



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	4.2	5.8	-1.5	1.6
Nikkei 225	6.0	10.4	-2.1	4.6
Topix	4.3	4.9	-1.5	0.9
Jasdaq	2.7	-0.4	5.4	5.6

Returns in Singapore dollars. Source: Bloomberg, 30 November 2010

TOPIX rose 6.2% in November. Stocks rebounded and rallied after the US Fed announced an additional monetary easing plan. Buying was also buoyed by better-than-expected US economic data, an increase in US long-term interest rates, and the yen's depreciation against the dollar. Caution over China's monetary tightening policy, the fiscal crisis in Europe, and rising tension in Korea tempered sentiment somewhat towards month-end. Overall, the market remained strong thanks to yen depreciation.

The five best performing sectors included Securities & Commodities Futures, Glass & Ceramics, Oil & Coal, Machinery, and Marine Transport. The worst performers were Air Transportation, Electric Power & Gas, Fishery, Agriculture & Forestry, Real Estate, and Land Transportation.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Underweight	↓	Prefer real estate sub-sector given peaking out of office vacancy rates and recovery in housing starts. Also selected regional banks that have high capital adequacy ratios.
Consumer	Overweight	-	More upbeat on autos given trough valuations and ¥/US\$ reversal. Also like selected companies within the specialty retail sector which have the potential to gain market share and increase overseas sales.



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Technology	Overweight	↑	Bottoming out of inventory cycle in various sub-sectors like PCs, and LCDs. Demand in 2011 to benefit from new tablet PCs and smart-phones, and a replacement phase for corporate PCs.
Energy	Neutral	–	Reviewing recommendation. Valuations are undemanding, and prospect of strong oil price bodes well for the sector.
Industrials	Overweight	–	Remain upbeat on companies which are beneficiaries of structural growth, e.g. automation, and those with leverage to mining activities/capex.
Pharmaceuticals	Neutral	–	Like generic companies because of the Japanese government's push for more affordable drugs.
Materials	Overweight	–	Compelling valuations, especially those of glass, steel, and chemical companies. Expect restocking process to take place post bottoming out of inventory cycle.
Info Communications	Neutral	–	Anaemic top-line growth makes the sector relatively unattractive, but valuations and dividends provide downside support.
Utilities	Underweight	–	Unexciting medium-term prospects and fair valuations.

The reversal in the JPY/USD trend and recovery in US long-term interest rates bode well for the Japanese equities, given their tight correlation with TOPIX. BOJ's easy monetary policy stance, a possible corporate tax cut in FY11, and low valuations are added factors that could underpin the market going into the New Year.

We have raised Technology and Real Estate to overweight from neutral; and reduced banks to underweight from neutral. Elsewhere, we remain overweight Industrials, Materials, and Consumer Discretionary. We are neutral on Info-Communications, Pharmaceuticals, and Consumer Staples, and underweight Utilities.



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