

## Will current weaker JPY and higher stock price continue?

- Current USD appreciation and JPY depreciation are caused by speculators' adjustment of JPY net long position and temporal across-the-board USD appreciation.
- Investors are likely to maintain cautious view on external demand and JPY exchange rate, as recovery of Japanese stock market is modest.
- Current currency and stock price trend may not last long, while, further JPY depreciation and stock price hike will be possible, depending on measures implemented by both Japanese government and Bank of Japan.

### Current USD appreciation and JPY depreciation are caused by speculators' adjustment of JPY net long position and temporal across-the-board USD appreciation.

USD/JPY exchange rate marked JPY109.38 against USD in the early morning of 11<sup>th</sup> May, 2016 Japan time. On the same day, Japanese Minister of Finance Taro Aso stated "Tokyo is ready to intervene in the currency market" containing JPY appreciation with strong terms, as trend of weaker JPY against USD has been eminent since 9<sup>th</sup> May. It is quite likely that speculators have trimmed their net long position of JPY responding to Aso's comment.

Glancing at currency market as a whole, USD has depreciated across-the-board in April after US monetary authority expressed its dovish stance in March. Under such circumstances, emerging market stocks and crude oil prices rose as excessive concern over their economies has subsided due to stronger emerging market currencies against USD. However, entering May, USD turned strong against over-all currencies, dragging down currencies and stocks of emerging markets and crude oil prices en masse. Presumably these reactions were caused by adjustment of speculators' position. Also, we suppose JPY depreciation against USD was owing to stronger Dollar across-the-board.

**"Diagram 1: Change of Tokyo Stock Exchange Index (TOPIX) 33 Industrial Sectors"**

Rank	Industrial Sectors	Change(%)	Rank	Industrial Sectors	Change(%)	Rank	Industrial Sectors	Change(%)
1	Air Transportation	5.1	12	Land Transportation	3.2	23	Elec. Power & Gas	1.2
2	Transportation Equip.	4.9	13	Information & Teleco.	3.1	24	Warehousing & H. T.	1.1
3	Rubber Products	4.7	14	Other Products	3.0	25	Electric Appliances	1.0
4	Fishery, Agri. & Forest	4.7	15	Chemicals	3.0	26	Wholesale Trade	0.7
5	Retail Trade	4.7	16	Pulp & Paper	2.4	27	Precision Machinery	0.7
6	Other Financing Busi.	4.6	17	Services	2.3	28	Textiles & Apparels	0.7
7	Glass & Ceramics Prod	4.2	18	Metal Products	2.3	29	Nonferrous Metals	-1.2
8	Construction	3.9	19	Machinery	2.3	30	Marine Transportation	-1.6
9	Foods	3.8	20	Banks	2.0	31	Oil & Coal Products	-2.4
10	Pharmaceutical	3.7	21	Insurance	1.8	32	Mining	-3.0
11	Real Estate	3.4	22	Sec. & Commodities F.	1.4	33	Iron & Steel	-3.1

(Note) Data period is from 2<sup>nd</sup> May 2016 to 10<sup>th</sup> May 2016. Showing ratio of change and ranked in order of higher ratio of increase. TOPIX rose 2.7%.  
(Source) SMAM, based on Bloomberg L. P. data.

**Investors are likely to maintain cautious view on external demand and JPY exchange rate, as recovery of Japanese stock market is modest.**

Nikkei 225 index has temporarily fallen below JPY 16,000 during Golden Week Holidays (a collection of four national holidays within seven days in Japan) on 2<sup>nd</sup> and 6<sup>th</sup> March. After the holidays, it has recovered and was traded between middle and above middle of JPY 16,000 during Tokyo market of 11<sup>th</sup> May, 2016. With regard to USD/JPY exchange rate, JPY depreciated significantly against USD from JPY105.55 marked on 3<sup>rd</sup> May, 2016, however, rebound of Japanese stocks seems to be relatively modest.

Let's examine rate of change of 33 industrial sectors of Tokyo Stock Exchange Index (TOPIX) during the period from 2<sup>nd</sup> May, 2016 to 10<sup>th</sup> May, 2016 (Diagram 1). Top 5 sectors which saw significant rise were Air Transportation (+5.1%), Transportation Equipment (+4.9%), Rubber Products (+4.7%), Fishery, Agriculture & Forestry (+4.7%) and Retail Trade (+4.7%). Meanwhile, worst 5 sectors which saw significant fall were Iron & Steel (-3.1%), Mining (-3.0%), Oil & Coal Products (-2.4%), Marine Transportation (-1.6%) and Nonferrous Metals (-1.2%).

**Current currency and stock price trend may not last long, while, further JPY depreciation and stock price hike will be possible, depending on measures implemented by both Japanese government and Bank of Japan.**

Among the top performing sectors were domestic demand related sectors such as Fishery, Agriculture & Forestry and Retail Trade, while external demand related sectors are noticeable in worst performers sectors such as Iron & Steel and basic material industries. Electric Appliances and Precision Instruments did not increase much despite JPY depreciation. Although, consideration must be made that performance of 33 industrial sectors of TOPIX will be affected by financial result of each individual companies during the business result announcement season, Japanese equity investors seem to keep cautious view over foreign demand and JPY exchange market environments.

Upward trend of Japanese equity is likely to slow down in tandem with moderation of JPY depreciation against USD, once speculators adjust their JPY net long position and temporal USD appreciation across-the-board come to an end. However, I believe tone of financial market is towards stability as dovish stance of US monetary authority is expected to be maintained for the time being. Under such circumstances, we can expect stabilization of USD/JPY exchange rate at JPY 110 level and Nikkei 225 index at JPY 17,000 level on condition that the government announced economic stimulus package during this month and BOJ implemented additional easing earliest in June.

**\* Please note that this report is a translation of Japanese report written on 11<sup>th</sup> May, 2016.**

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