

Japanese Stock Market Outlook

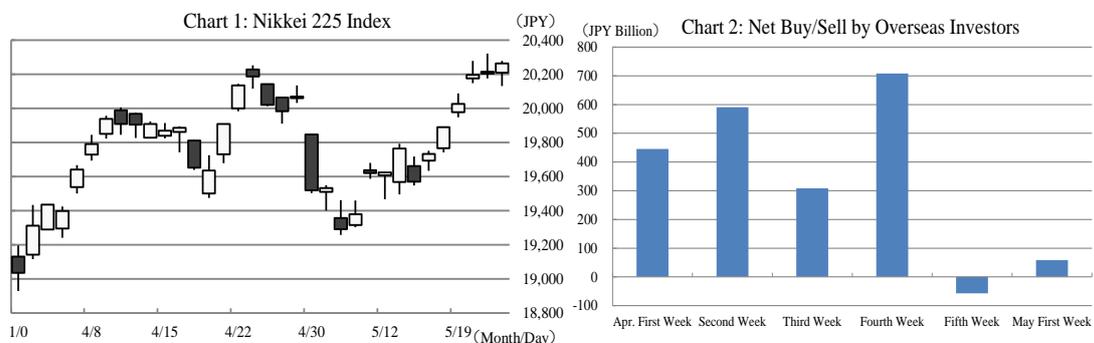
- Nikkei index climbed above 20,000 yen after financial results reporting season.
- Tokyo market environments remain favourably unchanged in macro economy, supply-demand balance and corporate earnings.
- The stocks are very likely to continue rising with some fluctuation.

Nikkei index climbed above 20,000 yen after financial results reporting season

The Japanese stock market had some push-back in later-April. This would be because market participants sit on the sidelines prior to the financial results reporting season and the financial markets were overcast by a risk off mood across the globe on concern about higher bond yields led by Europe. The financial results reporting season is over now and the Japanese companies' guidance are conservative but show steady growth. Some companies also announced higher than expected shareholder return. Meanwhile the European bond yields currently stay firm on the comment by ECB president Mario Draghi of keeping QE on hold after the rapid upturn in the bond yields led by unwound positions betting on lower yield under the QE. Then, the Nikkei index edged up at 20,000 yen on May 19 (Chart 1).

Tokyo market environments remain favourably unchanged in macro economy, supply-demand balance and corporate earnings

On Japan's macro economy, January-March real GDP was released on May 20, growing at +2.4% annualised, better than the consensus of +1.6%, from +1.1% in the previous quarter. The economy is expected to steadily grow at mid-1% in FY2015 buoyed by moderate expansion in exports and the recovery in consumption led by wages gain.



(Note) Data from Apr. 1, 2015 to May 22, 2015.
(Source) SMAM, based on Bloomberg L.P. data.

(Note) Data from the first week of Apr. to the first week of May, 2015.
The amount is calculated by subtracting aggregated selling amount of overseas investors of Tokyo and Nagoya 1st and 2nd sections from that of purchased amount.
(Source) SMAM, based on Bloomberg L.P. data.

The supply-demand balance is also a tailwind. The public pension fund (GPIF) and three largest civil workers' pension funds plan to buy domestic stocks more than JPY8 trillion, and the Bank of Japan buys on weakness in the stock market along the commitment to buy ETFs of JPY3 trillion a year. Additionally, overseas investors bought approximately JPY2 trillion in net basis in April and continued a net purchase of JPY58.4 billion in the first week of May (Chart 2).

The double digit growth is anticipated for the FY2016/3 net profits of all the public companies. However, the guidance is centred on around USD/JPY=115, which is lower than current exchange rate, for large exporters. Therefore the profits are likely to move higher if the currency remains at the current level. Also, overseas investors might increase the Japanese stocks position in favor of the improvement in corporate governance as some companies raise the dividend payout and repurchase the shares from rich cash on hands and set Return on Equity as a goal of the management.

The stocks are very likely to continue rising with some fluctuation

As mentioned above, the domestic environments are still tailwinds on Tokyo stocks. In contrast, there are some external downside risks that include likely market volatility at the liftoff by US Fed, China's slowdown and longer turmoil of Greek bail out issue. However, such risks could be relatively well managed as the US rate hike is likely to be implemented extremely prudent at later and lower pace, Chinese policy makers try to stimulate the economy by monetary easing and Greece and EU, the creditors are likely to approach the deal finally.

My view remains intact that Japanese stock market is likely to keep its rally with some fluctuation. Although the above risks would affect creating some volatility in the market, the Nikkei index is likely to head higher to the recent high of 20,833.21 yen in April 2000 for the time being. Toward the year end, I think the index will reach 21,000 yen, and moreover the stocks would advance beyond the milestone level if the market momentum gets stronger.

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