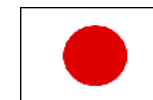


A Macro View :
Japan with comments on other Asian Countries

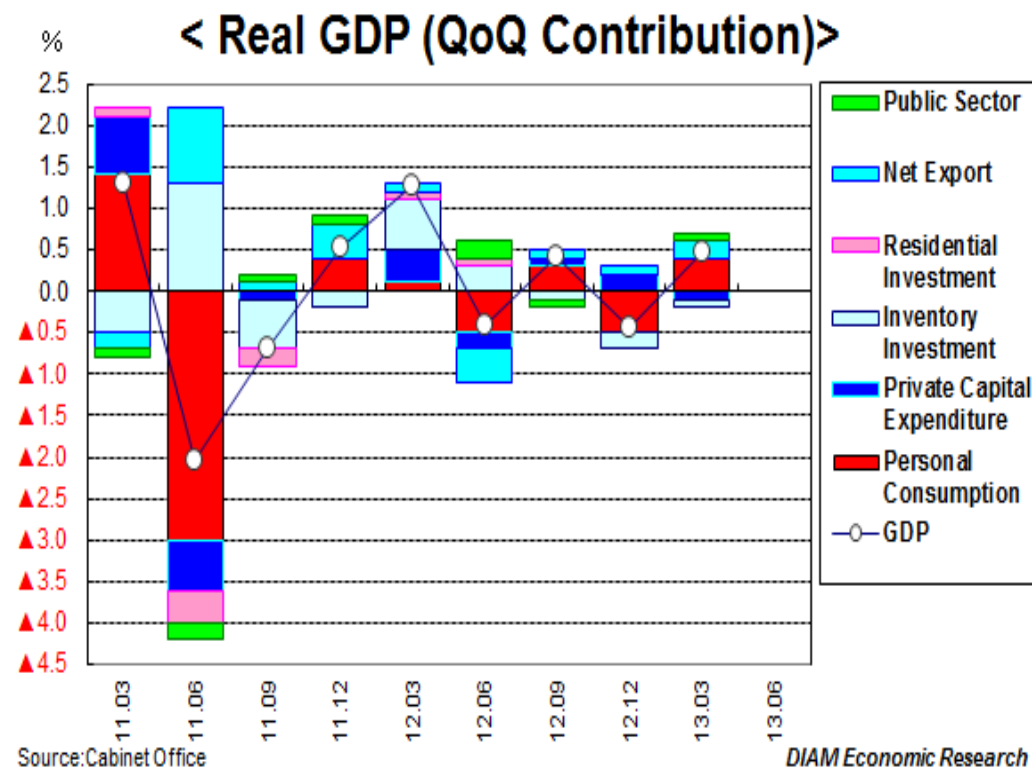
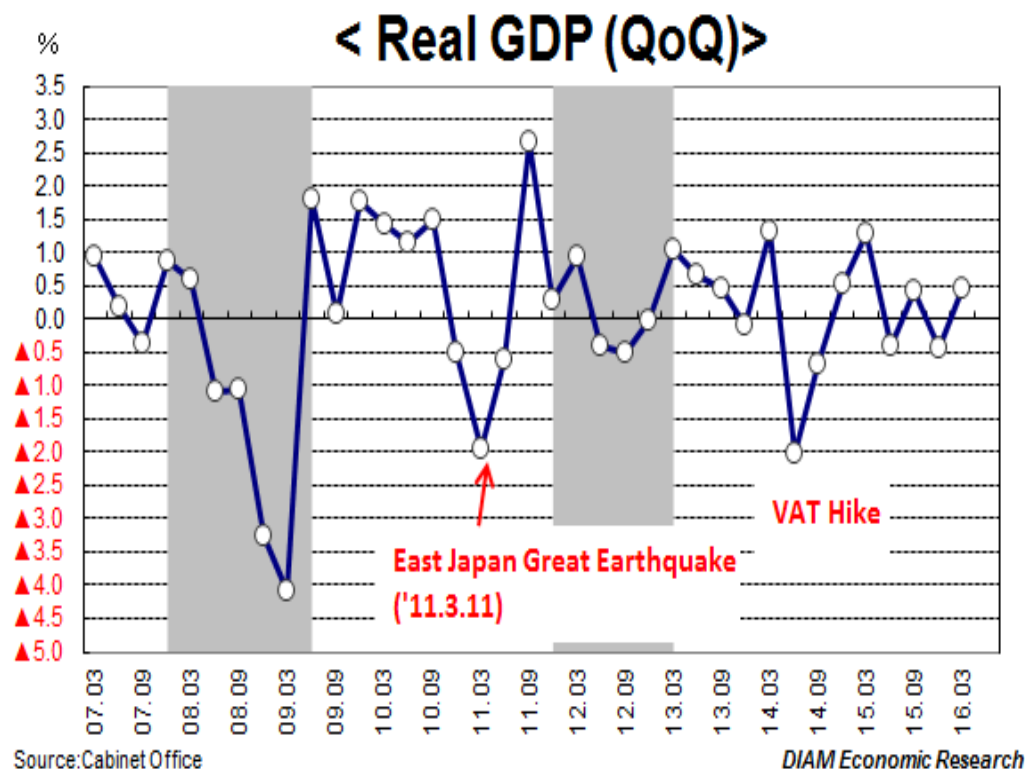
Kozo Koide
Chief Economist
DIAM Co.,Ltd

