Japan Equity

EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	1.3	-2.2	-9.3	-2.3
Nikkei 225	1.7	0.8	-7.2	1.1
Topix	1.7	-2.1	-8.7	-2.4
Jasdaq	0.9	1.8	-3.7	-1.3

Returns in Singapore dollars. Source: Bloomberg, 30 June 2011

TOPIX rose 1.28% to 849.22 in June. The Japan equity market was weak for most part of the month due to concerns about the economic slowdown in the US and the Greek debt crisis. However, it rebounded during the last week of the month after the Greek austerity package was approved, which gave a sense of relief that a default by Greece might be avoided.

Positive news flow within Japan also lifted share prices. Electric power & gas shares surged on cabinet approval of a bill to support Tokyo Electric Power to pay compensation for damage relating to the nuclear power plant incident, and an announcement by the Ministry of Economy, Trade and Industry (METI) regarding the completion of nuclear power plant safety measures.

The five best performing sectors included Electric Power & Gas, Air Transportation, Iron & Steel, Fishery, Agriculture, & Forestry, and Pulp & Paper. The worst performers were Other Products, Insurance, Textiles & Apparel, Pharmaceutical, 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	–	Less negative on technology on signs of supply chain recovery. Prefer tablet PC 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	–	Favour 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.

There were more leading economic indicators and data released that supported the view that the Japan economy was headed for a V-shaped recovery. These included the Consumer Confidence Index, Bank of Japan Tankan Survey, and the Japan Industrial Production. Normalization in industrial production is helping the Japan economy emerge from the recession in 2QFY11 or 3QFY11. As reconstruction takes place, the Japan economy should experience stronger growth through 2HFY11 and FY12. This will, in turn, drive a V-shaped rebound in corporate earnings.

We are overweight Industrials, neutral Materials, Technology, Financials, Energy, and Consumer, and underweight Utilities, and Pharmaceuticals.

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