Japanese Equity Market Outlook

February 15, 2012

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< Market review from January-February >

The Japanese equity market in the month of January rose 3.66% with the TOPIX and 4.11% with the Nikkei Index. In the beginning of the month, concerns about the European sovereign debt crisis and the resultant impact of it leading to a cheaper Euro versus the yen influenced the market to reflect a bearish tone. On January 13, S&P announced the downgrade of nine Eurozone member countries, leading to an increase in momentary uneasiness. Later, European financial markets maintained calmness, and due to this calmness Japanese equity markets felt a sense of assurance and security, causing them to trend upwards. As the sense of gradual decrease in global risk-aversion, and the weakness of yen together reflected positively on Japanese stock prices.

Japanese stock markets continued to show upward momentum after entering into the month of February. A relief from further concern of the European sovereign debt crisis, extended ultra-low interest rate policy by the Fed which helped US stocks rise, and unanticipated monetary easing by the BOJ are the reasons for the rise in Japanese stock prices. As of February 15, the TOPIX was up 6.31%, and the Nikkei Index was up 5.20%, from their levels at the end of January.

< Change in the attitude of Bank of Japan >

On February 14, the Bank of Japan announced an increase of 10 trillion yen for its financial asset purchase program, its official statement being for "the price stability goal in the medium to long term".

http://www.boj.or.jp/en/announcements/release_2012/k120214a.pdf

http://www.boj.or.jp/en/announcements/release_2012/k120214b.pdf

The stock market rose significantly after this announcement. It can be observed that “the price stability goal in the medium to long term" is a use of BOJ jargon that has changed only slightly from the traditional expression of "the price stability perception of medium-to long-term”, but the intended meaning of the phrase has changed considerably. The word "perception" could simply be a set of personal opinions of the policy committee members, whereas “goal” seems to be a collective official opinion of the policy committee. The linkage of the word “perception” and BOJ’s monetary policy itself was ambiguous before, but now their “goal” was proclaimed in their statement, that the BOJ would pursue a more powerful monetary easing policy, to target a 1% rise in the CPI on a year-over-year basis. The phrase “price stability goal”, in BOJ’s jargon, was strongly linked with its actual monetary policy this time. It might be possible to think that the BOJ is transforming its stance. Market participants presently anticipate further monetary easing by the BOJ.

After the FOMC January meeting, by comparison with the Fed, Japanese politicians vehemently criticized the BOJ. The appointment of a new BOJ Governor and Deputy Governor requires the approval of the Diet, but the terms of its current Governor and two Deputy Governors are up in March - April, 2013. Under these circumstances, BOJ’s easier monetary policy seems inevitable to cope with the strong criticism of politicians.

<Outlook>

In 2012, the Japanese equity market is expected to show some improvement towards April, then consolidate throughout the 3rd quarter, and later advance toward the year-end.

Actually the market is rallying since late January as we forecasted. We further anticipate that this steady uptrend will continue toward April with such incentives as the fading concerns about the European sovereign debt issues, the recovery of the global economy, and the fact that the majority of downward revisions of business results have already been released globally. As for specific factors of the Japanese equity market, the sign of a monetary policy stance change from the BOJ is critical, and would give the market a positive impact. Based on research results of various investors' opinions, many investors still seem to be underweighting Japanese equities in their portfolio, and their potential buying demand is largely expected.

After the rally toward April, we might have to prepare for a correction period due to possible uncoordinated stances rekindling EU sovereign debt issues. Another concerning factor is that the domestic and overseas political situation may become unclear before expected elections. However, the market will start its advance again from 4Q to 1Q of 2013, due to expectations of appointing a more pro-monetary easing BOJ governor in March to April in 2013, which would accelerate an advance of the market.