

Today's Topic **BOJ's Tankan and Market Outlook**

## Large Enterprises' Business Outlook is Cautious, Market's Concern is Falling Oil Price

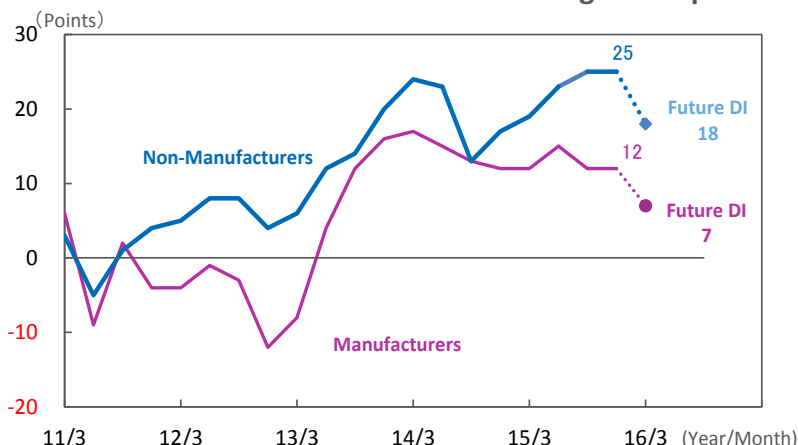
### Point 1

#### Cautious business outlook

Currently both manufacturers and non-manufacturers are firm

- According to "BOJ's Tankan" for December survey (Nov. 11 – Dec. 11) released on 14<sup>th</sup> December, the latest "Business Condition Diffusion Index" for large manufacturers and non-manufacturers were +12 and +25 respectively, both unchanged from the previous survey. Current business sentiment continues to be firm supported by strong corporate earnings growth. Meanwhile, the "Future Business Condition Diffusion Index (Future DI)" of both manufacturers and non-manufacturers are deteriorating. Growing uncertainties over external environment such as US rate hike and increasing geopolitical risks seem to be the reason.

#### "Business Condition Diffusion Index of Large Enterprises"



(Note) Data period is from March 2011 to March 2016 (quarterly basis). Data upto December 2015 is based on Current DIs and those of March 2016 are based on Future DIs as of December 2015.

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

### Point 2

#### Downward revision of second half year's profit planning

Full year Capex plans are unchanged

- Recurring profits projections for second half of FY2015 were revised downward. However, annual profits projections were revised upward from the previous survey underpinned by upward revision of the first half year's projections.
- The Capex projection of All Industry (Large Enterprises) for FY2015 was almost unchanged, maintaining double digit growth from the previous survey, supported by strong corporate earnings growth. In addition, the profits are expected to rise if exchange rates remain at current levels as manufacturers assume a lower USD/JPY rate of 118.00 for the second half of FY2015.

#### "Sales, Recurring Profits and Capex of Large Enterprises"

(YoY, %)	FY2015		FY2015 (2nd Half)	
	(Forecast)	chg, %	(Forecast)	chg, %
Sales	-1.1	-1.5	-0.9	-1.9
Recurring Profits	6.5	1.7	-4.2	-6.2
Capex	10.8	-0.1	15.1	7.3

#### "Currency Exchange Rate Forecast by Large Enterprises"

	FY2015	FY2015 (2nd Half)
USD/JPY	119.4	118.0

(Note) "Chg, %" is a change against previous survey.

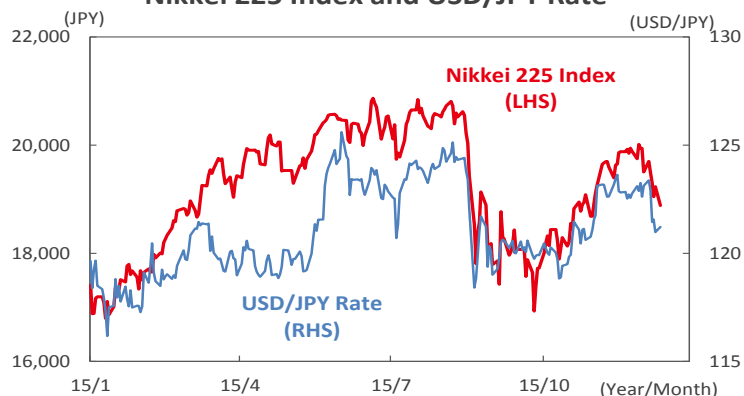
(Source) SMAM, based on BOJ's Tankan survey.

### Future Outlook

#### Uncertainty is expected to alleviate with start of US interest rate hike and stabilization of crude oil price

- On 14<sup>th</sup> December, Nikkei 225 index fell sharply down to below JPY 19,000, since the beginning of November this year. Closing price was JPY 18,883, JPY 347 lower than the previous day. Risk aversion strengthened as crude oil price continued to fall and the market started to focus on news of difficulties of oil related companies and liquidation of oil related funds.
- We believe that the market will regain its stability together with improvement of corporate business sentiment once uncertainties over US interest rate hike, impact of lower crude oil price and geopolitical risks are alleviated.

#### "Nikkei 225 Index and USD/JPY Rate"



(Note) Data is from January 5, 2015 to December 14, 2015.

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

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