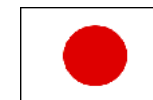




Positive Growth for the 1st Time in 2Qs

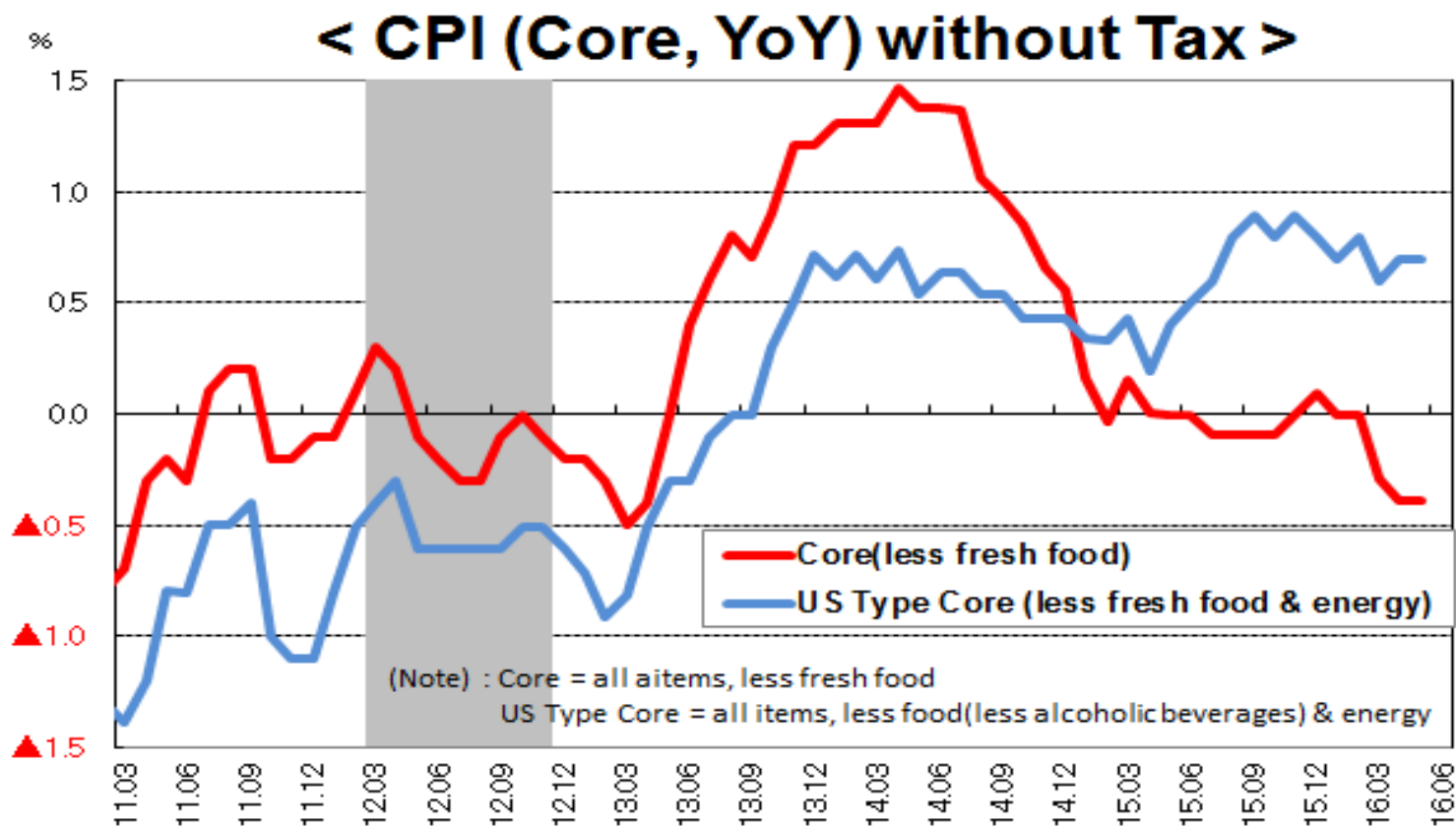
- ◆ Real GDP QoQ : +0.5% (AR +1.9%). Plus for the 1st time in 2Qs
 - Cap-ex DOWN , but Consumption, Public Sector & Net Export UP. Estimated to be elevated a bit due to miss-alignment of leap year effect.
 - Apr.- Jun.Q, '16: Estimated to be lower.





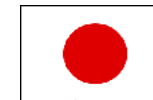
CPI : Upward Trend has Halted

- ◆ CPI (May.) YoY: core -0.4%, US type core +0.7%
 - Core : all items, less fresh food
 - US type core : all items, less food (less alcoholic beverages) & energy



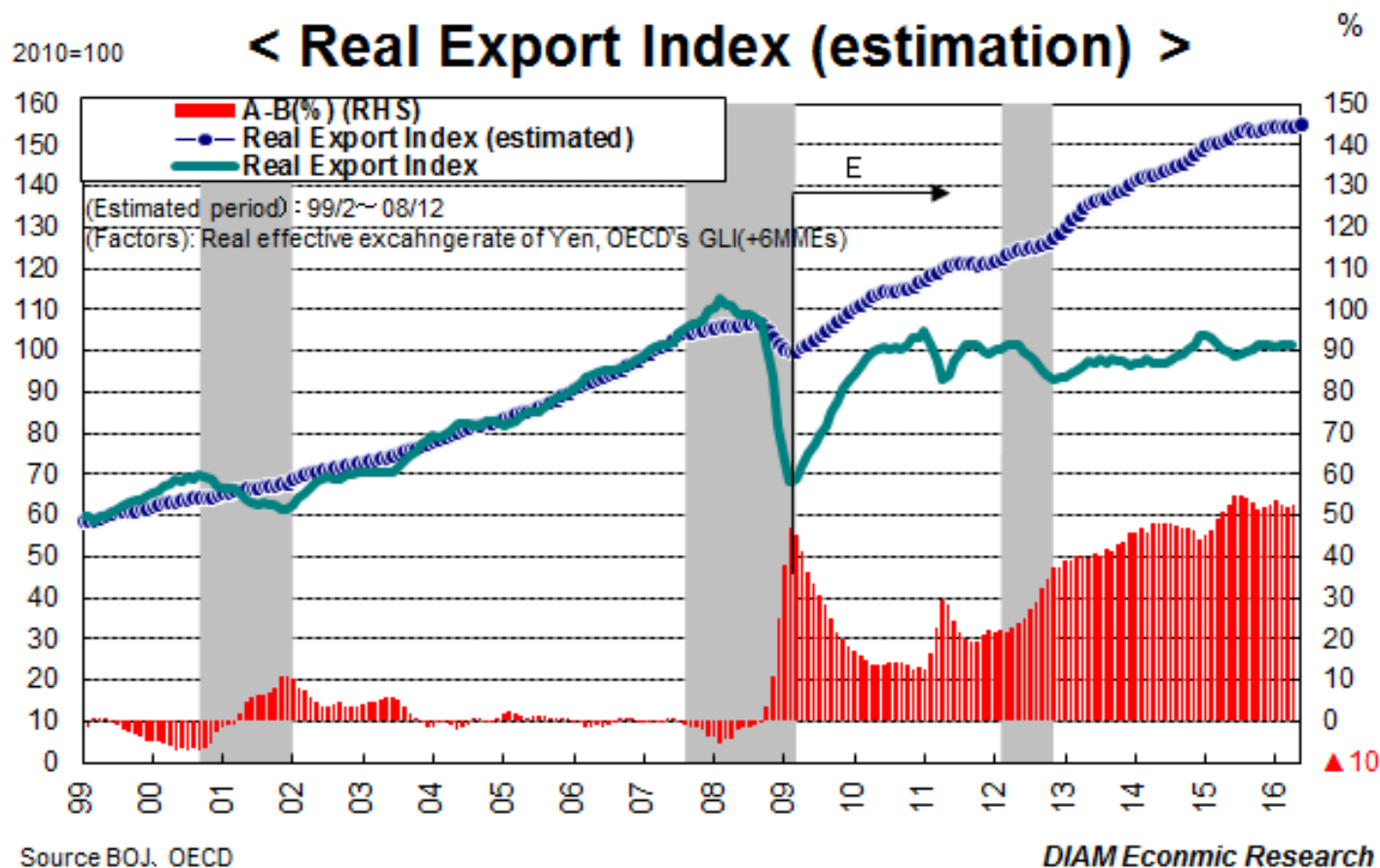
Source : Ministry of Internal Affairs & Communications

