

Japanese Equity Market Outlook

May 16, 2012

Daiwa Asset Management Co. Ltd.

<Market review from April to May>

The equity market plunged in April. The TOPIX tumbled 5.86%, and the Nikkei 225 average dropped 5.58%. In the first half, concerns over Spain's fiscal conditions increased and lower-than-expected March employment statistics of the United States added opaqueness to the future of the U.S economy. These issues caused stock prices to drag down. An opposite force against the rapid rally of stock prices, which surged until March, can also be envisaged. In the second half, despite Europe's issues having accompanied positive earnings announcements of U.S companies, U.S equities remained steady and the equity market trended sideways.

In early May equity prices dropped again. Employment statistics of the United States were lower-than-expected; its deterioration continued even after March until April. The results of France's presidential election and parliamentary elections in Greece made the European situation more opaque and these consequences influenced the yen's appreciation, thus leading stocks to slide further. As of May 16, the TOPIX crashed 8.13% and the Nikkei 225 average crashed 6.08% from their levels at the end of March.

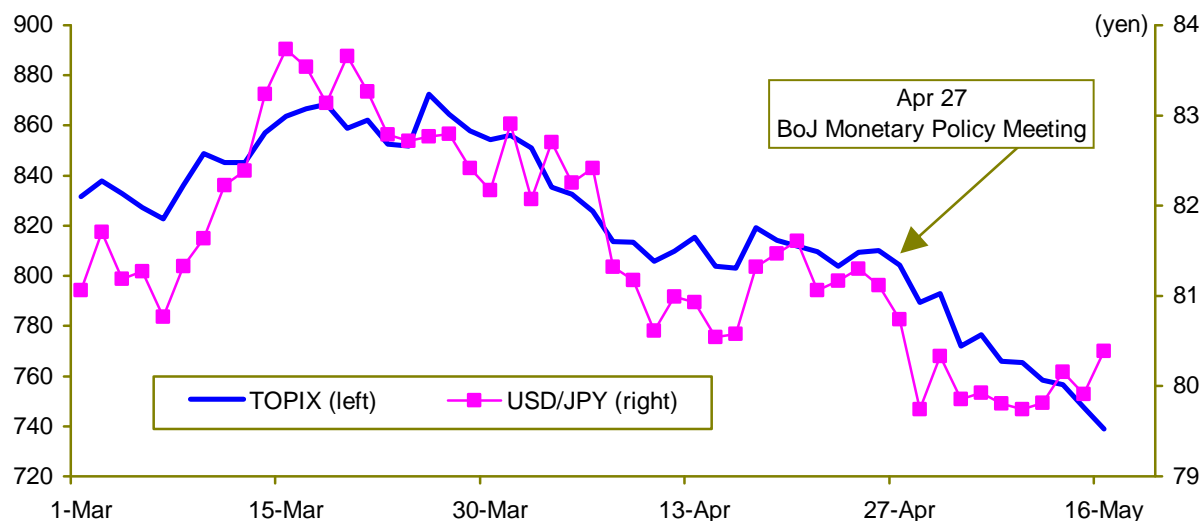
<Bank of Japan appears to be distancing itself from additional monetary easing>

In the Monetary Policy Meeting on April 27, the Bank of Japan announced a little more additional easing of monetary policy, above the expectations of the market. However, immediately after that, the stock market fell further, and the appreciation of the yen progressed (see chart). The situation in Europe and U.S. economic indicators were often considered to be the causes of these downward movements. Our in-house opinion is that the statements by the BOJ largely affected the situation. There were two noteworthy points in the BOJ statement; the first being that "As the aggregate supply and demand balance improves, the year-on-year rate of change in the CPI is expected to gradually rise to a range of above 0.5 percent and less than 1 percent toward the latter half of the projection period in the Outlook Report. Thereafter, it will likely be not too long before the rate reaches the Bank's 'price stability goal in the medium to long term' of 1 percent for the time being". The second being that "The Bank has been pursuing powerful monetary easing..." Prior to this, that statement was "... the Bank will pursue powerful monetary easing." Reading these statements, we get the impression that the BOJ believes that it has already implemented sufficient monetary easing and following the same course of action, their price stability goal can be achieved. It is to be considered that the BOJ is reluctant to follow further additional easing. There was at least some expectation that the BOJ might execute further aggressive monetary easing, more than expected, but these expectations may now gradually diminish.

<Outlook>

Considering a year from now, it is expected that the equity market from the Jul-Sep period will be range bound, and then from Oct-Dec will advance; later, in 2013, in Jan-Mar and Apr- Jun it will be range bound again. These general trends in the direction of market movements have remained the same as were previously expected. However, our forecasted price target of the TOPIX lower limit has changed and been revised downward from 770 points to 706. As mentioned in our previous outlook perspective, there were two negative factors which worsened beyond earlier expectations. Specifically, they were the BOJ's stance and Greece's political situation. In the next one-month period, volatility stemming from Greek re-election is anticipated. However, judging from the domestic economy and earnings prospects, stock prices appear to be in an over-sold situation. Once the European condition centering on Greece settles down, the bottom fishing of stock market might be revived and strengthened. The Bank of Japan's stance was cited to be one of the causes for this downward revision of stock prices. If market conditions worsen at that juncture once again there is a possibility that the BOJ's stance might change to one more preferred by the market. With respect to domestic politics they might continue as factors for upward and downward market movements. If the passage of the consumption tax hike bill becomes a top priority to Prime Minister Noda, this might turn favorable for the opposition Liberal Democratic Party (LDP) and might lead to a dissolution of the House of Representatives. As a result, there is a possibility of a break from indecisive politics; simultaneously there is also fear that confusion might deepen.

TOPIX and USD/JPY



Mar 1, 2012 ~ May 15, 2012

Source: QUICK/Astra Manager

Disclaimer: Warning before handling this material

- This material was prepared by Daiwa Asset Management Co. Ltd to provide reference information for investment. It should not be construed as an offer or a solicitation to purchase or subscribe to any fund products. Potential investors should refer to and read the prospectus of each fund product for more detailed information prior to their investment decision.
- The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable, but their accuracy, correctness or completeness are not guaranteed. The performance of investments, if referred herein, is based on past data and is neither necessarily an indication nor a guarantee of future performance of investments. Daiwa made all reasonable efforts to ensure that the information contained herein is current, but it is subject to change without notice. Daiwa Asset Management Co. Ltd., or any of its respective affiliates, accepts no liability whatsoever for any direct or consequential loss arising from any use of this material or its content.