

JAPAN EQUITY MONTHLY

Japanese equities climbed in July

The Japanese equity market rose in July, with the TOPIX (w/dividends) climbing 1.30% on-month and the Nikkei 225 (w/dividends) rising 1.12%. Stocks started the month lower amid anxiety over intensifying trade tensions between the US and China. However, the market subsequently moved upward on several factors including: the yen weakening against the US dollar in reaction to strong US economic indicators; expectations that China's economy will be supported by government stimulus measures to boost domestic demand; and receding concerns over trade issues between the US and EU after both agreed to discuss eliminating tariffs on industrial products other than automobiles.

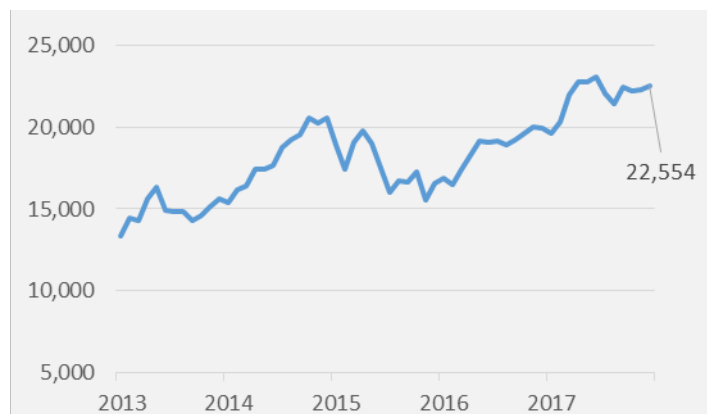
Of the 33 TSE sectors, 23 sectors including Oil & Coal Products, Mining and Banks posted gains during the month, while 10 including Retail Trade, Foods and Fishery, Agriculture & Forestry declined.

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

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	22,553.72	1.1%	0.4%	-2.4%
JGB Yield	0.062	+0.026	+0.007	-0.023
JPY/USD	111.55	0.7%	2.1%	2.5%
JPY/EUR	130.87	1.2%	-1.0%	-3.4%
MSCI World	2,153.10	3.1%	3.2%	-2.7%

Source: Bloomberg, as of 31 July 2018

Exhibit 2: Nikkei 225



Source: Bloomberg, as of 31 July 2018

BOJ Decision

The BOJ has been paying close attention to the downside of stimulus after five years of aggressive monetary policy that's struggling to hold inflation at even half the targeted rate. But that didn't equate to imminent policy relief for commercial lenders struggling with negative interest rates or bond traders squeezed by the BOJ's massive purchases of Japanese government debt. BOJ Governor Haruhiko Kuroda gave a vague mention of the central bank's "intermediary function." "The Bank of Japan will consider letting the long-term rate fluctuate more to some extent," said Kuroda, adding that the new guidance is intended to allow yields to move at double its current range.

The BOJ's ETF purchases will likely decelerate if the market remains on an upward path, but will remain at the current rate if equities decline. This will likely reduce one bullish factor for the market. But the 50% reduction of the amount of bank reserves subject to the negative interest rate is positive for some banks' profitability and to a degree clears negative fears about the whole sector. This should help the overall equity market.

Labour Shortage

Japan's labour shortage provides several investment themes for equity investors. One is more likelihood of inflation pushed by increasing salaries in the future (but not before an increase in production). Another is higher labour participation, especially from women and the elderly. More supporting services are desired.

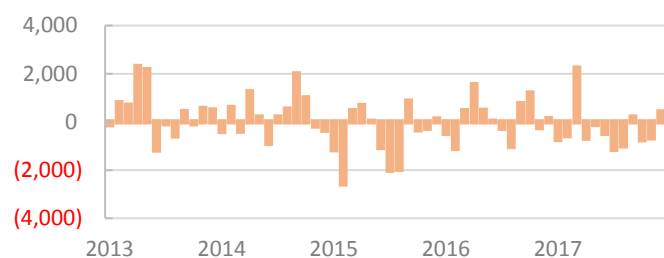
Two major winners are robotics and human resource services. Robotics is an easy-to-understand solution for the labour shortage. The other is matching the needs of labour and corporations. More liquidity in the labour market is expected, so that job matching with IT and staffing services are in focus. More services are expected for childcare and recurrent education from the private sector.

