

## Nikkei 225 Index and the JPY 20,000 Milestone

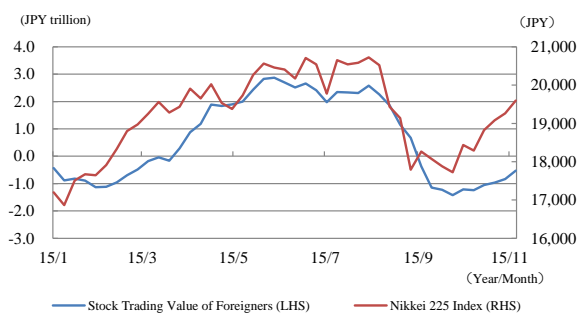
- Though Nikkei 225 index is hesitating to reach JPY 20,000, stock price related data show improvements in market sentiment.
- Stock trading pattern of “trend following” by foreign investors and “counter trend” by individuals which were seen during the bull market in the first half of year 2015, is reviving.
- Some positive news were heard despite sluggish earnings growth outlooks. Catalyst for a stronger bull market will be the new policy implementation by the government and BOJ.

**Though Nikkei 225 index is hesitating to reach JPY 20,000, stock price related data show improvements in market sentiment.**

Nikkei 225 index closed JPY 20 higher (+0.1%) than the previous day at JPY 19,879.81 on November 20<sup>th</sup>. It rose to JPY 19,959.06 during the trading hours of 19<sup>th</sup>, but is hesitating to reach the JPY 20,000 psychological milestone. However, the market is focusing on the possibility of the closing price reaching the JPY 20,000 level, its first time since August 20<sup>th</sup>, as data related to stock prices show improvement in market sentiment.

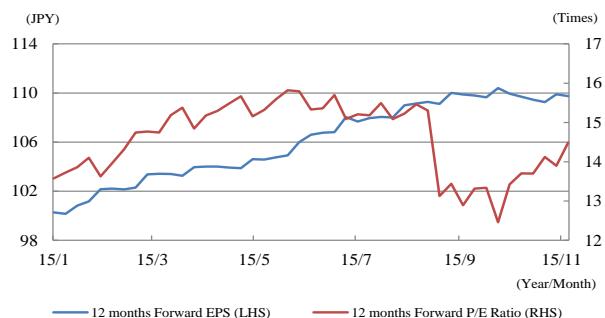
First, I would like to look at domestic macro data. Real exports of October 2015 released by BOJ on November 19<sup>th</sup> increased +1.1% MoM for two consecutive months (September: +2.1% MoM). The market’s excessive concern over China’s slowdown is fading as exports are bottoming out. The market seems to have come out of the bear sentiment created by the vicious cycle of “China’s slowdown → decrease in exports from Japan → Japan’s slowdown” seen during the summer of year 2015.

"Chart 1: Trend of Japanese Stock Trading by Foreign Investors"



(Note) Data period is from 1st week of January to 2nd week of November, 2015. Stock trading value of Foreigners is an aggregate of 1st & 2nd section of Tokyo and Nagoya stock exchanges, TSE Mothers and TSE JASDAQ markets since 1st week of January, 2015.  
(Source) SMAM, based on Bloomberg L.P. data.

"Chart 2: 12 months forward EPS and P/E ratio"



(Note) Data period is from January 8th to November 12th, 2015.  
12 month forward EPS and P/E ratio of Tokyo Stock Exchange Index (TOPIX).  
(Source) SMAM, based on Bloomberg L.P. data.

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Next, let’s look at the “Trading by Type of Investors” data released by the Tokyo Stock Exchange. Net purchase by foreign investors of the second week of November (9<sup>th</sup> to 13<sup>th</sup>) was JPY 300.3 billion, and for four consecutive weeks it was net purchase. Although aggregated value since the beginning of year 2015 is still net selling (Chart 1), foreign investors who tend to be “trend followers” (trading stocks in the same direction of the market trend) most recently turned into net buyers, are expected to positively influence the market sentiment.

On the other hand, individuals were net sellers of JPY 329.8 billion for the second week of November, and for seven consecutive weeks they were net sellers. Individuals tend to be “counter trend” (trading stocks in the opposite direction of the market trend) in contrast to foreign investors. The stock trading patterns of “trend following” by foreign investors and “counter trend” by individuals were seen during the bull market in the first half of year 2015. As we can observe this pattern lately, stock market sentiment can be considered as improving.

**Some positive news were heard despite sluggish earnings growth outlooks. Catalyst for a stronger bull market will be the new policy implementation by the government and BOJ.**

We can see that 12 months forward EPS (Earnings per Share) is losing steam. Meanwhile, the latest 12 months forward P/E ratio (Price Earnings ratio) is adjusted from excessive undervalue (Chart 2), rose to 14.5 times, a level higher than the five-year average of 13.3 times. Therefore, we need to be careful as the P/E ratio will eventually become overvalued if Japanese stock prices rose further from here without any improvement in the earnings growth forecasts.

At this point, we estimate that recurring profit of 216 companies included in our core research universe will be around +15% YoY in FY2015 and around +8% YoY in FY2016. Although, we have a concern over subdued international commodity prices, we believe that earnings growth of the corporates will be underpinned by the positive outlook on inbound tourism consumption due to strong increase in the number of foreign visitors, fading excessive concern over China’s slowdown and the sign of bottoming out exports. Also, we believe that new policy implementation by the government and BOJ will function as a catalyst for a stronger bull market as the market’s expectation is high on these new policies.

**\* Please note that this report is a translation of Japanese report written on November 20<sup>th</sup>, 2015.**

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