

JAPAN EQUITY MONTHLY

April 2018

Japanese equities declined in March

The Japanese equity market fell in March, with both the TOPIX (w/dividends) and the Nikkei 225 (w/dividends) dropping 2.04% on-month. Stocks started the month lower on concerns over new protectionist policies from the US following the announcement of plans to raise tariffs on steel products. From the mid-month, the market seesawed on positive and negative factors. Equities rose briefly, drawing some support from expectations that such US import restrictions would be milder than initially envisaged and abating geopolitical risk concerns after talks between North Korea and China. Nevertheless, the market was largely weighed down by concern over escalating trade tensions after the US imposed new trade sanctions on China by hiking tariffs on Chinese products, as well as political instability in Japan stemming from a scandal over a controversial public land sale.

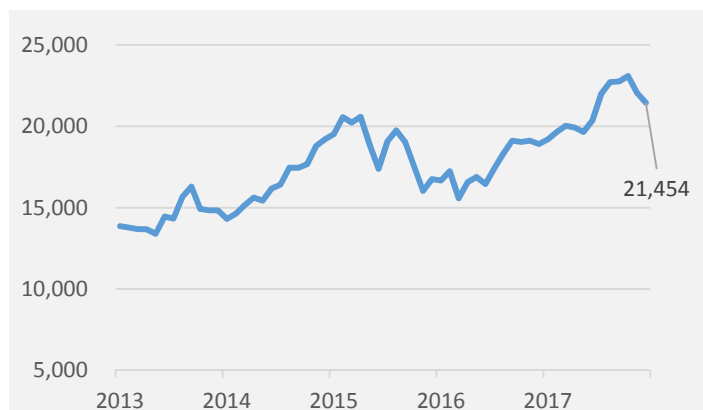
Of the 33 TSE sectors, five sectors including Electric Power & Gas, Services, and Fishery, Agriculture & Forestry posted gains during the month, while 28 sectors including Iron & Steel, Marine Transportation, and Nonferrous Metals saw declines.

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

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	21,454.30	-2.8%	-5.8%	5.4%
JGB Yield	0.049	-0.004	+0.001	-0.019
JPY/USD	106.28	-0.8%	-5.7%	-5.5%
JPY/EUR	130.97	0.1%	-3.2%	-1.5%
MSCI World	2,066.84	-2.4%	-1.7%	3.3%

Source: Bloomberg, as at 31 March 2018

Exhibit 2: Nikkei 225



Source: Bloomberg, as at 31 March 2018

Abe's popularity declines amid land sale scandal

Allegations of document tampering by the Finance Ministry has sent Prime Minister Shinzo Abe's poll numbers declining to record lows, which could hurt his chances of re-election as Liberal Democratic Party (LDP) president in September's party election. In the event that Abe loses, we could see capital outflows in the short term as foreign investors view him as pivotal to the success of Abenomics. However, we are less pessimistic and do not expect significant economic impact in this scenario. We believe that Abenomics is well established and that, with the recent appointment of Bank of Japan (BOJ) officials Kuroda, Wakatabe and Amamiya, the right people are in place to ensure continuity of Abe's economy agenda. The primary risk lies in the execution of the 2019 consumption tax hike. Any government, new or otherwise, will need to maintain an expansionary fiscal policy to ensure that the hike does not upset the economic recovery. In the meantime, we continue to monitor approval ratings ahead of September's elections. As it is, the public support rate for Abe's Cabinet rebounded marginally to 42.4% in a Kyodo poll held at the end of March, which means that Abe may still have a chance to redeem himself before elections.

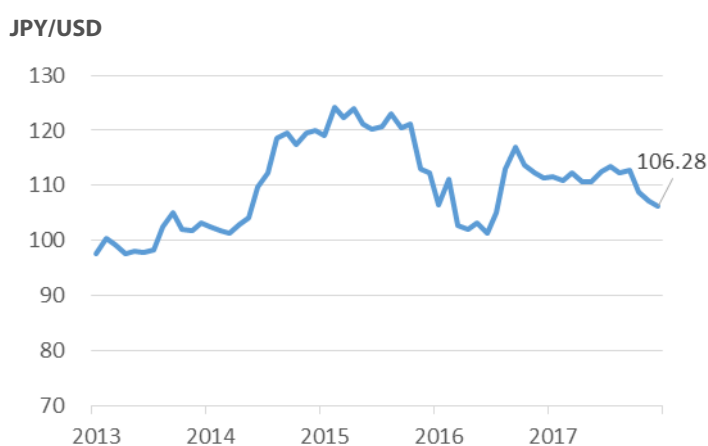
Look for steepening of yield curve in early 2019

The BOJ could begin tapering by March 2019 – slightly later than we had anticipated. We expect the BOJ to be more flexible about yield curve control and ease 10-year JGB yields from its target range of 0-5bps to around 10-25bps. Meanwhile, the short-term interest rate target should remain unchanged. As always, the pace of normalisation will be contingent on inflation. Recent data continues to paint a relatively sanguine picture of the Japanese economy. The BOJ Tankan survey published in March revealed resilient business confidence, rising capital expenditure expectations and a labour market that remains tight. These should be supportive of the outlook for headline CPI, which we forecast to rise above 1% by year end, ahead of consensus.

