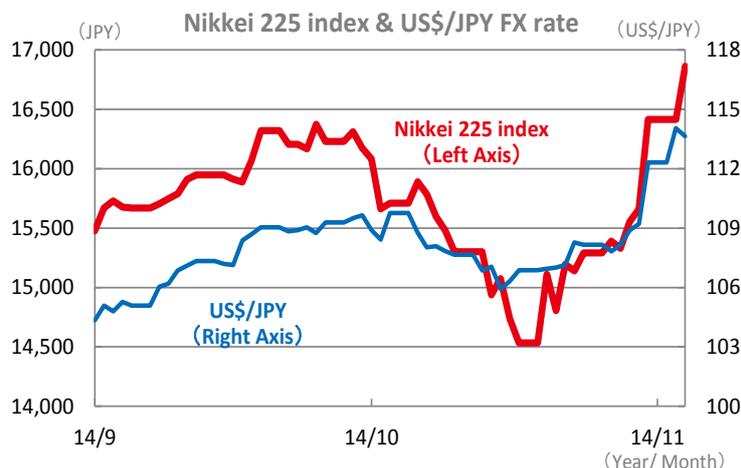


Today's Topic **Japanese Equity Market (November 4)**

Nikkei touched JPY17,000 level for the first time in almost 7 years

Point 1 Nikkei 225 rose more than JPY1,200 in two days Rose beyond JPY17,000 at one stage

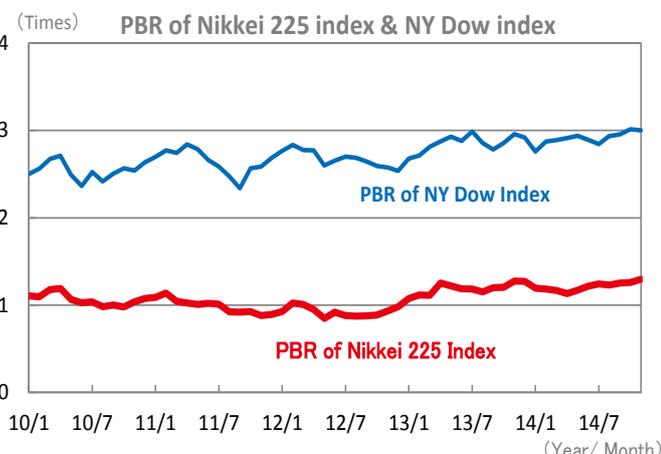
- The Nikkei 225 index closed at JPY16,862.47 on November 4, rose by JPY448.71 from the previous day, a rise of two days in a row. At one stage it rose beyond JPY17,000 for the first time in seven years and one month since October 2007.
- Overseas markets welcomed the surprising additional easing by the BOJ, leading their stock markets higher as well and the Japanese yen weaker. This pushed up the Japanese equity further on the first day after long weekend. The Nikkei 225 index sharply rose by JPY1,204.27 in two working days.
- In currency market, JPY sharply dropped against US\$ as the market re-focused on the difference in the direction of the US and Japan's monetary policy. US\$/JPY FX rate touched JPY114 level on November 3 for the first time since December 2007.



(Note) Data is from Sep. 1, 2014 to Nov. 4, 2014.
(Source) SMAM, based on Bloomberg L.P. data.

Point 2 Nikkei rose approx. 16% in two weeks PBR at 1.3 times; valuation is not expensive

- The Nikkei 225 index appears slightly overheated in the short term as it rose approx. 16% in about two weeks from the recent bottom of JPY14,532.51 in October 17. However, there is an index indicating the Nikkei is not that expensive even after the surge. Its average price to book value ratio (PBR) is staying at around 1.3 times which is much lower than PBR of "NY Dow Jones Index" at 3.0 times.
- Japanese companies have been announcing financial results of second quarter of this fiscal year ending in September since middle of October. We expect that the overall results would be good enough led mainly by export orientated companies such as Automobile manufactures.



(Note) Data is from Jan. 2010 to November, 2014 (Month end price).
The latest data of November are as of 3rd for NY Dow index and 4th for Nikkei 225 index.
(Source) SMAM, based on Bloomberg L.P. data.

Future Outlook Expectations for upward revision of corporate earnings on weaker JPY will support the Japanese equity market

- According to the BOJ's Tankan survey released in October, the average FX rate of US\$/JPY used for assumptions of earnings forecast for both first and second half of this fiscal year of large corporations (manufacturing sector) is less than 101 yen level. As is widely known, the depreciation of 5 yen is supposed to push up corporate earnings of major large corporations by 2 to 3%. If US\$/JPY FX rate maintains its current level in the second half of this fiscal year, the expectations for the upward revision of corporate earnings will become more significant as JPY is weaker by more than 10 yen

compared with the assumptions of FX rate used in earnings guidance by corporations.

- In addition, the decision made by the GPIF to increase the allocation weight to the Japanese equities is deemed positive to improve the demand and supply balance of the Japanese equity market. Market participants will pay attention to whether additional economic stimulus package by the Abe's government can be satisfactory for the market expectation or not, ahead of another possible consumption tax hike next year.

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