UOB Asset Management 大華資産管理

Market Commentary

November 2010

JAPAN EQUITY

EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	0.3	-1.7	-5.5	-5.3
Nikkei 225	0.1	-1.3	-7.7	-5.2
Topix	-0.3	-2.4	-5.5	-6.3
Jasdaq	-0.1	-5.9	2.6	-0.2

Returns in Singapore dollars. Source: Bloomberg, 29 October 2010

The effects of a strong yen weighed down on Japanese stocks last month, and resulted in the TOPIX falling 2.24% to close at 810.91. The retreat came despite the BOJ's stronger-than-expected easing measures, and talk of US liquidity easing measures. The market took a hit when yen strengthened to Y80/US$, while China tightened its monetary policy by hiking its interest rates. As the month drew to a close, the market was largely range-bound as investors adopted a wait-and-see stance ahead of the FOMC meeting in November. Japan equities fell sharply on the last trading day of the month in reaction to deterioration in domestic economic indicators.

The five best performing sectors included Real Estate, Air Transport, Wholesale Trade, Transport Equipment, Non-ferrous Metals, and Oil & Coal. The worst performers were Securities, Commodities & Futures, Pulp & Paper, Banks, Other Products, and Maritime Transport.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Neutral	-	Raised weights in banks given near-trough valuations and reduced risk of additional capital issuance. Remain Neutral on real estate in anticipation of improvement in demand-supply imbalance in office space.
Consumer	Overweight	-	Like selected companies within the specialty retail sector given growth potential and relative valuations.

Technology	Neutral	-	Downward pressure on earnings from strong yen and weakening demand/supply outlook.
Energy	Neutral	–	Valuations are undemanding but overhang on sector remains due to elevated global risk aversion.
Industrials	Overweight	–	Valuations undemanding. Focus on companies which are beneficiaries of structural growth, e.g. automation, and those with leverage to mining activities/ capex.
Pharmaceuticals	Neutral	–	The slow pace of product approvals due to stricter FDA requirements and patent expirations remain a negative for the sector. Like generic companies because of the Japanese government's push for more affordable drugs and companies that derive all of their sales domestically due to strong yen.
Materials	Overweight	–	Compelling valuations, especially those of glass, steel, and chemical companies.
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 BOJ said that it would lower policy rate to 0%-0.1% from 0.1%, and also create a 5 trillion yen fund for asset purchases. The latest move could lift sentiment in the near term as it represents a significant step by the policymakers to address Yen appreciation and domestic deflation. Markets may also perceive it as the start of a round of global Quantitative Easing (QE) to help mitigate downside risks to economic growth, which would, in turn, be positive for global risk assets. But as the effectiveness of QE remains in doubt, and with the likelihood of the Y/US$ staying strong amid a general decline in the greenback, the Japanese stock market could remain volatile.

In terms of strategy, we emphasise structural growth, quality and yield. We are overweight Industrials, Materials, and Consumer Discretionary. We are neutral on Technology, Info-Communications, Pharmaceuticals, Banks, Real Estate and Consumer Staples, and underweight Utilities, and Non-Banks.

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