

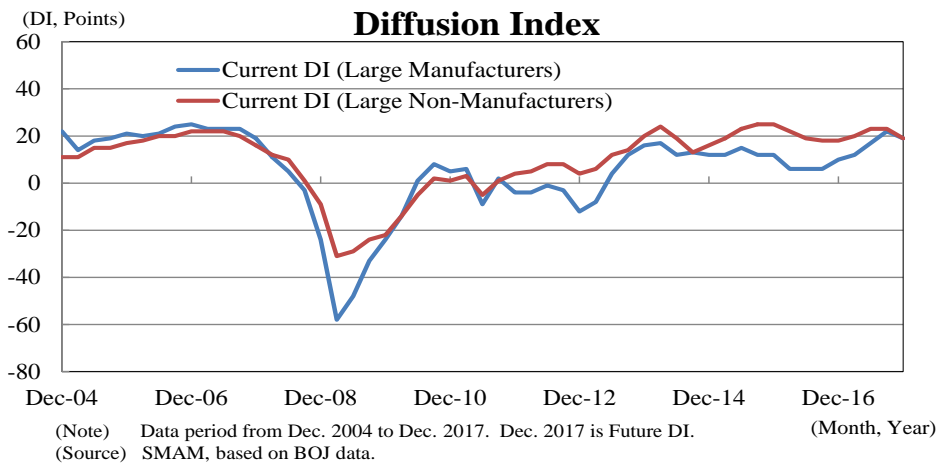
“Tankan survey” recovered to a 10 year high

The “Short-Term Economic Survey of Enterprises in Japan” known as the “Tankan survey” is conducted by the Bank of Japan in quarterly basis based on the data from more than 10,000 companies which is used as a reference for their monetary policy decision making process. The current and future business confidence for large manufacturers are widely known as “Business Condition Diffusion Index” and “Future Business Condition Diffusion Index” receiving most attention in the financial markets. According to the latest September “Tankan” announced on 2nd October, business conditions of manufacturers showed improvement and recovered to a 10 year high since September 2007.

Point 1

4th straight months of improvement of large manufacturers’ business conditions; Much better than market expectation

- The Bank of Japan released September “Tankan survey” on 2nd October. The latest “Business Condition Diffusion Index” for large manufacturers rose 5 point to +22 from the previous survey of June. This was 4th straight months of improvement significantly beaten market expectation of +18 (Bloomberg). Business conditions DI recovered to a 10 year high. Of the manufacturers, Medium-sized and Small enterprises also saw improvement. Back ground seems to be (1) a weaker JPY compared to assumed exchange rate of USD and EUR by Japanese corporations and (2) a moderate production increase due to export recovery.
- Assumed exchange rate of large manufacturers for FY2017 was JPY109.29 against USD which slightly shifted to weaker yen than the previous survey.



Point 2

Business conditions DI of Large non-manufacturers were flat Weak consumption due to prolonged rain fall

- Meanwhile, the latest Business conditions DI of the large non-manufacturers was the same at +23 as the previous survey. Medium-sized and Small enterprises were almost the same (+1) as the previous survey, too. DI for Retailing and Accommodation, Eating & Drinking services declined from the previous survey. We had a prolonged rain fall in August, which dented the private consumption.
- Capital spending plan of Japanese corporations (All size and All Industries) was + 4.6%, almost in line with the growth pace of average year.

Economic expansion and earnings growth expectation will likely support equity market

- September “Tankan survey” confirmed moderate economic expansion trend due to significant improvement of manufacturers, while non-manufacturers showed a sign of standstill affected by bad weather.
- Nikkei 225 index, at its highest price since 2 years ago, slightly rebounded after the announcement of “Tankan survey” from the previous day. The Japanese equity market appears to be supported by (1) improvement of business sentiment and (2) possible upward revision of corporate earnings if exchange rate remains at current level as assumed exchange rate of corporations was set at JPY109.29 against USD. Despite some uncertainties over North Korean situation and upcoming general election in Japan, continuation of economic expansion and earnings growth expectation seem to underpin Japanese equity market.

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