

Implication of PM Abe's press conference to the Japanese equity market

- Timing of BOJ's additional easing is likely to be around September or October this year as economic measures are expected to be implemented en masse in autumn.
- Although currently JPY is rising and Japanese equity price is declining as expectation for government policy recedes to some extent, I believe investors' sentiment will not worsen significantly.
- It is essential for the Japanese government to show roadmap of fiscal consolidation in order to attract long term stable capital into the Japanese equity market.

Timing of BOJ's additional easing is likely to be around September or October this year as economic measures are expected to be implemented en masse in autumn.

PM Abe officially announced another postponement of consumption tax hike for two and a half years on 1st of June. In addition, he addressed his intention to put in place “comprehensive and bold economic measures” in autumn. However, he did not mention any concrete plans and their scales. As it was decided not to carry out double election of both lower and upper houses, judgment on postponement of consumption tax hike for a second time, will be tested by the upper house election which will be announced officially on 22nd June, for casting and counting vote on 10th July (Table 1).

Possibility of BOJ's additional easing delay has increased, as scale of economic measures will likely be decided post upper house election. BOJ's Monetary Policy Meetings are scheduled on the following dates; June 15th and 16th, July 28th and 29th, September 20th and 21st, October 31st and November 1st. The BOJ would take a coordinated action to further easing in September or October, if the cabinet decides to put the economic measures in place in the end of August (Table 2).

"Table 1: Key points of PM Abe's press conference"

•Postpone consumption tax hike again for 2 and a half year to October 2019.
•Adhere to fiscal consolidation target to achieve primary balance turning into positive in FY2020.
•Partly start measures to enhance social security system without using deficit-covering bond.
•Put in place large-scaled comprehensive economic measures.
•Decided not to carry out double election of both lower and upper houses.
•Judgment on postponement of consumption tax hike for the second time to be tested by upper house election.
•Upper house election to be announced officially on 22nd June for casting and counting vote on 10th July.

(Source) SMAM, based on publicly available information.

"Table 2: Major Domestic Events in Japan"

Schedule		Name of Event
Jun.	15th - 16th	BOJ's Monetary Policy Meeting
	22nd	Official announcement of Upper House election casting date
Jul.	10th	Date of casting and counting vote of Upper House election
	28th - 29th	BOJ's Monetary Policy Meeting, issuance of Outlook Report
Aug.	After month end?	Cabinet approval of second supplementary budget
Sep.	20th - 21st	BOJ's Monetary Policy Meeting
	Month end?	Convocation of extraordinary session of the Diet
Oct.	31st	BOJ's Monetary Policy Meeting (till 1st November), issuance of Outlook Report

(Source) SMAM, based on publicly available information.

Although, currently JPY is rising and Japanese equity price is declining as expectation for government policy recedes to some extent, I believe their sentiment will not worsen significantly.

We cannot rule out the possibility of additional easing in this summer if concern over deflation grows significantly. However, except for this deflation fear, it is difficult for the BOJ to go with monetary easing as a stand-alone measure, because heads of states attending G7 Ise-Shima summit might view it as a policy tool leading to currency war. Therefore, in response to PM Abe's press conference, we need to revise our scenario that release of economic measures and additional easing in June would cause JPY to decline and Japanese equity prices to move up.

I believe the reason of sharp rise of JPY and fall of Japanese equity in Tokyo market on 2nd June were partly due to some retreatment of policy expectation. However, it doesn't mean that policy driven market has come to an end for good, as timing of economic measures and additional easing has just become less clear. Therefore, we think current JPY appreciation and Japanese equity price fall (a) are just a correction and (b) does not necessarily mean a significant dent in sentiment.

It is essential for the Japanese government to show roadmap of fiscal consolidation in order to attract long term stable capital into the Japanese equity market.

In the short run, we need to keep our eyes on crude oil price which is at high level and UK's EU membership referendum on 23rd June 2016. There is a fear of stronger JPY and further fall in Japanese equity prices due to risk-off sentiment caused by sales of crude oil (position adjustment) and market's cautious sentiment before the UK's casting vote date. Meanwhile, US Federal Open Market Committee (FOMC) is also a focus of financial market. US rate hike is expected earliest on 14th and 15th June or 26th and 27th July. If global financial market does not get into turmoil triggered by US rate hike, Japanese equity is likely to rise supported by weaker JPY against USD.

Despite postponement of consumption tax hike again, PM Abe stated that he will adhere to financial consolidation target of turning primary balance to positive in FY2020. However, there was no mention on concrete approach to achieve the target at the press conference. The Japanese government needs to show roadmap of fiscal consolidation and gain investors' confidence home and abroad in order to attract long term stable capital into the Japanese equity market.

*** Please note that this report is a translation of Japanese report written on 2nd June, 2016.**

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