

## Japanese Market Outlook

- Market focus has moved to April-June earnings reports from Greek issue and Chinese stocks turmoil.
- Japanese stocks are expected to be selectively bought on earnings reports at this moment.
- Japanese stocks will have more upper potential toward the year end after a temporary fluctuation on US rate hike.

### Market focus has moved to April-June earnings reports from Greek issue and Chinese stocks turmoil.

Japanese stocks moved lower in July when the financial markets reacted to Greek debt crisis and Chinese shares turmoil. After that, the stocks seemed to have mostly discounted such negative factors as the 3<sup>rd</sup> financial assistance package will be implemented to Greece and Chinese stocks rebounded on the government's stock market intervention. Investors have already shifted their focus on earnings reports for April-June quarter period.

Recently, Japan's economic data reports are relatively solid (see Table 1). June Retail sales of convenience stores, department stores and general merchandising stores increased y-o-y for three consecutive months. This is because nominal wages growth finally caught up with consumer prices growth, and upbeat sales to foreign visitors push up the retail sales. Meantime, exports and industrial production show a respite in ongoing economic recovery. June Trade balance continues deficit for three months in a row and June Export volume remained flat. The assessment of production was slightly downgraded as May Industrial Production slid m-o-m after two month growth due to slowdown in exports and an effect of inventory adjustment.

"Table 1: Latest Economic Data"

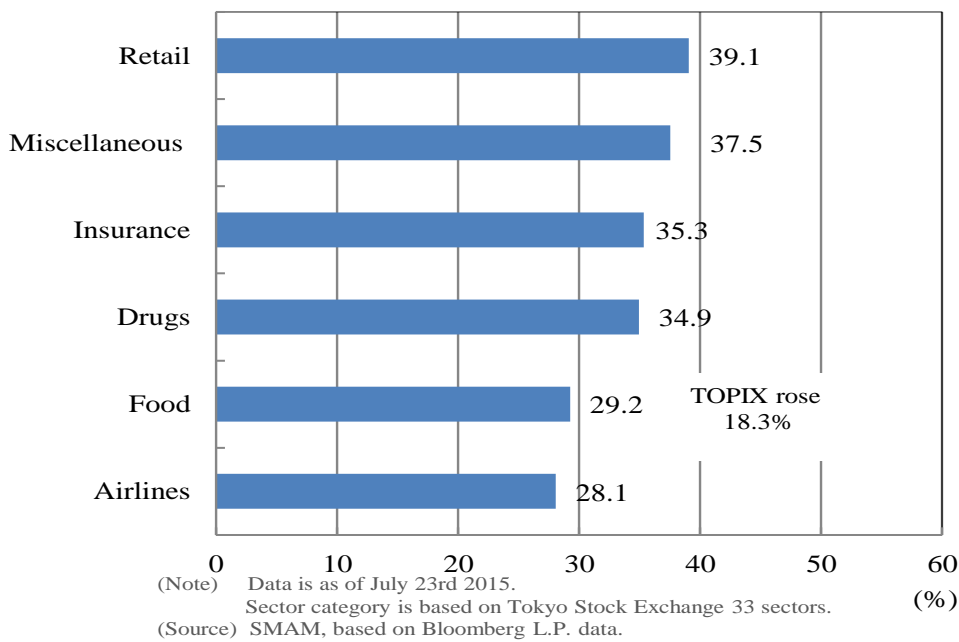
Date	Economic Data	Results	Remarks
26-Jun	May Household Spending	+4.8% y-o-y	increase for the first time in 14 months
1-Jul	CAPEX Plan FY2015	+18.7% y-o-y	high for the first time in 11 years
9-Jul	May Machinery Order	+0.6% m-o-m	increase for 3 straight months
13-Jul	May Industrial Production	-2.1% m-o-m	downward revision
17-Jul	May Real Wages	flat y-o-y	turned positive after 25 months
21-Jul	May Diffusion Index	-2.0 ppt m-o-m	downward revision
	June Department Store Sales	+0.4% y-o-y	increase y-o-y for 3 consecutive months
	June Convenience Store Sales	+0.6% y-o-y	increase y-o-y for 3 consecutive months
22-Jul	June General Merchandizing Stores Sales	+0.3% y-o-y	increase y-o-y for 3 consecutive months
23-Jul	June Trade Balance	JPY 69 billion deficit	decrease y-o-y for 3 consecutive months

(Note) CAPEX Plan FY2015 is based on Tankan Survey by Bank of Japan. Red letter is negative to economy.

(Source) SMAM, based on Bloomberg L.P. data.

Conversely, the number of foreign visitors in June accelerated 52% y-o-y to 1.6 million of record high. Chinese tourist also increased to 460,000 of record high amid concern over a negative effect of a plunge in Chinese stocks. Consequently, the industry benefit from growing sales to foreign visitors seems to be promising as far as the number of visitors is increasing (see Chart 1).

**"Chart 1: Top 6 performing sectors in 2015"**



**Japanese stocks are expected to be selectively bought on earnings reports at this moment**

Currently, earnings reports for April-June period are in full swing. Corporate earnings are, on a whole, expected to continue to increase in this fiscal year. Although domestic economy seems solid as economic data shows above, external demands might remain as some risks. However, earnings forecasts by many companies are based on lower USD/JPY of 115 than current rate, and there is some room for exporters to revise earnings upward if the current rates continue. Japanese stocks are selectively bought on earnings reports at this time and the entire market like stock indices are likely to be traded in a directionless. However, I do not expect further decline in the market.

## Japanese stocks will have more upper potential toward the year end after a temporary fluctuation on US rate hike.

The market is likely to focus on the timing of US rate hike as earnings reports progress. The timing is anticipated to be as early as in September, and the financial markets might move lower as it is the first step of policy normalisation from unprecedented monetary policy. However, the negative impact to the market would be marginal as US rate hike would be in a modest pace and US growth would be on track amid FRB's policy normalisation. Therefore, I believe Japanese stocks will have more upper potential toward the end of this year on expectations of solid corporate earnings and upbeat sales to foreign visitors underpinned by weak JPY.

### Disclaimer

#### Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter "SMAM"), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- ☐ The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM's judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM's authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited