

Japan Equity

EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	1.2	1.6	-8.3	-2.3
Nikkei 225	2.4	3.3	-5.0	2.2
Topix	1.3	2.2	-7.5	-1.8
Jasdaq	1.9	3.6	-1.9	1.0

Returns in Singapore dollars. Source: Bloomberg, 29 July 2011

TOPIX closed lower by 0.92% at 841.37 in July. The Japan equity market started the month on a bullish note due to receding fears over the Greek debt crisis and improving US economic indicators. However, sentiments took a turn in the middle of the month due to disappointing US employment data and renewed concerns over Europe's financial problems. Share prices of Japan equities also weakened because of the yen's appreciation against the US dollar, and the slow progress on US debt ceiling talks.

The five best performing sectors included Other Financial Businesses, Rubber Products, Wholesale Trade, Land Transport, and Real Estate. The worst performers were Other Products, Electric Power & Gas, Maritime Transport, Securities, Commodities Futures, and Glass & Ceramics.

Outlook and Strategy

	Policy	Change	Comment
Financials	Neutral	–	Post-earthquake re-construction could help bring forward loans growth. Office real estate sector outlook is dampened as the earthquake may delay the recovery in office rentals, although negatives are largely discounted.
Consumer	Neutral	–	Less negative on autos on signs of supply chain recovery. Like selective opportunities within the retail space, e.g. niche players with room to gain share within the domestic market, and those with growing overseas exposure.
Technology	Neutral	–	Excess inventory overbuild is weighing on demand. Like tablet PC, ultra-book and smart-phone plays for the medium term.

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	Policy	Change	Comment
Energy	Neutral	–	Energy prices seen stabilizing following the recent weakness.
Industrials	Overweight	–	Particularly upbeat on companies which are beneficiaries of re-construction, and with exposure to the emerging markets.
Pharmaceuticals	Underweight	–	Like generic companies because of the Japanese government's push for more affordable drugs. Pipeline risks and upcoming NHI price revisions in 2012 make the sector unattractive as a whole.
Materials	Neutral	–	Electric arc furnace companies could benefit from post-earthquake re-construction. Also like selected specialty chemicals and electronic materials stocks.
Info Communications	Neutral	–	Anaemic top-line growth makes the sector relatively unattractive, but valuations and dividends provide downside support.
Utilities	Underweight	–	Regulatory risks in the new term post-nuclear crisis. Unexciting medium-term prospects; and fair valuations. Prefer gas companies to electric power companies.

Leading economics indicators for Japan are still pointing towards a “V-shaped” recovery in the second-half of FY11. Earning revision momentum has also turned positive. The faster-than-expected recovery of the supply chain is clearly helping to lift industrial production. This is, in turn, driving a rapid recovery in corporate earnings.

Whether or not the positive data continues will depend significantly on the strength of final demand, particularly in overseas markets. Weaker-than-expected global growth, and continued appreciation of the Yen are factors that could derail Japan's recovery. Against this, moves by the Bank of Japan to commit to further monetary and quantitative easing, and more evidence that the government is making progress in compiling a third supplementary budget, could buoy the market.

We would maintain our sector positioning for now. We are overweight Industrials, neutral Materials, Technology, Financials, Energy, and Consumer, and underweight Utilities, and Pharmaceuticals.

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