

Japanese Market Outlook

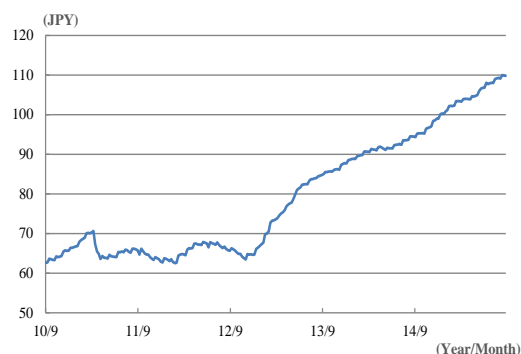
- Japanese stocks need time to rebound as uncertainty over the US rate hike and China's slowdown are still casting shadows over the stock market.
- Supplementary budget and BOJ's additional monetary easing may trigger Japanese stock prices to rise.
- Japanese stocks to recover gradually towards the year end as market uncertainties subside.

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Lately, Japanese stocks have been volatile with high risk of a plunge. Japanese stocks seem to have a weight put on them from concerns over corporate earnings since the domestic economy has not shown recovery. This is due to two uncertainties, the US rate hike and China's slowdown. Hence, I will try to analyze the recent environment surrounding Japanese stocks and forecast the trend of the Japanese stock market.

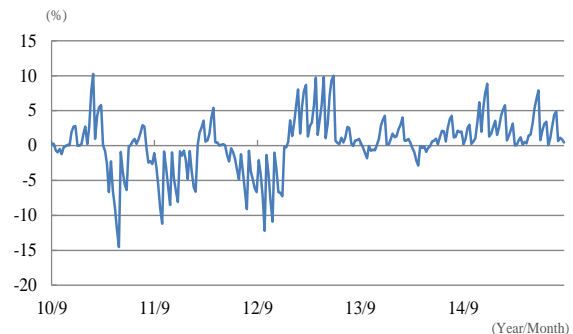
The US rate hike is expected to be in December of this year or later. Once the normalization of rates start, the uncertainty may significantly retreat, however, until then the market participants will sit on the sidelines and observe the policy makers' decisions with caution. Meanwhile, the Chinese economy may be capable of avoiding a sharp slowdown as the positive effects of monetary easing and public investments gradually kick in. However, we must observe with care the previous month's economic data which will be announced in the first half of the following month. Japanese stocks should react sensitively to these events in the US and China for the time being.

Chart 1: EPS forecast (12months) of TOPIX



(Note) Data period is from Sep. 27, 2010 to Sep. 21, 2015. 12 months forecast of earning per share (EPS) of Tokyo Stock Exchange 1st Section index (TOPIX).
(Source) SMAM, based on Datastream data.

Chart 2: Revision Index of TOPIX



(Note) Data period is from Sep. 27, 2010 to Sep. 21, 2015. Bigger positive numbers are shown if more 12 months forecast of earnings per share (EPS) of constituent companies of Tokyo Stock Exchange 1st Section Index (TOPIX) were revised upward, while bigger negative numbers if more companies were revised downward.
(Source) SMAM, based on Datastream data.

Supplementary budget and BOJ's additional monetary easing may trigger Japanese stock prices to rise.

The possibility of an immediate global economic slowdown and financial crisis, triggered by the US rate hike and China's slowdown, is not that high. The US economy which is the leading global economy is still expanding, supported mainly by strong consumption and Japan's economic structure is not that simple and delicate to fall into recession due to China's economic slowdown. However, it may take some time for the Japanese stocks to recover as the Japanese economic growth outlook and corporate earnings forecasts are likely to be revised downward to a certain extent.

Expectations of economic stimulus measures by supplementary budgets and BOJ's additional monetary easing are rising in the market. The combination of fiscal and easy monetary policies is a positive material to the asset value of stocks, as it may become the trigger to boost Japanese stock prices, once implemented. The Japanese government and BOJ are likely to make policy decisions in a cautious manner through assessing the impact of overseas environments to the domestic economy and prices.

Japanese stocks to recover gradually towards the year end as market uncertainties subside.

Going forward, we need to watch the trend of domestic economic data and corporate earnings growth with care. The most important data to watch are the BOJ's Tankan Survey to be announced on October 1st and the First Preliminary Jul. – Sep. Real GDP on November 16th. Peak of the announcements of interim results of corporations, whose fiscal year ends in March, will be from the end of October to mid-November. We expect a double digit growth of recurring profits (YoY) for Major Corporations (SMAM Core Research Universe: 216 companies) for the interim results and are also focusing on the fiscal year end results.

Liquidity should not shrink due to the US rate hike and China's slowdown was originally a policy adopted by the Chinese government itself. Therefore, we believe that the stock market is overreacting to the concerns derived from these uncertainties. We expect Japanese stocks to recover gradually towards the year end as market uncertainties subside. We think the appropriate level of the Nikkei 225 index will be in the latter half of JPY 19,000s at the end of 2015 and will recover to the JPY 20,000 level sometime in the January to March period next year.

*** Please note that this report is a translation of Japanese report written on September 29th, 2015.**

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