

## Japanese Stock Market Outlook

- Nikkei 225 at 20,000 yen level is just a simple check point amid the bull market.
- Due to domestic and overseas events, fluctuation is not avoidable in Apr.-Jun. quarter.
- Nikkei is likely to keep climbing toward 21,000 yen with somewhat volatility.

### Nikkei 225 at 20,000 yen level is just a simple check point amid the bull market

On April 10th, Nikkei 225 hit 15 year high at 20,000 yen in the morning session of the Tokyo stock market. The Japanese equity market has been keeping solid rally in favour of “Japan’s positive fundamentals of its own” in addition to “global excess liquidity.” The risk of a sharp decline in the excess liquidity would be minimal as the expected US rate hike would be a moderate pace this year, and the quantitative monetary easing by the central banks of Japan and Europe will be maintained. Furthermore, foreign investors are accelerating to buy Japanese stocks on increasing expectation of more focusing on shareholders’ value by Japanese companies, while also, ongoing inflow from large Japan’s pensions’ money would continue to support the stock market. Therefore, the Nikkei index at 20,000 yen should be just a simple check point in the middle of the strong rally under the favorable market environment.

### Domestic and overseas events might affect the equity market in Apr.-Jun. quarter

However, the equity market is not free from being affected by several events in and outside of Japan for the April-June quarter. In Japan, most of the companies post the FY 2015 earnings guidance as well as the full year business results for FY2014 simultaneously from late April. A key factor is whether the guidance for the new fiscal year could support the bullish view for the stocks or not. On the other hand, Bank of Japan is scheduled to release its interim view as the “Outlook for Economic Activity and Prices Report (Outlook Report)” at its next Monetary Policy Meeting on April 30th. The CPI (excluding fresh food) forecast for FY2015 in the Outlook Report is also notably attracting people’s attention, as the central bank currently targets at + 1.0% y-o-y in median.

In the overseas events, we should keep our eyes on the ongoing business results of the US companies for January to March quarter and the reaction of the US equity market. Also, on April 29th, the January to March quarter real GDP growth rate is scheduled to be announced, which might temporarily put pressure on the US stocks as the market expects slowdown of the growth rate from + 2.2% in the previous quarter. Also, the US rate hike would be the most important event this year for the financial markets including Japan and the timing of Fed’s lift-off would influence the asset prices.

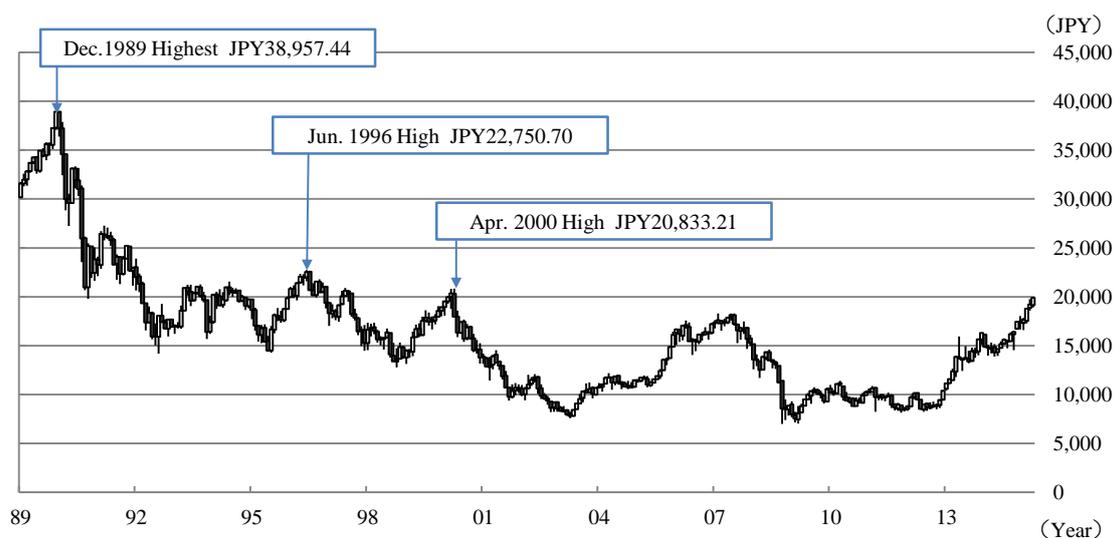
Moreover, we should also keep in mind the progress on the liquidity support negotiations between Greece and the European Union as the deadline of the Greek economic reforms is set at the end of June.

### **Nikkei is likely to keep climbing toward 21,000 yen with somewhat volatility**

Considering the supposed events mentioned above, a “rise over run” for the Japanese equity market is less likely. However, the equity market is likely to maintain solid rally with somewhat volatility even under the favorable market environment. After all, the Nikkei index is expected to climb to 21,000 yen level for the time being beyond the technical resistance of 20,833.21yen, the high in April 2000 (see Chart 1). Yet the stocks can move higher beyond the level when the momentum strengthens excessively.

The downside risk includes the slowdown of US economy to the extent that Fed is forced to keep the rate on hold, longer than expected China’s economic slowdown and high appreciation of JPY associated with those two factors. If such a risk-off scenario comes into the marketplace, Nikkei 225 is likely to fall far below 20,000 yen and needs a considerable time to recover. Even in such a case, I think the Japan’s stocks are likely to be well supported by additional monetary easing by BOJ and the continuing global excess liquidity. Therefore, in any case the serious bear market would be excluded to a considerable degree.

**Chart 1 : Nikkei 225 Index Historical Chart (monthly basis)**



(Note) Data period is from Jan. 1989 to Apr. 2015. Apr. 2015 till 10th.  
(Source) SMAM, based on Bloomberg L.P. data.

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