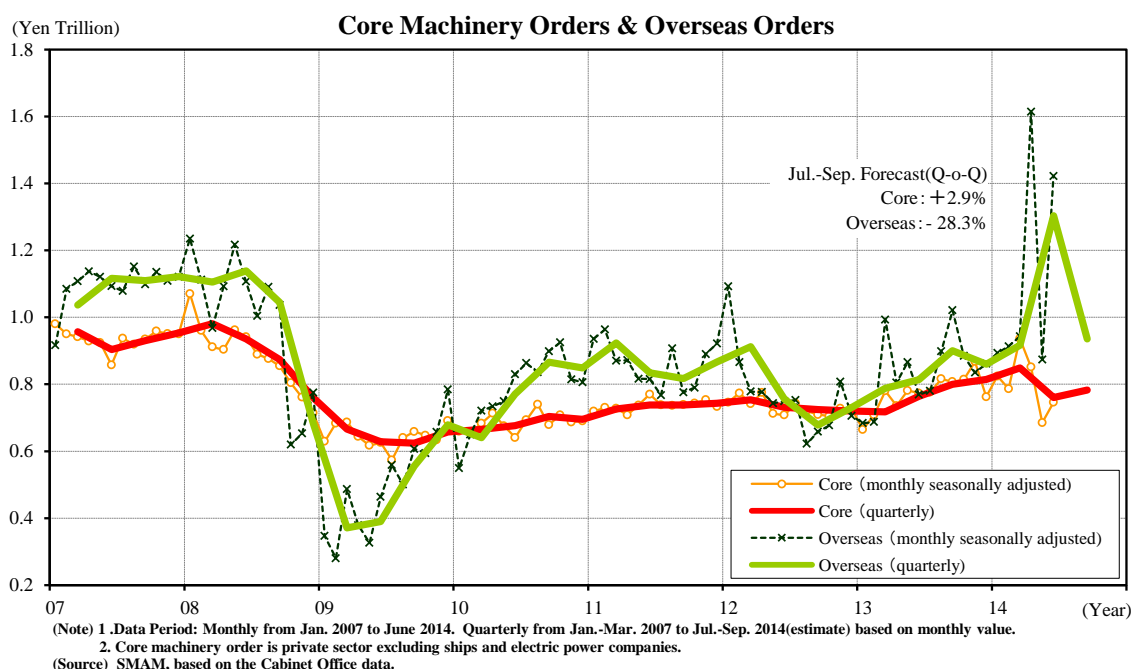


June Machinery Orders & Jul.-Sep. Forecast - Moderate Recovery Expected

June Machinery Orders

On August 14, the Cabinet Office released June Machinery Orders. Core machinery orders (private-sector excluding shipbuilding and electric power companies), indicating domestic capex trend, rose 8.8% m-o-m first time in three months. However, this rise could not fully compensate the decline of 19.5% in May. Consequently, Apr.-Jun. quarter declined by 10.4% q-o-q, significantly undershooting the estimated 0.4% q-o-q increase. This was the first decline in five quarters, and the first double digit decline since Jan.-Mar. 2009.



The orders of the manufacturing sector and the non-manufacturing sector for Apr.-Jun. quarter declined by 8.5% and by 6.7% respectively, both q-o-q. The sectors which contributed negatively in a substantial manner were electrical machinery (-16.0% q-o-q), other transport & equipment (-23.8% q-o-q) and foods & beverages (-28.5% q-o-q) classified in the manufacturing sector, and agriculture, forestry & fishing (-35.9% q-o-q), telecommunications (-15.1% q-o-q) classified in non-manufacturing sector. On the other hand, sectors which contributed positively were wholesale & retail trade (+18.2% q-o-q), finance & insurance (+21.5% q-o-q) and construction (+12.8 q-o-q). It seems that pullback of rush demand ahead of the consumption tax hike and that of the IT investment due to the termination of the maintenance support service of Windows XP were the main reasons for the Apr.-Jun. quarter decline.



Jul.-Sep. Forecast and Focus

Jul.-Sep. forecast of the core machinery orders increased 2.9% q-o-q. However, the pace of recovery is slow, as the increase in orders is much smaller compared to the decline in Apr.-Jun. quarter, and Jul.-Sep. forecast declines 2.3% y-o-y. It is noted that the estimated orders across sectors, except the private sector, are generally weak due to pullback of the strong demand in Apr.-Jun. quarter. For instance, overseas orders declines 28.3% and government orders which has a strong linkage to public expenditure declines 14.2%.

I anticipate that the demand of domestic capex will recover as the overseas investment is less appealing due to the JPY depreciation. I think the recovery of the private consumption after this summer will be a key to determine the direction of private capex recovery. My view is that the Japanese economy will gradually improve from Jul.-Sep. quarter unless a serious external shock, pulling down the whole economy, would happen. I expect that the private capex will also start to recover following the improvement of the economy with interval.

Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter "SMAM"), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM's judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indexes belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM's authorization, or from disclosing this material to a third party.

Registered Number: Kanto Regional Finance Bureau (KINSYO) No.399
Member of Japan Investment Advisers Association and the Investment Trusts Association, Japan
© Sumitomo Mitsui Asset Management Company, Limited