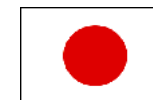
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Export : Inelastic to Yen & Global Economy

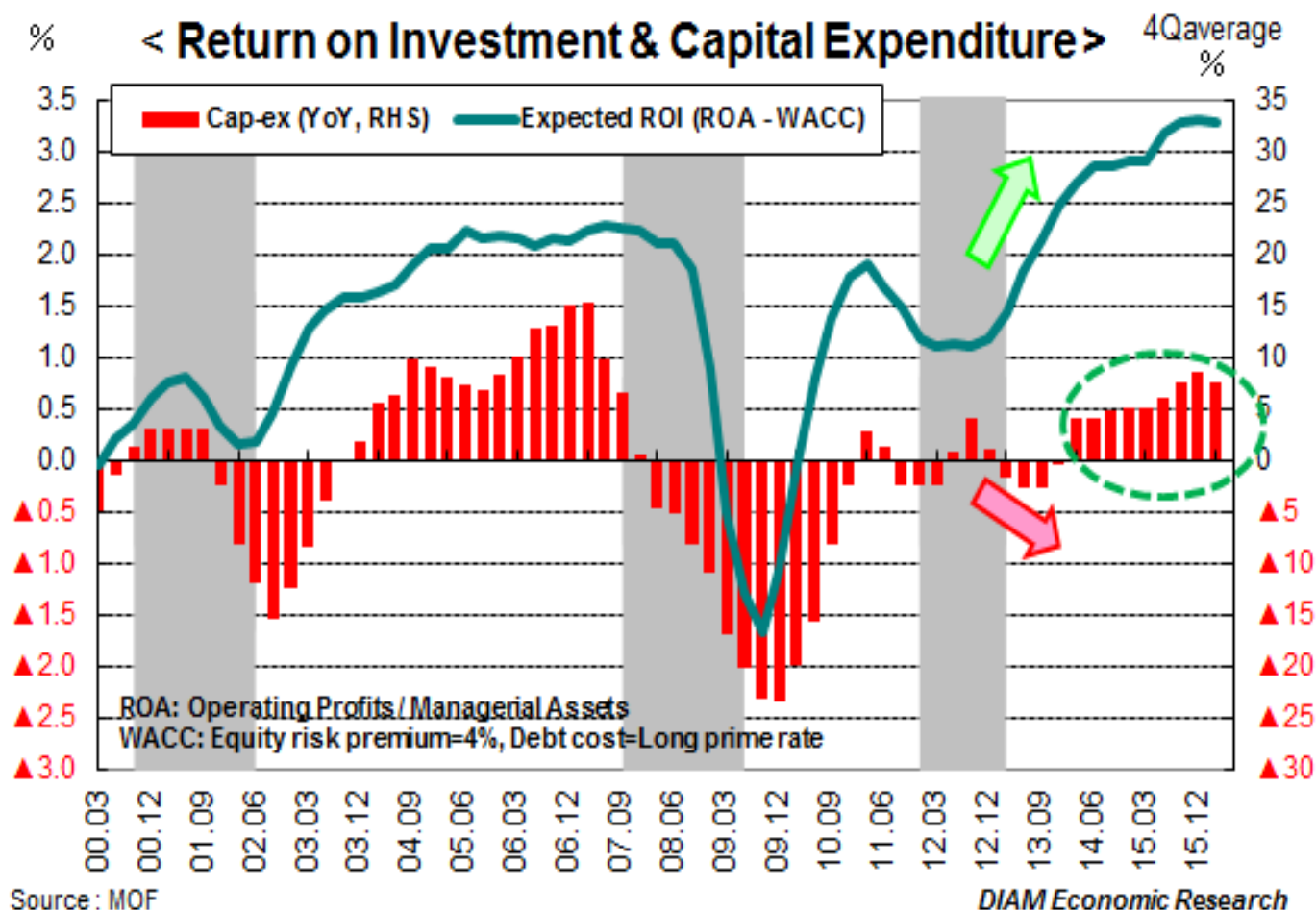
- ◆ Export Volume : Should have been 50% larger if Japan kept its shape
 - If the elasticity against real effective exchange rate & global economy have retained as those before Lehman Shock...

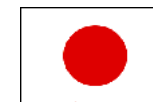




Cap-ex: Restrained with Higher RoIC

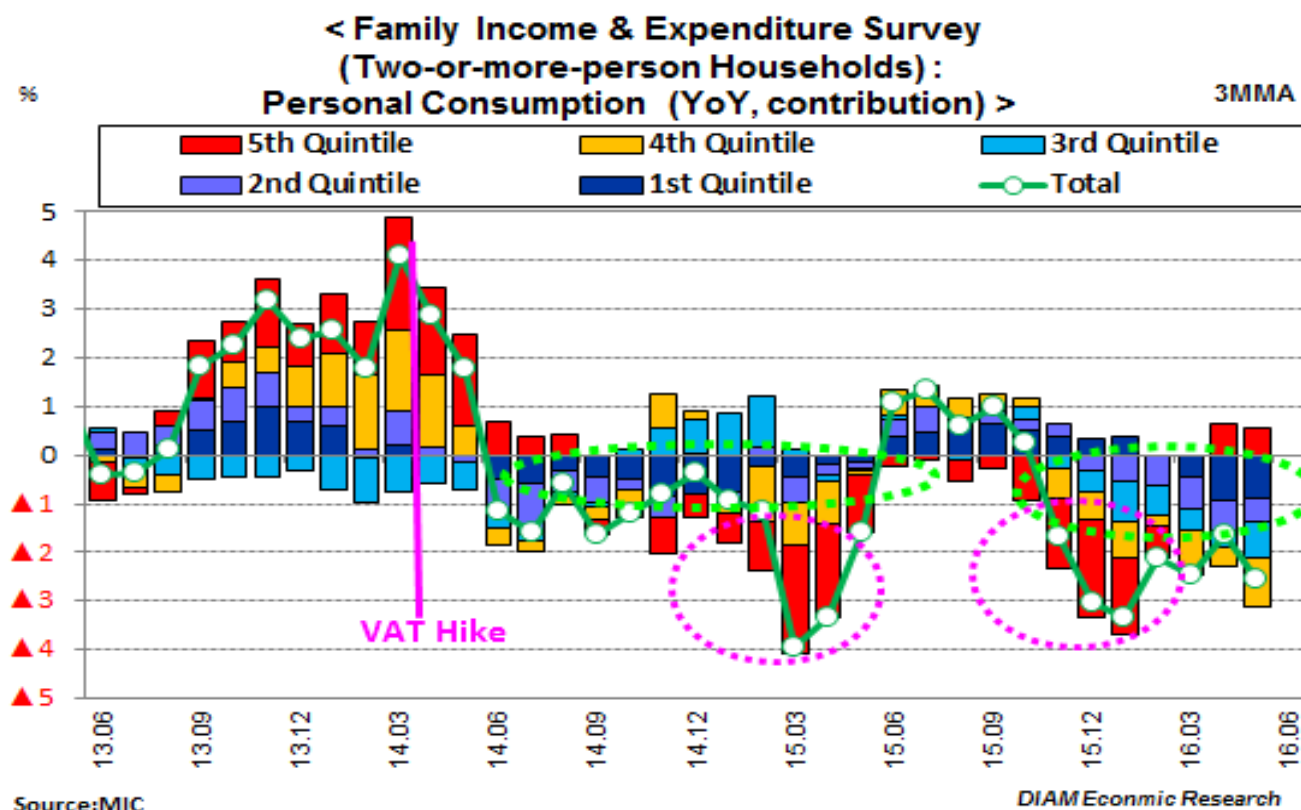
- ◆ Expected RoI (RoA – WACC)  , but the cap-ex growth is slow
 - Shut-down of nuclear reactors, tax regime, TPP, FDI(sunk cost, hysteresis), Or Inertia

