



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-3.0	-9.7	-0.2	2.6
Nikkei 225	-3.9	-7.9	6.3	11.4
Topix	-3.2	-10.1	-1.5	2.1
Jasdaq	-2.9	-6.4	-4.4	4.1

Returns in Singapore dollars. Source: Bloomberg, 30 November 2009

In November, the TOPIX fell for the third month in a row, by 6.1% mom in local currency terms. The market was hit by fears of weaker earnings at exporters due to ongoing yen appreciation on expectations of persistently easy US monetary policy. Prolonged domestic deflationary pressures and supply-demand concerns (on major banks' equity financing) also dragged down the market. In addition, sluggish performance of other Asian markets dampened investor confidence. The yen appreciated to ¥84/US\$ on 27 November on fears of defaults by firms linked to the Dubai government.

The five best sector performers were Electric Power & Gas, Insurance, Land Transportation, Information & Communications, and Other Financing Businesses. The five worst performers were Oil & Coal Products, Marine Transportation, Air Transportation, Mining, and Rubber Products.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Neutral	-	Prefer real estate to banks and non-banks. There are signs that office property vacancy rates are peaking out. Capital-raising concerns could cap share price of banks in the near term.
Consumer	Neutral	-	Like selected companies within the specialty retail sector given growth potential and relative valuations.
IT Hardware	Neutral	-	Focus on fields with structural growth potential such as touch screens, LEDs, semiconductor package-related, and environmental/energy-savings related.
Energy	Overweight	-	Valuations are undemanding



Industrials	Overweight	–	Positive on the sector given recovery in Japan’s industrial production, and positive earnings revision momentum. Sector valuations are also undemanding relative to the market. Like beneficiaries of Asia growth.
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. Recent results have also been disappointing due to market saturation.
Utilities	Underweight	–	Unlikely to outperform TOPIX in a recovery scenario given the sector’s defensive characteristics.

The Japan equity market is poised for a rebound due to (i) signs of more serious measures to combat deflation, including recent moves by the Bank of Japan to increase quantitative easing (ii) correction in the strong yen, on prospects for higher short-term US dollar rates following the release of favourable US employment data and (iii) the implementation of another fiscal stimulus package worth ¥7 trillion through Jan-Mar 2010.

We favour global cyclicals. We are overweight Industrials, Materials, Energy, and Real Estate, and neutral on Consumer Staples, Banks, Technology, and Consumer Discretionary (including Autos). We are underweight Utilities, Info-Communications, and Pharmaceuticals.



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