

JAPAN EQUITY MONTHLY

Japanese equities climbed in September

The Japanese equity market rose in September, with the TOPIX (w/dividends) climbing 5.55% on-month and the Nikkei 225 (w/dividends) rising 6.17%. Stocks fell in the early part of the month as difficult talks between the US and Canada regarding the North American Free Trade Agreement (NAFTA) spurred concerns that negotiations would be further drawn out. The market was also weighed down by reports that the US could impose additional tariffs on Chinese goods. From the middle to the end of the month, however, stocks rebounded as the yen weakened against the dollar after strong US economic indicators sent interest rates higher. Stocks were further supported by easing concerns over US-China trade friction after the US's additional tariffs on Chinese goods were relatively limited.

All 33 TSE sectors posted gains on-month, with Mining, Fishery, Agriculture & Forestry, and Warehousing & Harbour Transportation Services performing particularly strongly.

Exhibit 1: Major Indices (Last Month and Historic Changes)

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	24,120.04	5.5%	8.1%	12.4%
JGB Yield	0.130	+0.023	+0.094	+0.081
JPY/USD	113.70	2.4%	2.7%	7.0%
JPY/EUR	131.93	2.4%	2.0%	0.7%
MSCI World	2,184.01	0.4%	4.5%	5.7%

Source: Bloomberg, as at 28 September 2018

Exhibit 2: Nikkei 225



Source: Bloomberg, as at 28 September 2018

Abe Win and Trade Talks

Two events occurred in the month that were positive for Japanese equities. One was PM Abe's LDP win that will make him Japan's longest-serving leader, and a vote of confidence for his efforts to combat deflation. The other was Abe's meeting with Trump. While trade issues remain, tensions with the US were less than expected. Abe's personal relationship with Trump so far has kept US tariffs at bay.

Indeed, the bilateral free trade talks are likely a more limited deal than originally sought by the US, in part because of its trade war with China. Japan agreed last month to start talks on tariffs after nearly two years of foot-dragging, spooked by the threat of sanctions on its profitable auto sector. The U.S. is pressing Japan to cede more ground on trade even before the first round of talks on tariff reductions takes place. The two countries have agreed Japan would not grant U.S. farm goods more access than it has given other countries in existing pacts.

Positive Surprises Seen

The Nikkei's monthly gain fared well against the Dow Jones Industrial Average, which climbed 1.9 percent, and the pan-European Stoxx 600 Europe index that advanced just 0.2 percent. The Nikkei, which recently touched the highest in 27 years, will in our view rise to 25,000 by September 2019. We expect earnings coming in October and November to be full of positive surprises.

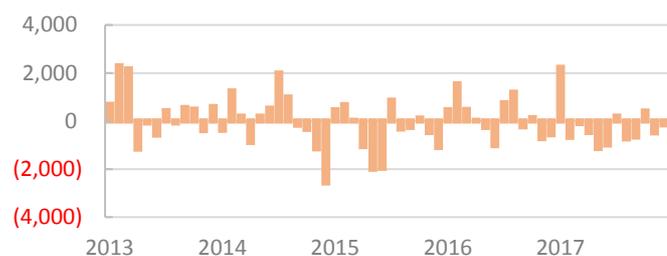
Corporates are enjoying a record cash balance on the back of a strong recovery in earnings, as the global economy continues to emerge from the financial crisis. This, combined with current low dividend payouts, means there is plenty of room to return more, as corporate governance practices improve.

Japanese stocks took a beating 1Q but investors are taking comfort in BOJ promises to keep its super-stimulative monetary policy. That said, core consumer prices are stuck below 1% and the European ECB may start tapering, while the BOJ may also relax some of the long-term interest rate control. Until the November midterm elections, the US is bullish due to trade problems but it is expected that the GDP impact will continue to be minimized. If negotiations between North Korea and the US are positive for the midterm elections, there is also shrinking concern of a trade war.

Exhibit 3: Major Market Indices



Japan Equity Net Purchase from Overseas (JPY bil.)



Source: Bloomberg, as at 28 September 2018

Exhibit 4: Major Index Performance, Indicators, and Valuation

Index	1-mth	3-mth	6-mth	1-yr	5-yr
Nikkei 225	5.5%	8.1%	12.4%	18.5%	68%
JGB Yield (%pt)	+0.023	+0.094	+0.081	+0.130	-0.465
JPY/USD	2.4%	2.7%	7.0%	1.1%	16%
JPY/EUR	2.4%	2.0%	0.7%	-0.7%	-2%
MSCI World	0.4%	4.5%	5.7%	9.2%	36%
TOPIX	4.7%	5.0%	5.9%	8.5%	52%
TPX-100 (Large)	5.0%	6.7%	7.4%	9.8%	46%
TPX-400 (Mid)	4.7%	3.3%	4.3%	7.1%	60%
TPX-Small	3.5%	1.4%	2.4%	6.2%	72%

Sector (TPX-17)	1-mth	3-mth	6-mth	1-yr	5-yr
Elc Appl&Prec	0.7%	2.5%	2.1%	7.3%	82%
IT & Service	5.6%	9.9%	12.1%	15.0%	90%
Auto&Trns Eqp	3.6%	3.0%	1.6%	0.5%	16%
RawMatl & Chm	4.5%	5.8%	7.4%	12.5%	112%
Banks	3.8%	6.8%	1.7%	-1.5%	4%
Machinery	5.2%	6.4%	0.9%	3.8%	52%
Transprt&Logi	6.2%	3.0%	10.7%	10.4%	50%
Const & Matl	2.4%	-3.9%	-3.8%	-5.1%	52%
Fincl ex Bank	6.6%	7.5%	8.6%	10.4%	31%
Foods	5.3%	-4.2%	0.3%	-0.3%	59%
Retail Trade	7.4%	2.3%	6.8%	17.5%	77%
Pharmceutical	8.9%	14.2%	16.7%	24.8%	91%
Commr & WhTrd	7.4%	7.3%	10.2%	18.1%	65%
Real Estate	3.6%	-1.2%	1.7%	6.5%	-15%
Steel&Nonfer	6.2%	6.3%	1.7%	-4.9%	3%
Elc Pwr & Gas	7.3%	4.0%	14.3%	13.8%	12%
Engry Resourc	10.7%	21.1%	27.7%	43.2%	69%

Valuation	Mth-end	3-mth	6-mth	1-yr	5-yr
TOPIX					
Div. Yield (e)	2.1%	2.2%	2.0%	1.9%	1.8%
Price/Earn (e)	14.1	13.6	14.0	15.7	14.9
Price/Book	1.3	1.3	1.3	1.4	1.2
MSCI World					
Div. Yield (e)	2.4%	2.5%	2.6%	2.4%	2.5%
Price/Earn (e)	16.5	15.9	15.7	18.0	15.5
Price/Book	2.4	2.3	2.2	2.3	2.0

Market Indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
Daily Turnover	47	49	50	54	48
Market Cap.	683	659	669	660	424
Net Purchase Overseas	-156	-227	-1,425	-2,599	-1,209

Source: Bloomberg, as at 28 September 2018
 (e) stands for consensus estimates by Bloomberg.
 Turnover and market cap in JPY tril.
 Net Purchase (JPY bil.) from Overseas is cumulative monthly.

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