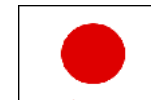




Consumption : Low Income Retirees Saved

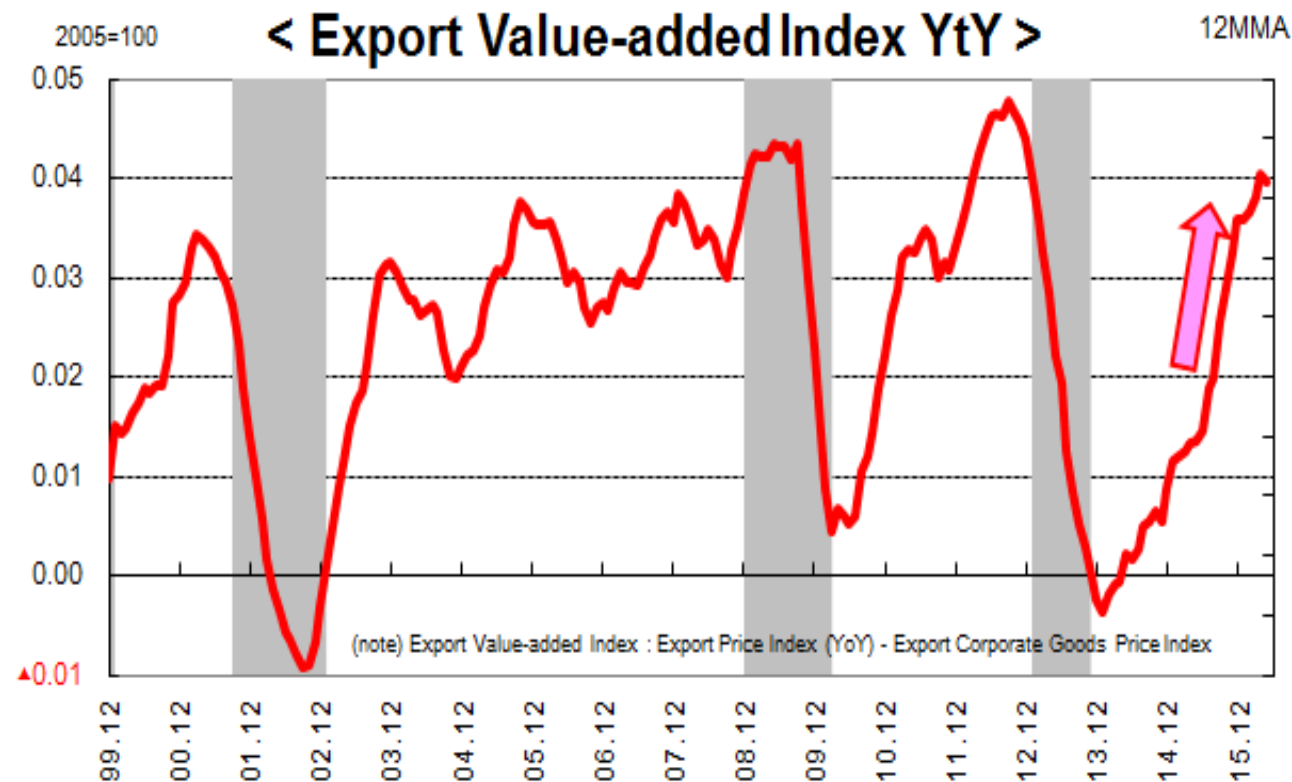
- ◆ Large cut in relatively lower/elder income households
 - % of those elder than 60 years : 1st quintile (78%), 2nd quintile (67%). Total 73%
- ◆ Higher income class: Started to save after YoY effect of VAT was gone
 - Prolonged saving ← unexpected cut of of summer-time bonus in '16



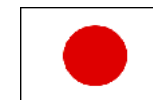


Export : Aiming for Higher Value-added

- ◆ Unit export value-added resume to be elevated again
 - Quality un-adjusted export price starts to be higher than adjusted price
 - Led by precision machinery, followed by electronics & general machinery

