



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	3.1	-1.9	3.3	3.3
Nikkei 225	6.9	0.8	13.7	13.7
Topix	2.4	-3.4	0.9	0.9
Jasdaq	0.2	-5.8	-4.2	-4.2

Returns in Singapore dollars. Source: Bloomberg, 31 December 2009

In December, the TOPIX rose 8.1% to 907.6 but returns were lower in most other currencies because the yen also depreciated during the month. The market rebound was in reaction to further monetary easing by the Bank of Japan (BOJ), and a depreciation of the currency. The market pulled back temporarily due to a rating downgrade on long-term Greek government bonds and renewed concerns over Dubai's credit risks, but resumed its ascent on improved sentiment in global equities, and the weaker yen.

The five best performing sectors in December were Iron & Steel, Rubber Products, Technology, Glass & Ceramic Products, and Transportation Equipment. The five worst performers were Banks, Land Transportation, Air Transportation, Electric Power & Gas, and Information & Communication.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Underweight	↓	Uncertainties on the severity and timing of implementation of the new capital rulings are key concerns. However, with banks trading at sub-1.0x price-book ratios, we have reduced our rating from neutral to slight Underweight. Given renewed deflation concern and economic uncertainties, we have downgraded the real estate to Neutral from Overweight.
Consumer	Neutral	–	Prefer specialty retailers, especially those benefiting from down-trading. Also neutral on Autos.
Technology	Overweight	↑	Upgraded to Overweight. Revival in corporate IT spending and new product launches are expected to drive the sector's growth in 2010.





Energy	Overweight	–	Expect rebound in energy prices on the back of global economic recovery. Cut back in capex spending and supply constraint should lend support to energy process in the mid to longer term.
Industrials	Overweight	–	Positive on the back of a recovery in global industrial production, pick-up in restocking activities, recommencement of capex activities. Prefer beneficiaries of Asia growth, particularly those leveraged to infrastructure and environmental plays.
Pharmaceuticals	Underweight	–	Slow pace of product approval, negative new developments within the US healthcare sector, and the next biennial National Health Insurance price cut scheduled in April 2010 for Japan are expected to weigh on the sector.
Materials	Overweight	↑	More positive on electronic materials, particularly those leveraged to LCD theme, as inventory correction has now run its course. For petrochemicals, the worst appears to be over.
Info Communications	Underweight	–	Has underperformed TOPIX given the sector's defensive characteristics. Unexciting industry outlook given market saturation.
Utilities	Underweight	–	Unlikely to outperform TOPIX in a recovery scenario given the sector's defensive characteristics. Valuations also appear fair.

While the pace of economic recovery for Japan appears to have moderated due to the fading of prior fiscal stimulus measures and intensifying deflationary pressures because of falling wages and bonuses, as well as excess production capacity, the new round of fiscal stimulus measures and an expected rebound in exports on the back of stronger global economic growth in 2010 could lead to a reacceleration in Japan's economic growth. More serious measures to combat deflation, including the Bank of Japan's moves to increase quantitative easing; could also alleviate upward pressure in the USDJPY rate and help underpin the Japan equity market in the near term. Risks include currency volatility, and weaker-than-expected global growth.

We maintain our preference for cyclicals over defensives. We are overweight Industrials, Materials, Technology, and Energy. We are neutral on Consumer Discretionary, Autos, Consumer Staples, and Real Estate, and underweight Info-Communications, Pharmaceuticals, Utilities, Banks and Non-Banks.



Contact Details

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
24-hour Hotline 1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax (65) 6532 3868
Email uobam@uobgroup.com
Website uobam.com.sg

Regional Offices

Singapore

Institutional Investments
Dennis Siew
Senior Director

Retail Investments
Norman Wu
Senior Director

Regional Investments
Faizal M. Fazluddin
Senior Director

Structured Investments
Chong Jiun Yeh
Executive Director

International Business (China)
Jasmine Lim
Senior Director

Brunei

Kamal Muhd
General Manager

Japan

Masashi Ohmatsu
Chief Executive Officer

Malaysia

Lim Suet Ling
Chief Executive Officer

Taiwan

Juang San Tay
General Manager

Thailand

Vana Bulbon
Chief Executive Officer



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