

JAPAN WEEKLY REVIEW

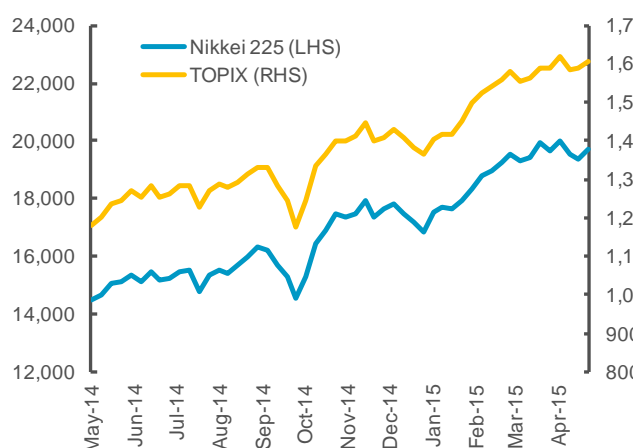
For Week Commencing 11 May, 2015

MARKET REVIEW

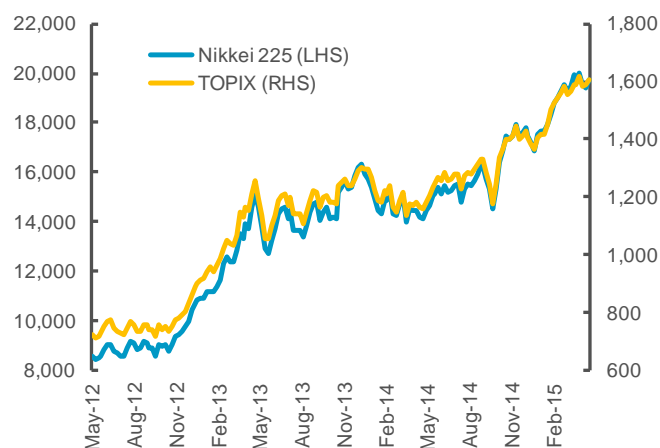
Below are performance data for the TOPIX, Nikkei 225 and JPX-Nikkei 400, stock indices representative of Japan's stock market:

Stock Index	As of 2015/5/15	Performance Returns (%)					
		1 Week	Rolling 3 Months	Rolling 6 Months	Rolling 1 Year	MTD	YTD
Nikkei 225	19,732.92	1.8	10.2	12.8	38.0	1.1	13.1
TOPIX	1,607.11	1.2	10.9	14.8	36.4	0.9	14.2
JPX-Nikkei 400	14,519.77	1.1	10.4	13.5	35.3	0.7	13.7

**Nikkei 225 & TOPIX
1 Year Performance**



**Nikkei 225 & TOPIX
3 Year Performance**



Source: Nikko AM, Tokyo Stock Exchange, Inc., as of 15 May 2015

※Past performance or any prediction, projection or forecast is not indicative of future performance.

MACRO & OTHER DATA

- ✓ Japan business sentiment rises for 5th straight month in April; indicates economy improving
- ✓ Japan's current account surplus rises for first time in four years in FY2014 as trade deficit drops
- ✓ Research shows recurring profits for TSE 1st Section firms grew in FY2014; further growth projected in FY2015
- ✓ Japan coincident composite index falls in March; weighed down by decreased sales in retail, wholesale sectors
- ✓ Government panel sees Japan surplus in FY2020 achieved through economic growth

- According to the Economy Watchers Survey for April 2015, released by the Cabinet Office on 13 May, the diffusion index for current economic indicators, an indicator of street-level business sentiment, rose 1.4 points from March to 53.6. This marked the fifth consecutive month that the index rose and was also the third month in a row that it exceeded the boom-or-bust threshold of 50, indicating that the economy is improving. The index also reached its highest level since March 2014 (57.9), just prior the consumption tax hike. Meanwhile, the diffusion index for future economic conditions, which predicts economic activity two-three months in advance, increased 0.8 point on-month to 54.2, rising for the fifth consecutive month. It was also the fourth straight month that the future economic conditions index was above 50 points, marking a return to levels not seen since December 2013 (54.7).
- Preliminary balance of payments figures for FY2014, which paint a picture of Japan's overall trade situation with the rest of the world (including goods, services and income on investments), were released on 13 May by the Ministry of Finance. The figures showed a current account surplus for the period of ¥7.8 trillion (approx. US\$65 billion), marking the first increase in four years. While the surplus had been shrinking since FY2011, it turned around in FY2014 as a result of a large reduction in Japan's trade deficit on the back of cheaper crude oil prices. Spending by foreigners in Japan also increased as a record number of tourists from overseas visited Japan, and less money was spent by Japanese citizens abroad due to the weak yen, resulting in a travel expenditure surplus of ¥209.9 billion (approx. US\$1.8 billion), the first in 55 years. The ministry also announced on the same day that Japan posted a current account surplus in March of ¥2.8 trillion (approx. US\$23 billion), its largest monthly surplus in seven years.
- The full-year earnings reporting season has almost come to a close in Japan. According to research Nikko AM has obtained from sell-side brokers, as of 18 May, with 95.5% of firms having released results, firms listed on the Tokyo Stock Exchange First Section (excluding financials, with March fiscal year-end) reported FY2014 sales growth of 4.2% and recurring profit growth of 7.0%. Profit growth was especially large in sectors benefiting from the economic recovery in Japan and overseas and from the weaker yen. As for FY2015 earnings guidance, firms project sales growth of 2.6% and recurring profit growth of 9.3%. However, such projections tend to be conservative and it is not unusual for them to subsequently be revised upward.
- On 12 May, Japan's Cabinet Office released the Indexes of Business Conditions preliminary data (base year 2010 = 100) for March, which showed the coincident composite index, a measure of the current state of the economy, falling 1.2 points from the previous month to 109.5. The index fell for the second straight month and is now at its lowest level since August 2013 (108.7), impacted by a rise in demand prior to the consumption tax hike in April 2014. Eight of the 11 individual indicators that make up the index declined in March. A drop in sales in both the retail and wholesale sectors was seen as having a large negative impact.
- The government's Council on Economic and Fiscal Policy announced on May 12 that Japan plans to achieve a

primary balance surplus by fiscal 2020 through robust economic growth and without raising the consumption tax rate to beyond 10%. Prime Minister Shinzo Abe told the meeting that “there will be no fiscal soundness without an economic revitalization,” underlining his intention to prioritize economic growth over other means to balance the budget. The government is also expected to set a mid-term goal of reducing the deficit to ¥6 trillion (approx. US\$50 billion) by FY2018.

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