

## Update on Japanese Equity Market Outlook

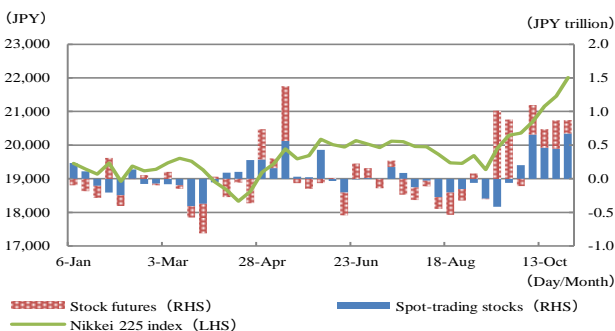
- In addition to good business result, stable political situation, global economic recovery and stable USD/JPY rate, ETF purchase by BOJ supported the Japanese equity market.
- These factors attracted foreign investors very much, pushing the Japanese equity market higher.
- We maintain positive outlook for the Japanese equity market. We expect upper end of our forecast range for Nikkei 225 to be JPY23,500 by the end of 2017 and JPY24,000 as of March end 2018.

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Nikkei 225 continues to edge higher after recovering milestone of JPY22,000 level on 27<sup>th</sup> October (closing price). Positive news supporting Nikkei 225 are (i) good business results (Apr.-Sep. 2017) of Japanese corporations, (ii) landslide victory of Lower House election by ruling party realizing long-term stable government, (iii) widespread of global economic recovery, (iv) stable USD/JPY rate due to moderate normalization of US monetary policy.

Also, (v) expectation on US tax reform and (vi) retreat of North Korean risk are the strong supporting factors. Meanwhile, market focused on (vii) ETF purchase by BOJ lately. After staying on sidelines during the stock rally in October, BOJ purchased JPY70.9billion worth of ETF when Nikkei 225 had fallen below JPY22,000 on 30<sup>th</sup> and 31<sup>st</sup> October, respectively, signaling market participants that the downside risk is limited.

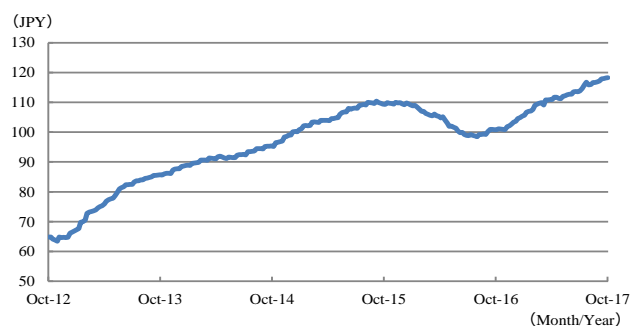
“Chart 1: Foreign Investors’ Japanese Equity Transactions



(Note) Data period is from 1<sup>st</sup> week of January 2017 (4<sup>th</sup> to 6<sup>th</sup> January) to 4<sup>th</sup> week of October (23<sup>rd</sup> to 27<sup>th</sup> October). Stock futures are representation of Nikkei 225 futures and TOPIX futures. Spot-trading stocks are representation of 1<sup>st</sup> and 2<sup>nd</sup> sections of 2 stock exchanges (Tokyo and Nagoya).

(Source) SMAM, based on Osaka stock exchange and Bloomberg L.P. data.

“Chart 2 : Estimated EPS for Future 12 months”



(Note) Data period is from 30<sup>th</sup> October 2012 to 31<sup>st</sup> October 2017. Estimated earnings per share (EPS) for future 12 months of TOPIX index.

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

## **These factors attracted foreign investors very much, pushing the Japanese equity market higher**

In general, Japanese equity market tends to be (a) influenced by foreign investors' capital flow, (b) sensitive to global economic conditions and risk factors and (c) negative on uncertainties. Based on these tendencies, foreign investors are likely to consider (i) good business results and (ii) stable political situation as positive, and (iii) global economic recovery and (vi) retreat of geopolitical risk as catalysts to revisit Japanese equity market. While, (iv) prudent US monetary policy implementation and (v) rise of expectation on US tax reform will eliminate future uncertainties going forward.

Considering the nature of Japanese equity market, all of these factors will push the market higher. Nikkei 225 rose JPY1,655.33 in October alone as (vii) ETF purchase by BOJ was added as a positive factor to these factors. It appears that foreign investors pushed the Japanese equity market higher as they were net buyers of Japanese stocks for 5 consecutive weeks and Japanese stock futures for 4 consecutive weeks prior to 4<sup>th</sup> week of October (Chart 1).

## **We maintain positive outlook for the Japanese equity market. We expect the upper end of our forecast range for Nikkei 225 to be JPY23,500 by the end of 2017 and JPY24,000 as of March end 2018**

Strong Japanese equity market is likely to continue if (i) to (vii) supporting factors remain unchanged. So far, (i) earnings outlook is good (Chart 2) and (ii) long-term stable government is likely to continue. Overseas factors such as economic slowdown in US and China and rise in military tension between North Korea are the risks. If these risks turn up, the Japanese equity market is expected to experience significant consolidation as uncertainty over (iii) to (vi) supporting factors increases. At this stage, we believe that the possibility of emergence of these risks is low. Moreover, even if the Japanese equity market enter into consolidation, we anticipate downside risk will be underpinned by (vii) ETF purchase by BOJ.

We have updated outlook of Nikkei 225 this time for Oct.-Dec. 2017 to between JPY21,000 and JPY23,500, and price as of December end 2017 to JPY22,700. Also, updated our forecast of Jan.-Mar. 2018 to between JPY21,000 and JPY24,000, and price as of March end 2018 to JPY23,000. Although, we anticipate a temporal consolidation after the end of financial results announcement (Apr.-Sep. 2017), we maintain positive view on the Japanese equity market for year 2017. Going forward, we estimate Nikkei 225 to reach almost upper end of the forecast range if continuation of global economic recovery and the Japanese corporations' earnings recovery are confirmed.

**\* Please note that this report is a translation of Japanese report written on 7<sup>th</sup> November, 2017.**

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