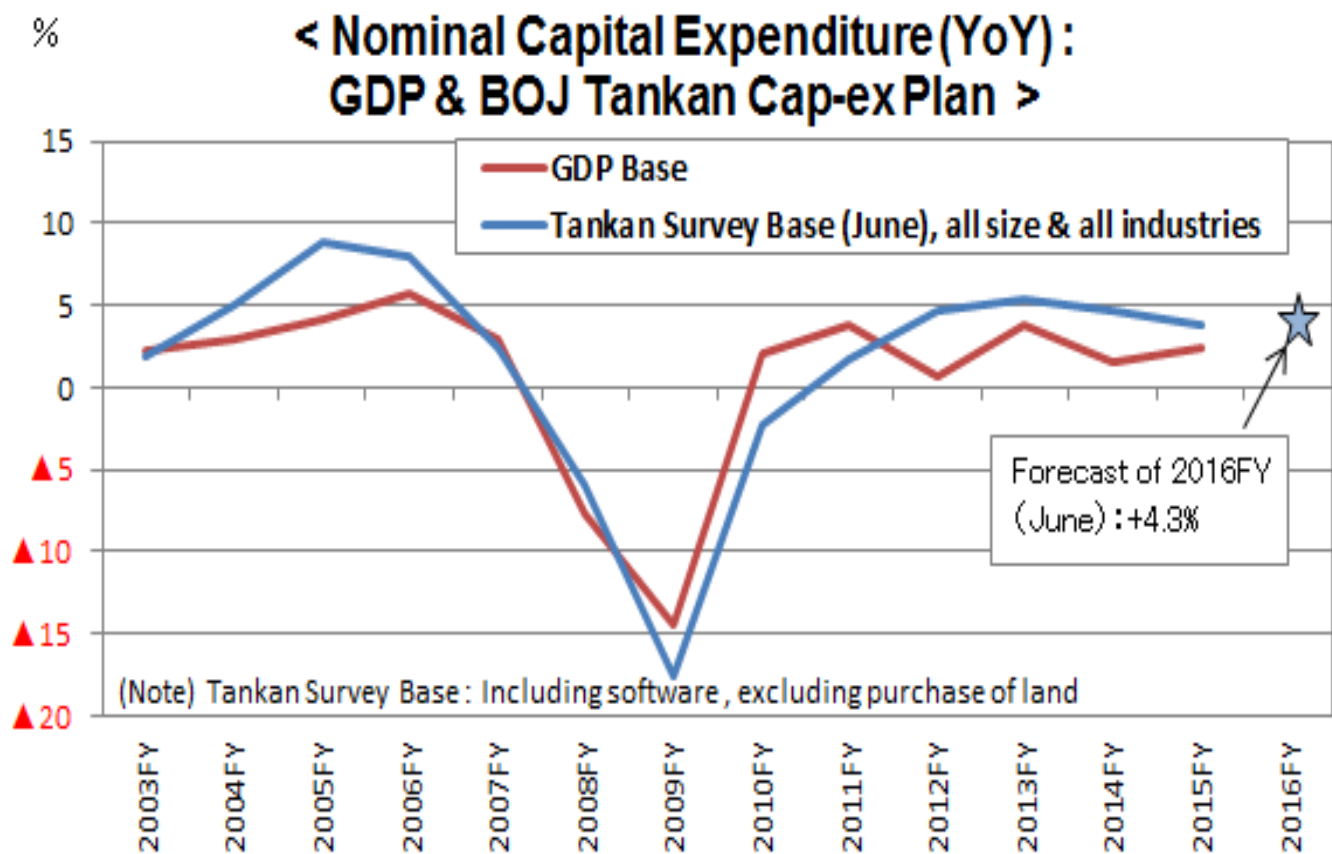


Export Price Index(MOF): Not adjusting the Quantity Differences
Source:MOF, BOJ Export Corporate Goods Price Index(BOJ): Adjusted Quantity Differences DIAM Economic Research



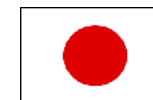
Relatively Resilient Cap-ex Plan

- ◆ Cap-ex plan : Retained its moderate growth momentum
 - Tankan Survey (BOJ, Jun.) : suggest cap-ex of '16FY would relatively resilient regardless current aggravating business condition.



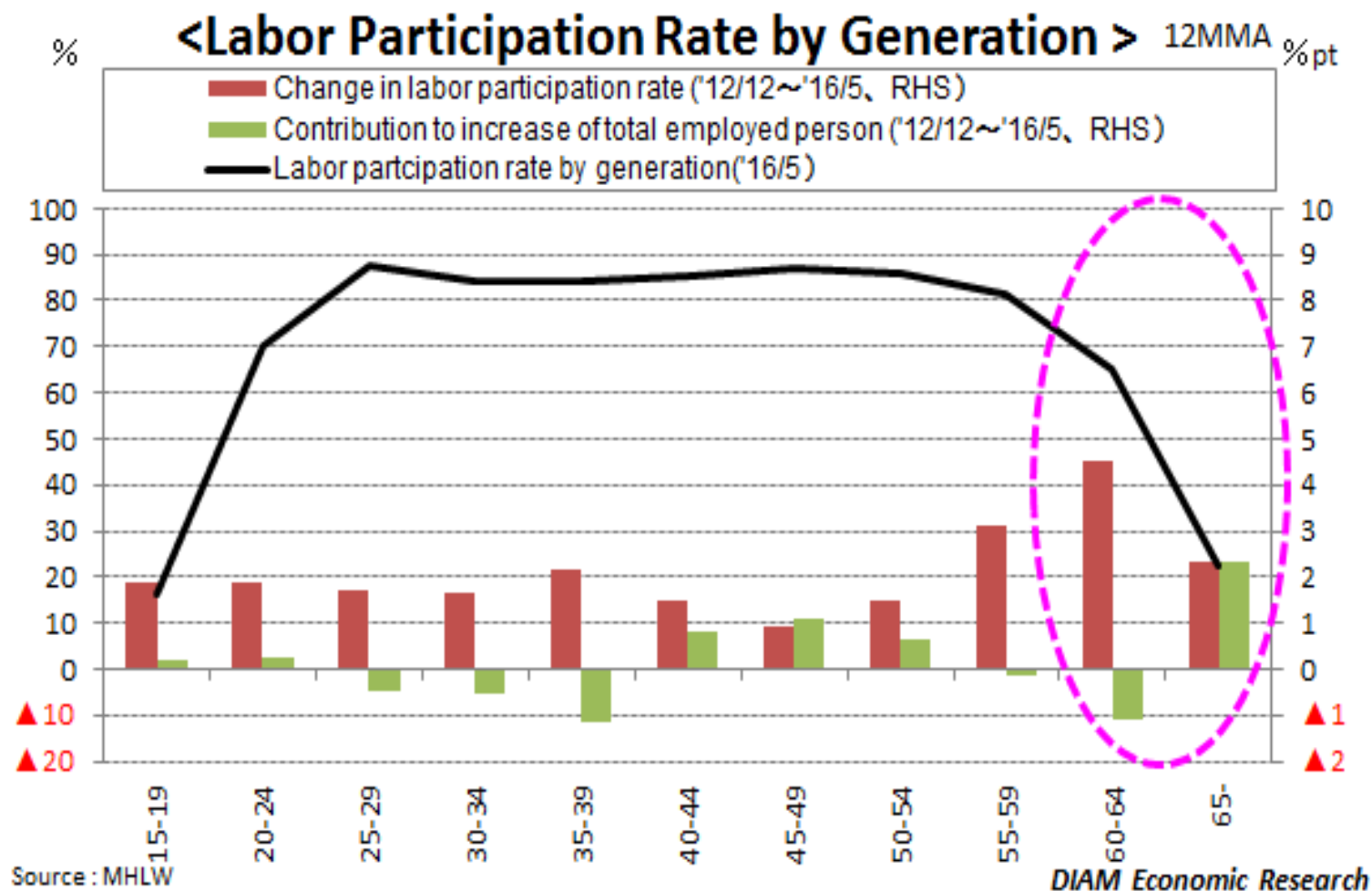
Source : cabinet Office, BOJ

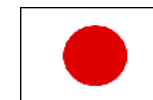
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Retirees Labor Participation

