the government recently announced plans to reduce the effective tax rate of companies that raise wages and capital investment. As a result, we remain positive and expect to see wage hikes and increased capital expenditure in 2018.

Exhibit 3: Major Market Indices



Japan Equity Net Purchase from Overseas (JPY bil.)



Source: Bloomberg, as at 29 December 2017

Exhibit 4: Major Index Performance, Indicators, and Valuation

Index	1-mth	3-mth	6-mth	1-yr	5-yr
Nikkei 225	0.2%	11.8%	13.6%	19.1%	104%
JGB Yield (%pt)	+0.009	-0.020	-0.038	+0.048	-0.706
JPY/USD	0.3%	0.2%	0.3%	-3.7%	24%
JPY/EUR	1.7%	1.8%	5.4%	10.0%	10%
MSCI World	1.3%	5.1%	9.8%	20.1%	50%
TOPIX	1.4%	8.5%	12.8%	19.7%	93%
TPX-100 (Large)	1.0%	8.1%	11.6%	16.8%	80%
TPX-400 (Mid)	1.7%	9.2%	13.3%	21.8%	114%
TPX-Small	3.1%	9.0%	17.6%	30.2%	120%

Sector (TPX-17)	1-mth	3-mth	6-mth	1-yr	5-yr
Elc Appl&Prec	-0.4%	10.2%	17.6%	33.1%	132%
IT & Service	-2.9%	4.4%	7.4%	21.0%	147%
Auto&Trns Eqp	3.2%	7.0%	17.5%	10.1%	65%
RawMatl & Chm	1.3%	10.0%	16.7%	32.4%	150%
Banks	4.6%	9.0%	6.6%	7.4%	38%
Machinery	4.6%	12.8%	22.8%	32.2%	110%
Transprt&Logi	1.4%	7.1%	8.3%	11.9%	84%
Const & Matl	2.0%	9.4%	15.9%	27.6%	134%
Fincl ex Bank	1.3%	8.8%	7.2%	9.4%	73%
Foods	0.8%	7.4%	7.1%	16.4%	109%
Retail Trade	1.6%	10.9%	12.0%	16.9%	113%
Pharmceutical	1.7%	5.7%	7.6%	11.3%	78%
Commr & WhTrd	6.9%	13.2%	22.1%	28.8%	75%
Real Estate	0.2%	5.8%	2.2%	1.6%	26%
Steel&Nonfer	4.7%	10.7%	19.9%	24.3%	51%
Elc Pwr & Gas	-3.6%	-1.4%	-7.6%	-5.4%	36%
Enrgy Resourc	14.3%	25.2%	43.4%	39.6%	41%

Valuation	Mth-end	3-mth	6-mth	1-yr	5-yr
<b>TOPIX</b>					
Div. Yield (e)	1.9%	2.0%	2.1%	2.0%	2.0%
Price/Earn (e)	15.9	14.9	14.4	15.8	18.0
Price/Book	1.4	1.3	1.3	1.3	1.1
<b>MSCI World</b>					
Div. Yield (e)	2.3%	2.4%	2.5%	2.6%	2.8%
Price/Earn (e)	18.4	17.7	17.3	16.7	13.6
Price/Book	2.4	2.3	2.2	2.1	1.7

Market Indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
Daily Turnover	51	57	52	49	48
Market Cap.	680	660	607	571	329
Net Purchase Overseas	NA	1,552	386	862	12,895

Source: Bloomberg, as at 29 December 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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