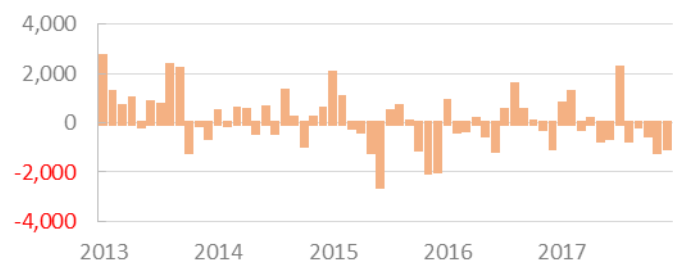
US protectionism: More bark than bite?

While Japan has yet to be granted exemption from recent tariffs, we believe that this act of protectionism from the US is largely political posturing ahead of the US mid-term elections in November and may not have real impact on Japan's growth. The Trump administration is unlikely to impose measures that could impede domestic growth right before elections and we think that the US will remain flexible to renegotiate trade terms.

Exhibit 3: Major Market Indices



Japan Equity Net Purchase from Overseas (JPY bil.)



Source: Bloomberg, as at 31 March 2018

Exhibit 4: Major Index Performance, Indicators, and Valuation

Index	1-mth	3-mth	6-mth	1-yr	5-yr
Nikkei 225	-2.8%	-5.8%	5.4%	13.5%	55%
JGB Yield (%pt)	-0.004	+0.001	-0.019	+0.049	-0.560
JPY/USD	-0.8%	-5.7%	-5.5%	-4.6%	9%
JPY/EUR	0.1%	-3.2%	-1.5%	10.4%	3%
MSCI World	-2.4%	-1.7%	3.3%	11.5%	40%
TOPIX	-2.9%	-5.6%	2.5%	13.5%	47%
TPX-100 (Large)	-3.4%	-5.5%	2.2%	11.6%	39%
TPX-400 (Mid)	-2.2%	-6.0%	2.6%	14.4%	58%
TPX-Small	-2.5%	-4.8%	3.8%	21.3%	71%

Sector (TPX-17)	1-mth	3-mth	6-mth	1-yr	5-yr
Elc Appl&Prec	-4.5%	-4.6%	5.1%	21.5%	91%
IT & Service	-0.8%	-1.7%	2.6%	17.9%	88%
Auto&Trns Eqp	-5.6%	-7.5%	-1.0%	8.0%	23%
RawMatl & Chm	-2.5%	-4.8%	4.7%	20.3%	98%
Banks	-5.7%	-11.1%	-3.1%	0.5%	-4%
Machinery	-6.1%	-8.7%	2.9%	16.2%	56%
Transprt&Logi	-1.1%	-6.9%	-0.3%	7.9%	31%
Const & Matl	-1.9%	-9.8%	-1.3%	16.5%	78%
Fincl ex Bank	-3.2%	-6.6%	1.6%	4.5%	19%
Foods	1.0%	-7.4%	-0.6%	6.6%	55%
Retail Trade	1.4%	-0.8%	10.0%	18.8%	58%
Pharmceutical	-1.6%	1.2%	7.0%	13.3%	50%
Commr & WhTrd	-4.2%	-5.4%	7.1%	20.3%	55%
Real Estate	-1.0%	-1.1%	4.7%	11.7%	-20%
Steel&Nonfer	-8.0%	-15.6%	-6.5%	2.5%	18%
Elc Pwr & Gas	2.9%	1.0%	-0.4%	0.1%	2%
Enrgy Resourc	-1.6%	-10.5%	12.1%	19.6%	27%

Valuation	Mth-end	3-mth	6-mth	1-yr	5-yr
TOPIX					
Div. Yield (e)	2.0%	1.9%	2.0%	2.1%	1.8%
Price/Earn (e)	14.0	15.9	14.9	13.8	15.5
Price/Book	1.3	1.4	1.3	1.2	1.3
MSCI World					
Div. Yield (e)	2.6%	2.3%	2.4%	2.5%	2.7%
Price/Earn (e)	15.8	18.3	17.7	17.1	14.3
Price/Book	2.2	2.4	2.3	2.2	1.8

Market Indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
Daily Turnover	56	57	57	52	48
Market Cap.	647	691	660	575	409
Net Purchase Overseas	-998	-2,617	-1,174	-626	6,421

Source: Bloomberg, as at 31 March 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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