



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	1.2	-0.9	-5.8	-7.8
Nikkei 225	4.0	-0.1	-7.8	-7.1
Topix	1.0	-1.4	-5.2	-8.4
Jasdaq	-2.9	-6.2	2.7	-3.2

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

TOPIX rose 3.1% to 829.5 in September. Stocks rebounded in the first half of the month as better-than-expected US economic indicators helped allay concerns over the economy. On 15 September, the Japanese government and the Bank of Japan (BOJ) intervened to weaken the yen, lifting share prices of export-oriented stocks. Thereafter, the market weakened on renewed credit concerns in Europe, and weaker US economic indicators; but was supported by expectations for additional monetary easing by Japan and the US.

The five best performing sectors in Non Ferrous Metal, Oil & Coal, Precision Instruments, Machinery, and Wholesale Trade. The worst performers were Securities, Commodities & Futures, Electric Power & Gas, Pulp & Paper, Other Products, and Land 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	-	Turned less positive given increased downward pressure on earnings from strong yen and weakening demand/supply outlook.



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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 announced that it will lower policy rate to 0%-0.1% from 0.1%, and also create a ¥5tr fund for asset purchases. The latest move could lift sentiment in the near term as it represents a significant step by policymakers to address Yen appreciation and domestic deflation. It may also be perceived to be 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 uncertain, and with the likelihood of the Y/US\$ staying strong amidst a general declining trend in the U.S. dollar, the Japan equity market could remain volatile.

In terms of strategy, we emphasize 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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