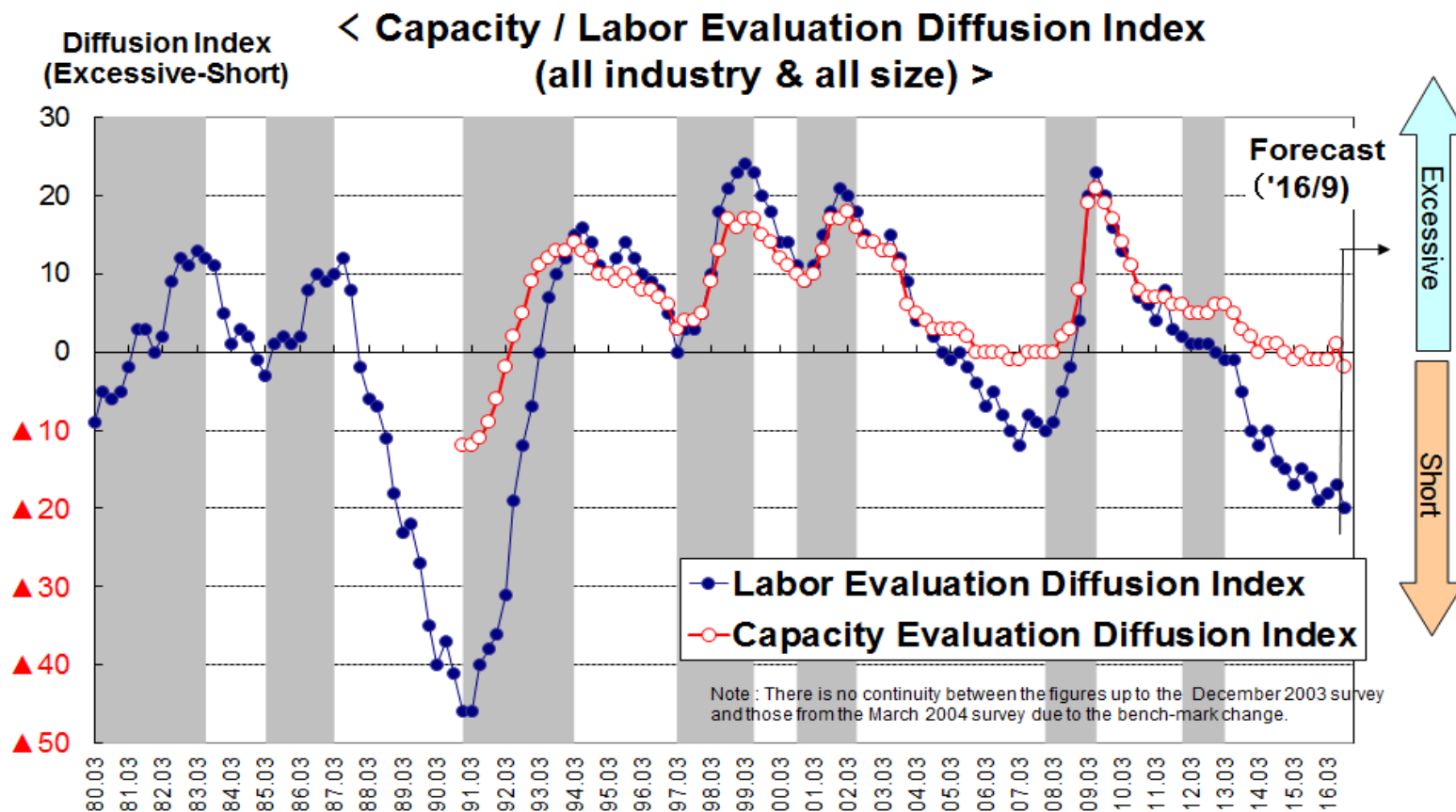
- ◆ Labor Participation Rate over 60 : elevated fast





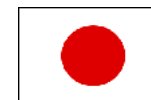
GDP Gap : Almost Gone

- ◆ Capacity & Labor utilization rate : Labor DI indicate shortage
 - Suggesting GDP gap has (almost) gone. 1% real growth is enough to invite inflation



