

#### [Japanese Equity Market Outlook]

**Waiting for the post-election political framework to be formed**

Nikkei 225 Average	November end	MoM
	9446.01	5.80%

#### [Market review in November]

In November, equity markets dropped in the first half of the month, but reversed to rise considerably in the second half. During the first half, equity prices declined due to heightened concerns over the so-called “fiscal cliff (the lapse of tax cuts with automatic reduction in expenditure to start in 2013)” as a result of the U.S. presidential election. It also contributed to the decline of equity prices that uncertainties increased over the Greek debt problem. Nonetheless, once Prime Minister Noda declared on November 14 the dissolution of the House of Representatives on November 16, equity prices rose rapidly, with the expectation of a new administration. Assuming that the Bank of Japan will have no choice but to adopt a bold monetary easing demanded by LDP President Abe who is the most likely candidate for the next prime minister, the yen was weakened in the foreign exchange markets, which in turn led to a favorable response in equity markets.

#### [Outlook]

In December, equity markets are likely to gradually show a wait-and-see attitude, and lose the sense of direction. While we have seen the progressively weaker yen and higher equity prices so far, owing to the expectations of a new Abe administration, the momentum of the weak yen and high equity prices is forecast to slow down in the short run, due to the substantial accumulations of speculators’ yen-short positions in the Chicago Mercantile Exchange (CME) FX futures as well as outstanding arbitrage trading in the Japanese equity markets. LDP and New Komeito are the favorites to win the elections for the House of Representatives; however, due to such factors as the third pole movement, it will be difficult to tell the outcome before the ballot is counted. As for the post-election ruling coalition, not only the situation of the House of Representatives but also that of the House of Councilors matters. In order to evaluate these factors, investors increasingly appear to take a wait-and-see stance.

#### [Points]

Positive Factors	Negative Factors
<ul style="list-style-type: none"> <li>Global economic recovery by policy responses of individual countries</li> <li>Implementation of further monetary easing by the BOJ</li> </ul>	<ul style="list-style-type: none"> <li>Difficulties with efforts to avoid the “fiscal cliff” in the U.S.</li> <li>Possibility of deflated investor expectations depending on the result of the House of Representatives elections</li> </ul>

(Yen) **Nikkei 225 Average**



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