

Today's

Topic

**Outlook of Japanese Equity Market after a Correction**

**Strong corporate earnings to support the equity price**

## Point 1

**Nikkei fell over 1000 yen in seven working days**

**Approx. 10% decline from the peak in September**

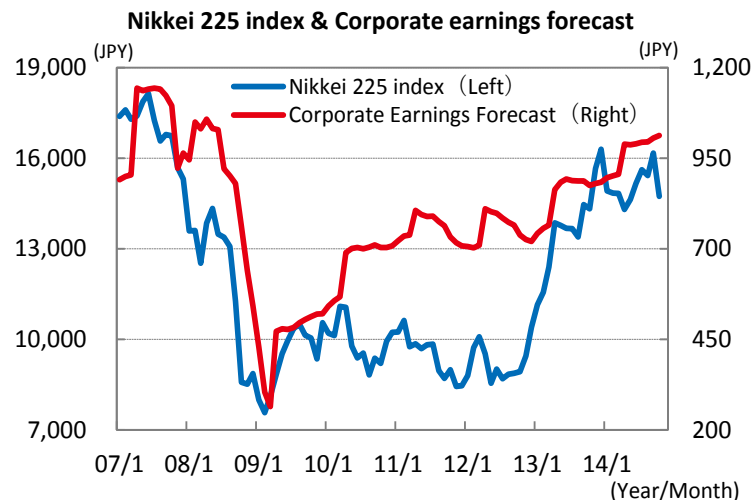
- Nikkei 225 index of October 16 closed at JPY 14,738.38, sharply declined by JPY 335.14 from the previous day (-2.22%). It fell over 1000 yen in seven working days and fell below 15,000 level this Tuesday since August 2014.
- From this year's peak of JPY 16,374.14 marked on September 25, the index fell more than JPY 1,600 (approx. -10%).
- In currency market, JPY re-appreciated against US\$ back to around 106 yen from above 110 yen level marked in the beginning of October.

## Point 2

**Increasing concern on slowdown of global economy**

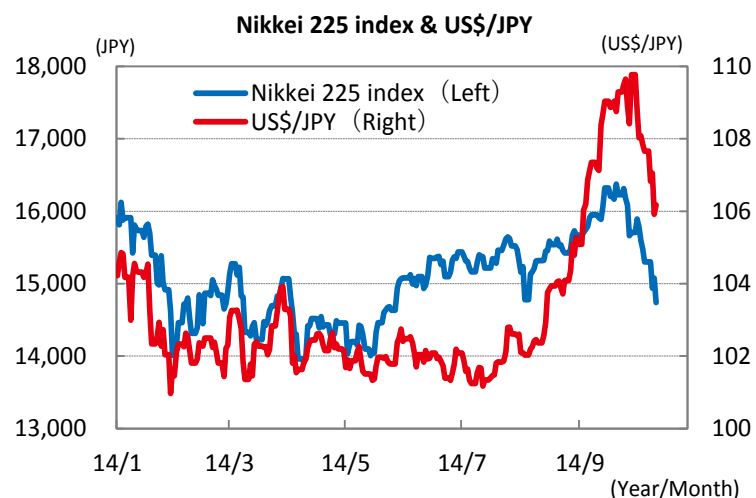
**Worries on slow Japanese economic recovery and JPY appreciation**

- On October 7, IMF unveiled a downward revision of the global economic growth outlook. It was followed by the announcement of US FOMC meeting minute (for September 16 & 17) on the 8<sup>th</sup> which pointed out the global economic slowdown led by Europe is a risk factor to the US economy. On October 9, a major German economics research institute published their forecast that the German economy was on a verge of economic recession.
- Following these, the Japanese equity market plunged under the situation that US and European investors took a "risk averse" attitude in the global equity market with increasing concern over the deterioration of global economy and re-appreciation of Japanese yen.



(Note) Data is from Jan.2007 to Oct. 2014 (Monthly). Nikkei 225 index till 16 October, 2014, Corporate earnings forecast (per share, next FY) till 15 October, 2014.

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



(Note) Data is from 6 January, 2014 to 16 October, 2014 (Closing price).

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

## Future Outlook

**Nevertheless, the Japanese equity market would be supported by the firm business sentiment and solid corporate earnings going forward**

- In the BOJ's Tankan survey released on October 1, the business conditions of large corporations (manufacturing sector) showed a moderate improvement. The future forecast was almost positive, too. The US ISM index indicated that business sentiment of the US enterprises were kept strong.
- The global economy is expected to gradually accelerate its speed of growth into next year although economic growth rate of Japan, Europe and emerging countries were revised downward. Based on these outlook, corporate earnings of world key companies including

those in Japan are expected to keep a firm tone in the coming future.

- According to the Tankan, the Japanese corporations' average forex rate of US\$/JPY used for their assumptions of earnings forecast is JPY 100.73, which is higher than the current level of around 106 yen. If the current forex rate is maintained, corporate earnings of Japanese corporations will be revised upward. We have a view that the Japanese equity market will rise in line with the earnings improvement as uncertainties over the global economy fade away.

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