

**US President Donald Trump’s Inauguration Speech /  
Impact on Japanese equity and USD/JPY currency markets**

- U.S. President Donald Trump’s inauguration speech turned out to be extremely protectionist on trading policy but was within expectations.
- Upside in Japanese equities rally seems to be limited as excessive expectation on US policies is moderating, while we need to watch whether incoming earnings forecast can support them or not.
- Weaker Japanese equity along with stronger JPY is expected in early spring due to disappointment in US government spending size. Later, stronger Japanese equity and weaker JPY can be expected if US government put their policies in place.

**U.S. President Donald Trump’s inauguration speech turned out to be extremely protectionist on trading policy but was within expectations**

On 20<sup>th</sup> January 2017, Mr. Donald Trump was inaugurated as 45<sup>th</sup> President of the United States of America. Policy direction of “America first” was clearly stated in attention-getting inauguration speech which ended with a clause of “Make America Great Again”. Soon after the ceremony, renegotiation of North American Free Trade Agreement (NAFTA) and withdrawal of US from Trans-Pacific Partnership (TPP) were announced as promised (Table 1).

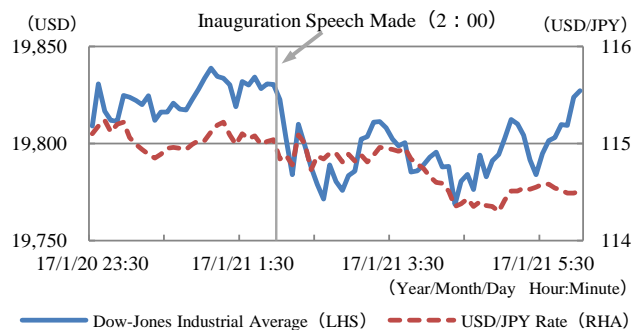
Meanwhile, with regard to declaration of policy to instruct the Treasury Secretary to label China a currency manipulator on the inauguration day, was postponed as were reported by the mass media before hand. Also, we need to wait for the Budget Message of the President in coming February, as no detailed explanation on government spending policy was made this time. As such, inauguration speech turned out to be extremely protectionist on trading policy but was within expectations. Equity, long-term interest rate and currency markets during New York time were relatively stable on the same day (Chart 1).

“Table 1: Government Policy Announced by Trump’s New Government”

	Government Policy	Concrete Contents
1	Energy policy based on U.S. First	Deregulation of energy policy etc.
2	Foreign policy based on U.S. First	Restoration of military force etc. (including item 4 and 6)
3	Recovery of employment and economic growth	Tax reform etc.
4	Restore strong military force	Construction of newest missile defence system etc.
5	Ensure security of community	Prevention of illegal immigrants into U.S. etc.
6	Trade policy on behalf of US citizens	Withdrawal from TPP, renegotiation of NAFTA etc.

(Source) SMAM, based on the White House’s material.

“Chart 1: Trend of US Equity Market and USD/JPY Rate Before and After Inauguration Speech”



(Note) Data period is from 23:30 20<sup>th</sup> January 2017 to 6:00 21<sup>st</sup> January 2017. Japan time.

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

## **Upside in Japanese equities rally seems to be limited as excessive expectation on US policies is moderating, while we need to watch whether incoming earnings forecast can support them or not**

Focal point of market in future will move to “effectiveness” of US president Donald Trump’s policies, while market led by “expectation” of the policies in the past will come to an end. We expect trade policy will not incline to extreme protectionism and size of government spending is likely to settle at fiscal neutral level. However, before arriving at our expectation, volatility of Japanese equity and USD/JPY rate will remain high for the time being, as various expectations will interact in financial markets.

Japanese equity seems to be difficult to move up higher for the time being, as excessive “expectation” on policy is moderating. Meanwhile, we should note that peak of earnings season of listed Japanese companies for Oct.-Dec. 2016 period will start from next week. We believe that if earnings forecast of Japanese corporations were revised upward by (i) progress of weaker JPY after US presidential election, (ii) recovery of commodity market and (iii) cyclical recovery of emerging economy, it will underpin Japanese equities.

## **Weaker Japanese equity along with stronger JPY is expected in early spring due to disappointment in US government spending size. Later, stronger Japanese equity and weaker JPY can be expected if US government put their policies in place**

As for USD/JPY rate, we expect trend of weaker USD and stronger JPY to gain ground as the “expectation” for potential measures in US is moderating. US President Donald Trump is likely to announce fiscal plan as promised at the Budget Message of the President in coming February. We expect government spending reflected in budget resolution of US Congress (announced around March), will be much smaller in size compared to what was promised. Therefore, we expect big disappointment of market participants at this point, however, we do not expect a serious market confusion, as US economic growth pace is likely to accelerate even with fiscally neutral government spending.

Although we expect lowest level of USD against JPY this year to be JPY112. However, if disappointment over US government policies grow bigger towards early spring this year, there will be a risk of USD falling below this level temporarily. Nevertheless, if effective policies are expected to be implemented in a steady manner, USD/JPY rate can recover to around JPY 117 by the end of 2017. Also, we must be cautious on possible fall of Nikkei 225 index below JPY 18,000 until early spring this year, however, it might rise to around JPY 20,000 at the end of 2017, if market starts to further discount Japanese corporations’ earnings recovery in the case of USD/JPY rate to remain at above JPY 112 (stronger USD and weaker JPY) in 2017.

**\* Please note that this report is a translation of Japanese report written on 23<sup>rd</sup> January, 2017.**

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