



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	4.0	8.3	4.1	4.3
Nikkei 225	3.3	5.2	2.3	3.0
Topix	4.0	8.7	4.2	4.5
Jasdaq	1.2	10.1	3.5	6.9

Returns in Singapore dollars. Source: Bloomberg, 28 February 2011

TOPIX rose 4.53% to 951.27 in February, due to stronger-than-expected US economic data, the yen's depreciation against the dollar, and the release of good corporate results. In the latter part of the month, crude oil prices surged on concerns that greater tension in Libya would spread to other oil-producing nations, causing the market to correct. Stock prices subsequently rebounded as crude oil prices stopped rising towards the end of the month.

The five best performing sectors included Insurance, Other Financing Businesses, Mining, Glass & Ceramics, and Information & Communications. The worst performers were Air Transportation, Wholesale Trade, Marine Transportation, Construction, and Electric Appliances.

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	-	Turned more upbeat on autos given trough valuations and ¥/US\$ reversal. We also like selected companies within the specialty retail sector which have the potential to gain market share, and grow overseas sales.



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Technology	Neutral	↓	Reduced weighting to Neutral on relative valuation basis. Like tablet PC and smart-phone plays.
Energy	Neutral	–	Valuations are undemanding, and prospect of stronger oil price in the near term 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.

Tensions in the Middle-East, rising oil price, and concerns of a political gridlock in Japan are near-term factors which could weigh on sentiment. On the positive side, economic indicators for Japan are picking up, the BOJ is likely to maintain its easy monetary policy stance, and market valuations are undemanding. At the current TOPIX level, prospective FY11 PER is 13.6x, while PBR stands at just 1.1x (over one standard deviation below the historical mean).

We are overweight Industrials, Materials, Real Estate and Consumer Discretionary; neutral on Technology, Info-Communications, Pharmaceuticals, and Consumer Staples; and underweight Utilities, Banks and Non-banks.



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