

## Japanese Equity Market Outlook

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Daiwa Asset Management Co. Ltd.

### < Market review in November and the first half of December >

The Japanese equity market closed lower in the month of November with TOPIX down -4.66%, and the Nikkei Index down -6.16%. In response to concerns of political uncertainties in Greece and Italy, stock prices began to fall at the beginning of the month. After that period, sudden rise in the bond yields of Italy, Spain and the spread of debt crisis into Central, East European countries and the poor results of German sovereign bond auctions together impacted the equity markets to drive them continuously downwards. In Japan, lower than expected April–September earning results, Olympus's loss cover-up scandal, breakdown of negotiations with regards to reduction in the US fiscal deficit were primary factors for the decline of Japanese markets. However, near the end of the month expectation that progressive steps will be taken to contain the European sovereign debt crisis, along with the good start of year-end sales in the US spurred the markets to rebound.

After entering into December, positive expectation of measures taken to contain European debt crisis, and favorable US economic indicators led the equity market uptrend. However, after the EU summit meeting, markets perceived that the solution lacks immediate effectiveness which led the equity markets to fall. As of December 16, the TOPIX was down -0.67%, and the Nikkei Index has fallen -0.39% from their levels at the end of November.

### < Focus on new BOJ Governors' selection >

The term of BOJ Governor, Mr. Shirakawa, come to an end by April 8, 2013. Mr. Yamaguchi and Mr. Nishimura Deputy Governors' term will end by March 19, 2013. It is expected that by the second half of 2012, there will be a search for next BOJ Governor and Deputy Governor. Appointment of Governor and Deputy Governor will be decided as per the BOJ law "with the approval of both houses of Diet, appointment by Cabinet". A section of politicians are strongly criticizing that Japan could not pull itself out from the deflationary economy due to BOJ's insufficient monetary easing policies. Because of this, some groups might contrive to recommend such person with an academic background who is criticizing present BOJ policies and having pro-aggressive stance to ease the BOJ's monetary policy. At least the markets are of impression that the replacement of Governor and Deputy Governor might trigger the change of BOJ's policy to implement a new easing policy. Since many market participants are pro-easing policy supporters, stronger expectation to a new monetary policy by newly appointed BOJ Governor will boost the advance of the market.

## <Outlook>

In 2012, the Japanese equity market is expected to show some improvement in the spring, then consolidate from summer to autumn, and later advance toward year-end.

Why do we expect some recovery in the spring? It is because investors' concern of European sovereign debt crisis which is expected to retreat temporarily. Up to now, it might be a major opinion in the market that the reason of lingering concern of European sovereign debt crisis has found insufficient solutions so far, but the major reason of market mistrust would be that such solutions announced are not implemented. For the time being, EU member countries would need to enforce such policies and means, including the imminent rescue package to Greece. Real actions by governments would mitigate the anxiety of market participants. At present, European sovereign debt crisis is dominating the market as a major negative factor. Accordingly, if concerns of crisis are retreated temporarily, the sentiment of the market would dramatically improve and the stock prices might unexpectedly advance.

However, if the market lightened its pressure now, then EU governments and related parties might lose their critical urgency soon. In such a case, the European sovereign debt crisis would flare up again due to inconsistent stance by member countries, and the market is expected to have a consolidation stage. Then, due to expectation to the Bank of Japan's new governor and deputy governor who might adopt a new market-friendly monetary policy, the market would advance toward the end of the year.

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