

Today's Topic **Japanese Equity Market Outlook**

High linkage between Global Manufacturing PMI and Japanese equity market

Point 1 Correlation with USD/JPY exchange rate has increased

Entering April, market is stabilizing

- The Japanese equity market consolidated as US equity market fell and JPY strengthened against USD due to US interest rate hike in February and concern over trade friction between US and China in March. Entering April, market is gradually stabilizing.

Point 2 Japanese equity market moves in tandem with Global PMI

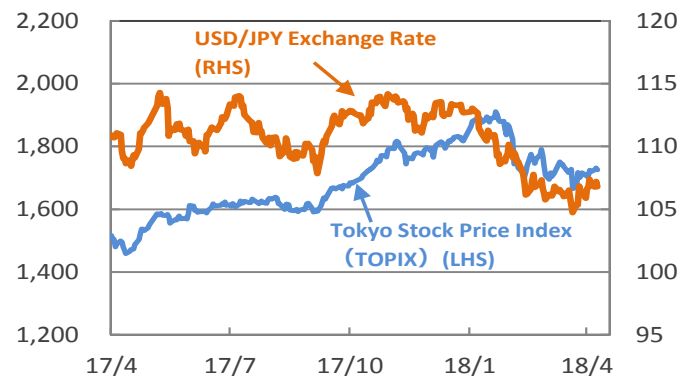
Equity market is sensitive to global business sentiment

- Tokyo Stock Price Index (TOPIX) has high correlation with Global PMI which reflects global business sentiment. Reason of rise of TOPIX after May 2016 was due to expansion of global economy and dramatic improvement of business sentiment. However, Global PMI peaked out at 54.5 points in December 2017 and continued to fall for 3 consecutive months since then. Consolidation of the Japanese equity market after February 2018 appeared to be due to deterioration of global business sentiment alongside with US interest rate hike and trade friction between US and China.

Future Outlook Key will be Semiconductor Sales Momentum (SSM)

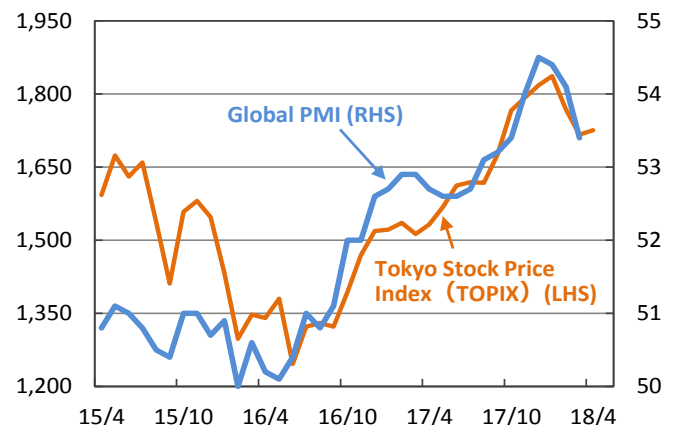
- The background of peaking out of manufacturers' business sentiment was due to (1) limited room for improvement after significant improvement since April 2015 and (2) SSM deceleration.
- In February, SSM turned negative as sales dropped in US and Emerging Asia. Momentum of SSM might continue to be negative for some time. However, we expect it to gradually improve in mid to long term as expansion of semiconductor demand will continue supported by demand from growing popularity of high-speed communication. Improvement of SSM seems to be one of the conditions of Japanese stock market recovery.

"TOPIX & USD/JPY Exchange Rate"



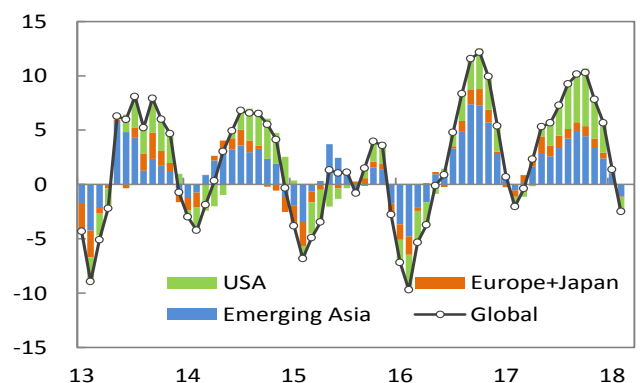
(Note) Data from 3rd Apr. 2017 to 11th Apr. 2018.
(Source) SMAM, based on Bloomberg L. P. data.

"Global PMI & TOPIX"



(Note) Data from Apr. 2015 to Apr. 2018. Global PMI is till Mar. 2018. For TOPIX, Apr. 2018 is till 11th Apr. 2018.
(Source) SMAM, based on Markit and Bloomberg L. P. data.

"Global Semiconductor Sales Momentum"



(Note) Data from Jan. 2013 to Feb. 2018. Ratio of 3 month moving average compared to previous 3 months.
(Source) SMAM, based on SIA and Bloomberg L. P. data.



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