Inefficient companies in labour-intensive industries such as construction and land transportation will face difficulties if they don't introduce robotics. A high level of inventory and logistic control should be introduced in service industries to improve their productivity. Staffing and matching services are of interest due to the governmental "labour reform" related stories for labour liquidity in an aging society. Especially in the mid- to small-cap arena, staffing and matching services have already been an important focus of investment for Japanese equities.

Exhibit 3: Major Market Indices



Japan Equity Net Purchase from Overseas (JPY bil.)



Source: Bloomberg, as of 31 July 2018

Exhibit 4: Major Index Performance, Indicators, and Valuation

Index	1-mth	3-mth	6-mth	1-yr	5-yr
Nikkei 225	1.1%	0.4%	-2.4%	13.2%	68%
JGB Yield (%pt)	+0.026	+0.007	-0.023	+0.062	-0.658
JPY/USD	0.7%	2.1%	2.5%	0.9%	14%
JPY/EUR	1.2%	-1.0%	-3.4%	0.9%	1%
MSCI World	3.1%	3.2%	-2.7%	9.8%	46%
TOPIX	1.3%	-1.3%	-4.5%	8.3%	59%
TPX-100 (Large)	2.0%	-0.8%	-4.2%	8.1%	49%
TPX-400 (Mid)	0.4%	-2.3%	-5.1%	7.8%	69%
TPX-Small	0.0%	-1.7%	-4.6%	11.3%	87%

Sector (TPX-17)	1-mth	3-mth	6-mth	1-yr	5-yr
Elc Appl&Prec	0.9%	-1.3%	-7.0%	9.0%	96%
IT & Service	1.9%	1.7%	1.0%	10.1%	90%
Auto&Trns Eqp	2.1%	-2.9%	-8.1%	6.4%	24%
RawMatl & Chm	1.6%	0.9%	-1.8%	12.5%	116%
Banks	5.4%	-4.2%	-10.4%	-0.6%	9%
Machinery	1.5%	-5.4%	-15.6%	5.5%	58%
Transprt&Logi	0.0%	0.6%	-0.3%	10.6%	56%
Const & Matl	2.0%	-2.5%	-5.9%	5.5%	87%
Fincl ex Bank	1.1%	-4.3%	-7.1%	3.4%	36%
Foods	-2.9%	-1.9%	-4.5%	1.6%	72%
Retail Trade	-3.3%	-3.6%	1.3%	14.4%	76%
Pharmceutical	3.0%	5.7%	5.0%	15.7%	81%
Commr & WhTrd	0.2%	-2.8%	-2.8%	17.2%	65%
Real Estate	-0.6%	-5.4%	-6.6%	6.3%	-6%
Steel&Nonfer	2.7%	-5.5%	-15.8%	-6.6%	9%
Elc Pwr & Gas	0.1%	0.2%	11.8%	5.1%	16%
Enrgy Resourc	8.7%	5.8%	4.1%	48.2%	50%

Valuation	Mth-end	3-mth	6-mth	1-yr	5-yr
TOPIX					
Div. Yield (e)	2.2%	2.1%	1.9%	2.1%	1.9%
Price/Earn (e)	13.6	14.1	15.8	14.5	13.7
Price/Book	1.3	1.3	1.4	1.3	1.1
MSCI World					
Div. Yield (e)	2.4%	2.5%	2.4%	2.5%	2.7%
Price/Earn (e)	16.3	15.9	17.1	17.3	14.3
Price/Book	2.3	2.2	2.4	2.2	1.9

Market Indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
Daily Turnover	49	51	53	53	48
Market Cap.	660	658	665	606	392
Net Purchase Overseas	411	-994	-2,927	-3,257	116

Source: Bloomberg, as of 31 July 2018

(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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