

What to focus on “Tankan survey”

The “Short-Term Economic Survey of Enterprises in Japan” known as the “Tankan survey” is conducted by the Bank of Japan. The objective of the survey is to accurately grasp nationwide corporate activities in order to appropriately manage monetary policy. The survey is conducted on a quarterly basis based on data from approximately 10,000 companies. The result of the March survey was announced on 1st April, 2016 which had drawn attention from both domestic and overseas investors.

Point 1

Business conditions diffusion index reflects corporate business confidence Financial market expects deterioration of business confidence of large manufacturers

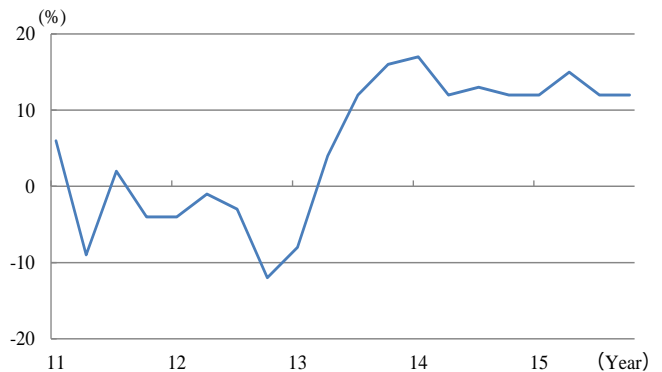
- “Tankan survey” provides the latest current and future business confidence of corporations. Corporate business confidence is indicated as the business conditions diffusion index, calculated by subtracting the ratio of corporations who answered the questionnaire survey with “unfavorable views” from those who answered with “favorable ones”. Progression of improvement or deterioration of business confidence can be grasped by comparing with the previous survey’s index. Meanwhile, the latest business condition diffusion index (January 2016 to March 2016) for large manufacturers dropped 6 points from +12 to +6 from the previous survey in December.

Point 2

Corporations’ projected currency exchange rate was also announced. JPY is projected to strengthen in FY2016 compared to FY2015

- “Tankan survey” shows actual and estimated data of corporations’ business plans such as sales, earnings and capex along with corporate business confidence. Among them, corporations’ projected currency exchange rate used as the base for business plan draws attention of market participants.
- The average projected JPY/USD rate of the latest survey was JPY117.46, slightly lower from previous quarter’s JPY119.40. If JPY appreciates sharply against USD more than that of the average projected rate for FY2016 after April, we should keep an eye on how it could push down exporters’ earnings.

“Business Condition Diffusion Index for Large Manufacturers”



(Note) Data period from March 2011 Survey to December 2015 Survey.
Business condition DI is based on the latest business confidence.
(Source) SMAM, based on Bloomberg L. P. data.

Japanese equity market is possible to rise if expectation of monetary easing starts to emerge after release of “Tankan Survey”

■ Corporations’ projected price will be released on 4th April

Summary of corporations’ projected price contained in “Tankan survey” will be released on 4th April, 2016. If projected price falls sharply from that of the previous survey released in December 2015, expectation on monetary easing by BOJ is likely to rise.

■ March “Tankan survey” showed cautious outlook for corporate earnings

March “Tankan survey” evoked the necessity of a cautious outlook on corporate earnings and Japanese equity market. If expectation of monetary easing rises, Japanese equity market is likely to perform well after release of March “Tankan survey”.

*** Please note that this report is a translation of Japanese report written on 1st April, 2016.**

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