

Japanese Stock Market Outlook for the Rest of the Year

- Japanese stock market sentiment improved as the weak US Current Employment Statistics (CES) decreased the uncertainty on the timing of a rate hike.
- Cautious approach is still necessary as business results of Japanese corporations cannot stay away from the negative impact of slower external demands.
- Room for Nikkei 225 to test new highs, but fair value would be around JPY 19,000 at the year end.

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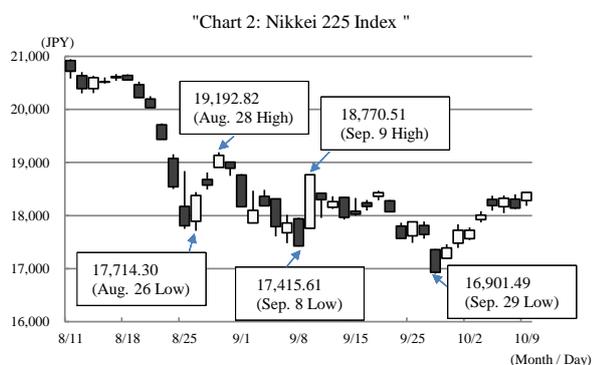
Major stock markets including Japan experienced a sharp fall in summer due to two uncertainties; US rate hike and China's economic situation. Afterwards, expectations of a rate hike receded significantly as the September CES announced on October 2nd was below expectations and FOMC's minutes released on October 8th appeared to be dovish in general. At the present moment, the stock market sentiment is recovering as the uncertainty on the timing of a US rate hike has decreased (Chart 1).

The Nikkei 225 continued to correct even after the postponement of a rate hike was decided at the September FOMC, dropping to JPY 16,901.49, breaking through the support level of JPY 17,000 during trading hours on September 29th. However, the Nikkei 225 bounced back and closed at JPY 18,438.67 on October 9th as the possibility of the postponement of a US rate hike rose and expectations of additional monetary easing by BOJ emerged as the domestic economy continued to sag.



(Note) Percentage change of stock market price as of October 8, 2015 from September 30, 2015. Stock index for each country is Bovespa Index for Brazil, RTS Index for Russia, Jakarta Composite Index for Indonesia, Dow Jones Industrial Average for the USA, Nikkei 225 for Japan, DAX Index for Germany, SET Index for Thailand, PSE Composite Index for Philippines.

(Source) SMAM, based on Bloomberg L.P. data.



(Note) Data is from Aug. 11, 2015 to Oct. 9, 2015.

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Cautious approach is still necessary as business results of Japanese corporations cannot stay away from the negative impact of slower external demands.

Although the Nikkei 225 is stabilizing, it is important to once again pay attention to the domestic economy and corporate business performance. As for the domestic economy, although private consumption seems to be relatively strong due to improvement in the labor market and income environment, the export and production activities of corporations (mainly manufacturers) are rather weak, which have been affected by the economic slowdown in China and other Asian countries.

The peak of interim business result announcement of corporations whose fiscal year ends in March will be from late-October till mid-November. Negative impact of the recent turmoil in financial markets and the slowdown of emerging market economies, are unavoidable. Although the recurring profit of major companies (SMAM's core research universe of 216 companies) this fiscal year is forecasted to show a double digit growth YoY, we should maintain a cautious view on corporate performance.

Room for Nikkei 225 to test new highs, however, fair value would be around JPY 19,000 at the year end.

Japanese stocks are likely to react sensitively to the US CES, FOMC and performance of the Chinese stock market and economic data, as the two uncertainties, US and China, have not diminished completely yet. However, room for Japanese stocks to test new highs towards the end of the year will gradually increase, if the Japanese domestic economy avoids a sharp slowdown and corporate interim results fulfill expectations, while the uncertainties get cleared.

As shown on Chart 2, the Nikkei 225 after its sharp fall in late-August, continued to plunge to new lows: JPY 17,714.30 on Aug. 26th, JPY 17,415.61 on Sep. 8th and JPY 16,901.49 on Sep. 29th. On the path to recovery, the Nikkei 225 may need to test new highs such as JPY 18,770.51 on Sep. 9th and JPY 19,192.82 on Aug. 28th. Meanwhile, the fair value of the Nikkei 225 as of 2015 year end will be around JPY 19,000, revised down from last month's forecast of between JPY 19,500 to JPY 20,000.

*** Please note that this report is a translation of Japanese report written on October 13th, 2015.**

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