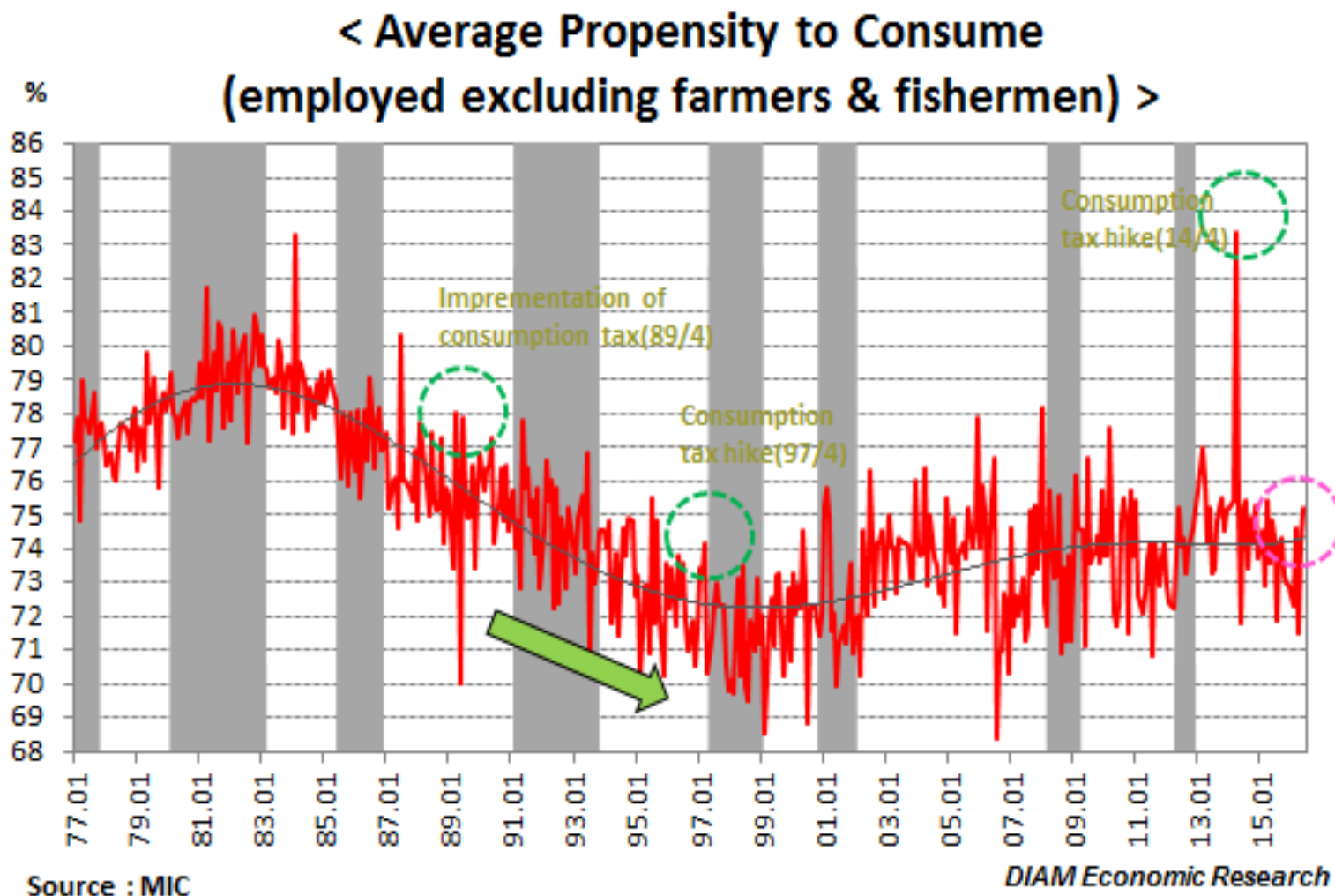
Source : BOJ

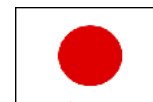
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Highest Propensity to Consume: A Blip?

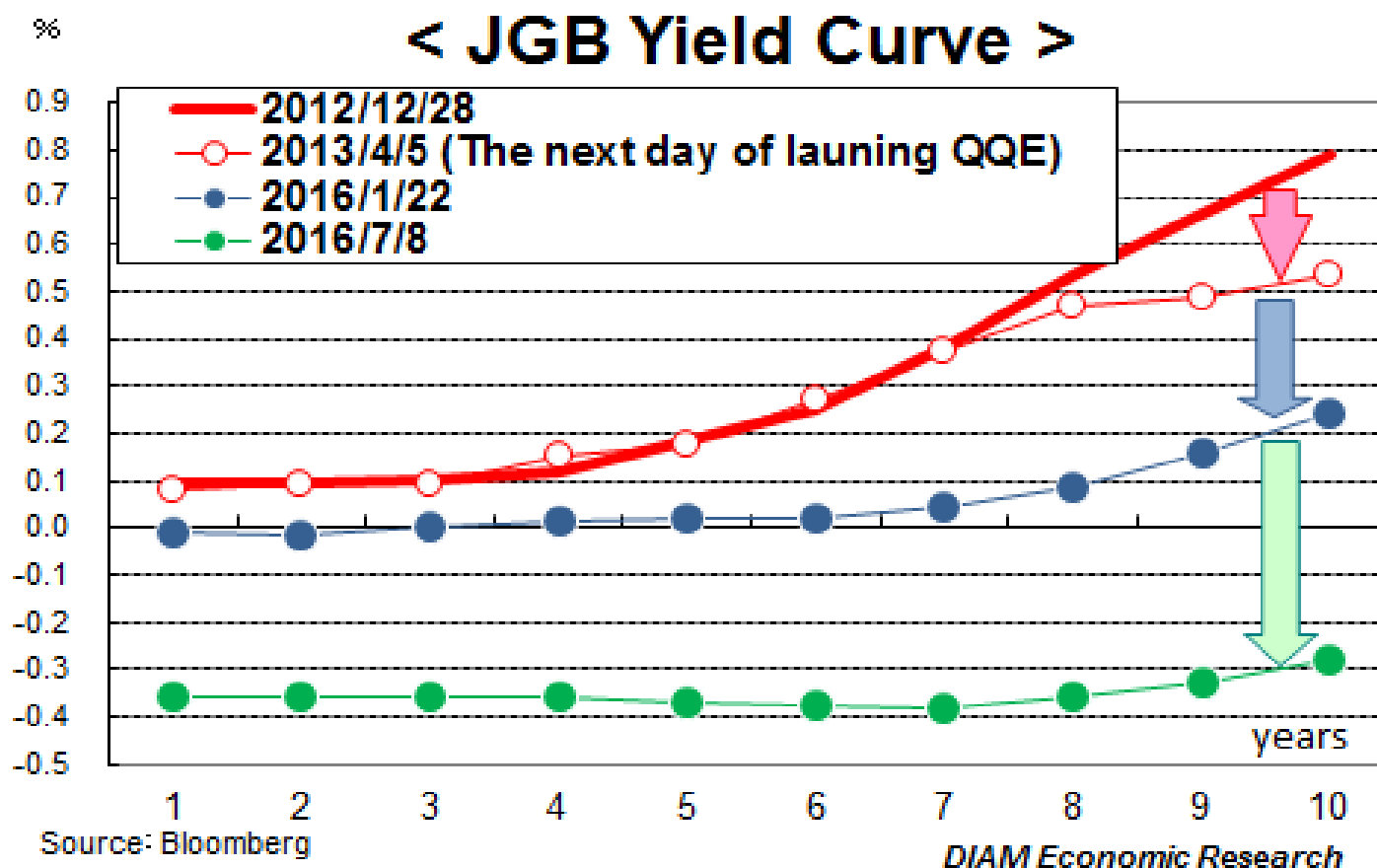
- ◆ Waiting for stable higher propensity under inflation expectation



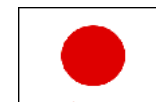


BOJ : Negative Policy Rate, Efficient Effect?

- ◆ Macro Add-on Balance : Discretionary, pushing down long-term rate
 - About 10 T yen : Under negative rate at the start (BOJ “10 to 30 T for the moment”)
- ◆ real spending = f (real interest rate), or the “euthanasia of the rentiers”

