

Japan Equity

EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	5.5	-2.0	-11.4	-3.4
Nikkei 225	4.3	-1.9	-9.0	-0.6
Topix	6.1	-0.7	-9.4	-1.8
Jasdaq	3.6	3.5	-0.3	8.9

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

TOPIX fell 2.8% month on month to 761.17, as investor risk aversion festered in September, reflecting concerns about the European debt crisis and a slowdown in the US economy. The Fed's announcement that it would implement "Operation Twist" did not allay concerns, as the Fed's comments about weak prospects for the economy dampened sentiments. The market recovered slightly towards the end of the month due to moves to strengthen the functions of the European Financial Stability Facility (EFSF).

The five best performing sectors included Fishery, Agriculture, & Forestry, Precision Instruments, Foods, Land Transport, and Pulp & Paper. The worst performers were Non-ferrous Metal, Maritime Transport, Security & Commodity Futures, Oil & Coal Products, and Other Products.

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	-	Overweight consumer staples at the expense of consumer discretionary. 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	Neutral	–	Selective exposure to companies which are beneficiaries of re-construction, and the trend towards automation.
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.

We expect financial markets to remain volatile as long as Europe's sovereign crisis remains unresolved. Concerns that China's shadow banking industry may crash, could also cast a shadow over the global economy. Meanwhile, more economic indicators for Japan, such as the Industrial Production, and Purchasing Managers' Index (PMI) are pointing to slower growth momentum through the rest of 2011.

On the positive side, valuations for Japan appear supportive (TOPIX price-to-book ratio is at 0.9x versus 0.8x in March 2009). Post-quake reconstruction-related spending may also likely to stimulate the economy, and cushion any downturn in 2012, although delays in budget execution may pose a risk.

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

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