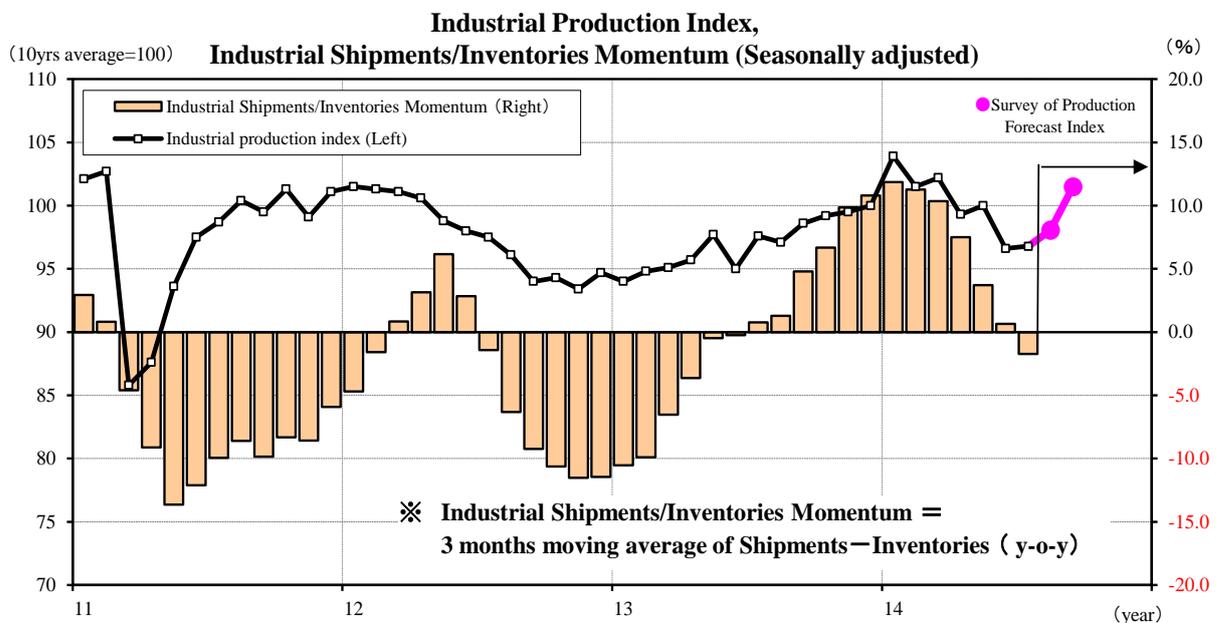


“July Industrial Production Indices – Recovery in this year is anticipated”

July Industrial Production Indices

On August 29, the Ministry of Economy, Trade & Industry released a preliminary report on Industrial Production Indices for July. Industrial production index rose 0.2% m-o-m. While there was an expectation of a strong recovery from substantial decline of 3.4% in June, the July figure turned out to be lackluster, lower than both of the previous Survey of Production Forecast Index figure (+ 2.5% m-o-m for July) and the latest market consensus figure (+1.0% m-o-m, by Bloomberg survey).

Breaking down the production index by sectors, sub-indices such as Transport equipment (-2.5%), Information & communication electronics equipment (-6.9%) and Chemicals (excl. Drugs) (-1.9%) declined m-o-m, while sub-index of General-purpose, production & business oriented machinery increased by 6.3% m-o-m, which is the sole contributor to compensate the production decrease in the other sectors. This increase was attributable for production increase in industries such as Boilers & power units, Transport equipment, and Semiconductor manufacturing equipment, but it was partly affected by temporary concentration of production timing in July.



(Notes) Data is from Jan. 2011 to Jul. 2014 (Survey of Production Forecast Index : Aug. and Sep, 2014).

(Source) SMAM, based on the Ministry of Economy, Trade & Industry data.



◇ Latest Trend

(Unit: %)

Year/Month	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
Production MM	-2.3	+0.7	-2.8	+0.7	-3.4	+0.2
YY	+7.0	+7.4	+3.8	+1.0	+3.1	-0.9
Momentum	+11.3	+10.3	+7.5	+3.7	+0.7	-1.7

(Notes) MM means Month on month comparison, YY means Year on year comparison.

Momentum is Industrial Shipments/Inventories Momentum (%).

(Source) SMAM, based on the Ministry of Economy, Trade & Industry data.

Future Outlook & Focus

The shipments/inventories momentum turned negative for first time in thirteen months, indicating that it had entered into an inventory adjustment phase. Once entering into the inventory adjustment phase, it can be judged production will remain subdued for some time. However, I believe some part of inventory adjustment this time should be attributable to the impact of pullback of demand caused by the consumption tax hike and that part will fade away shortly. I therefore think the production will moderately recover this year together with an export recovery, of which sign can be observed lately.

According to the Survey of Production Forecast Index, August and September figures are estimated to be + 1.3% and + 3.5% m-o-m, respectively. Based on this estimation, we will see a slight increase of 0.1% in Jul.-Sep. quarter. However, actual Jul.-Sep. quarter figure could possibly be weaker than the previous quarter despite the recovery of production, as final figures tend to be 1 to 2 % lower than that of estimated figures.

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