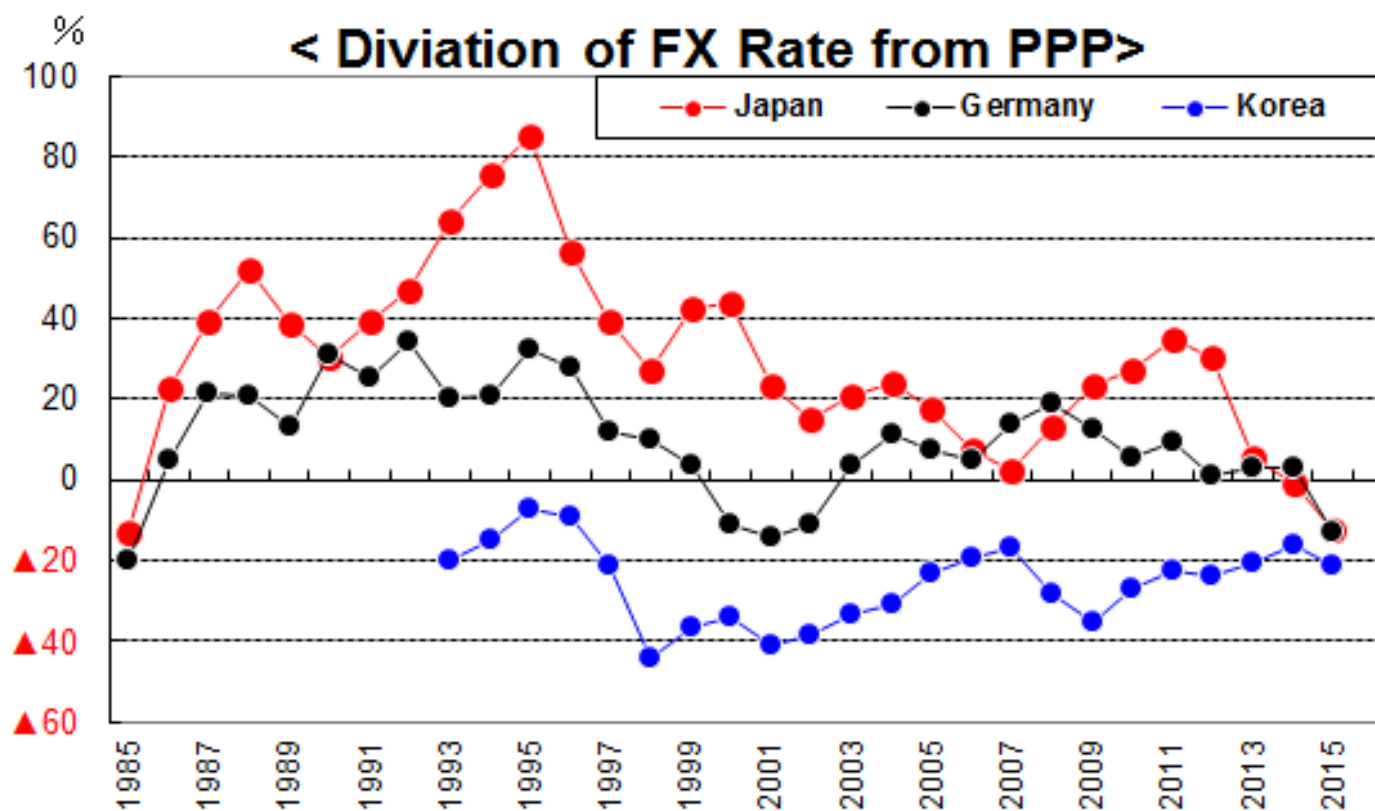


(Source)BOJ



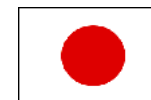
YEN : Becoming Cheaper for the 1st time

- ◆ Lower than PPP(OECD) for the 1st time since 1985
 - Suffered by painful high-yen for long time, but finally there is some healing



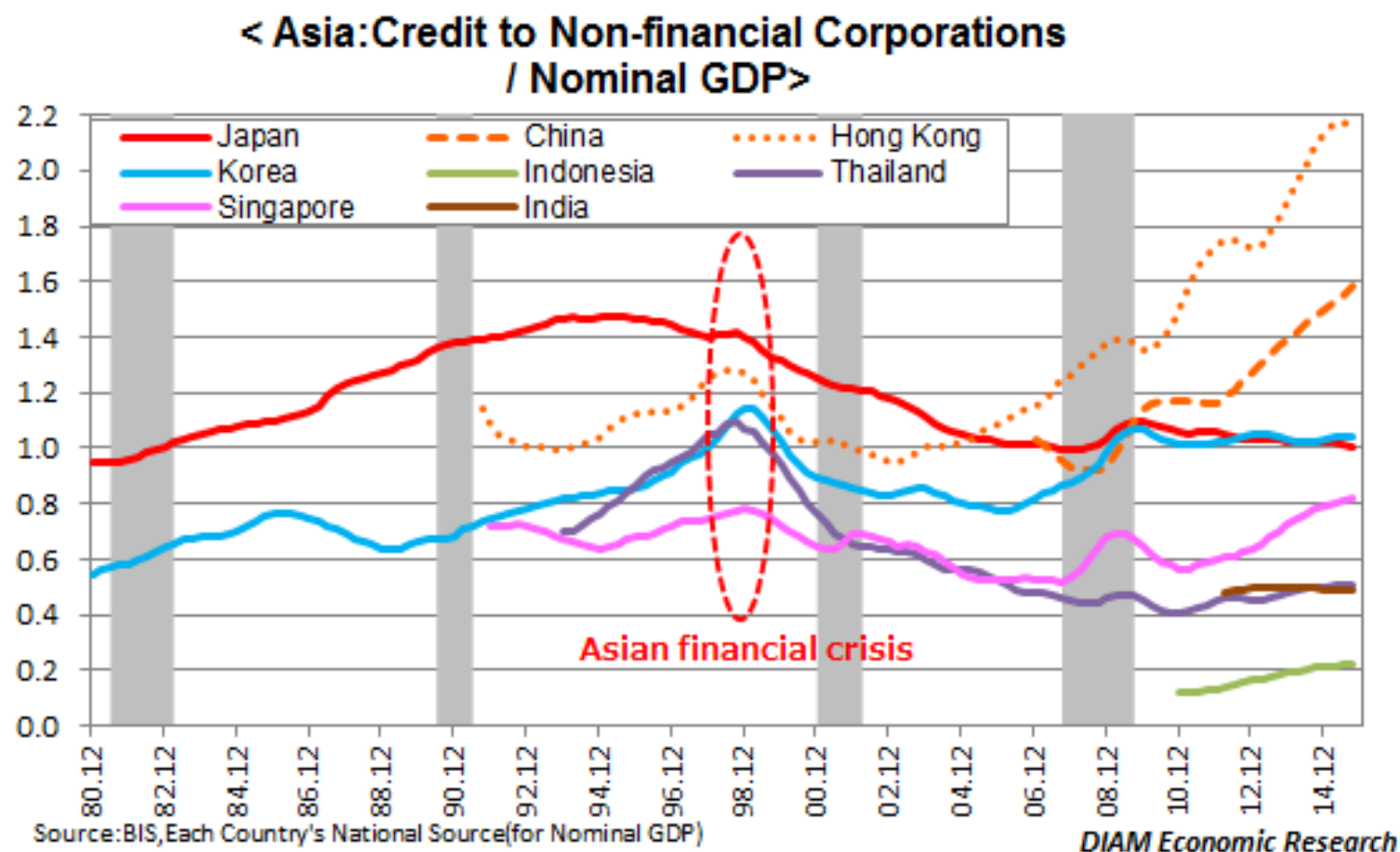
Source : OECD, Datastream

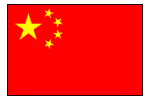
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Safe Haven under Credit Crisis

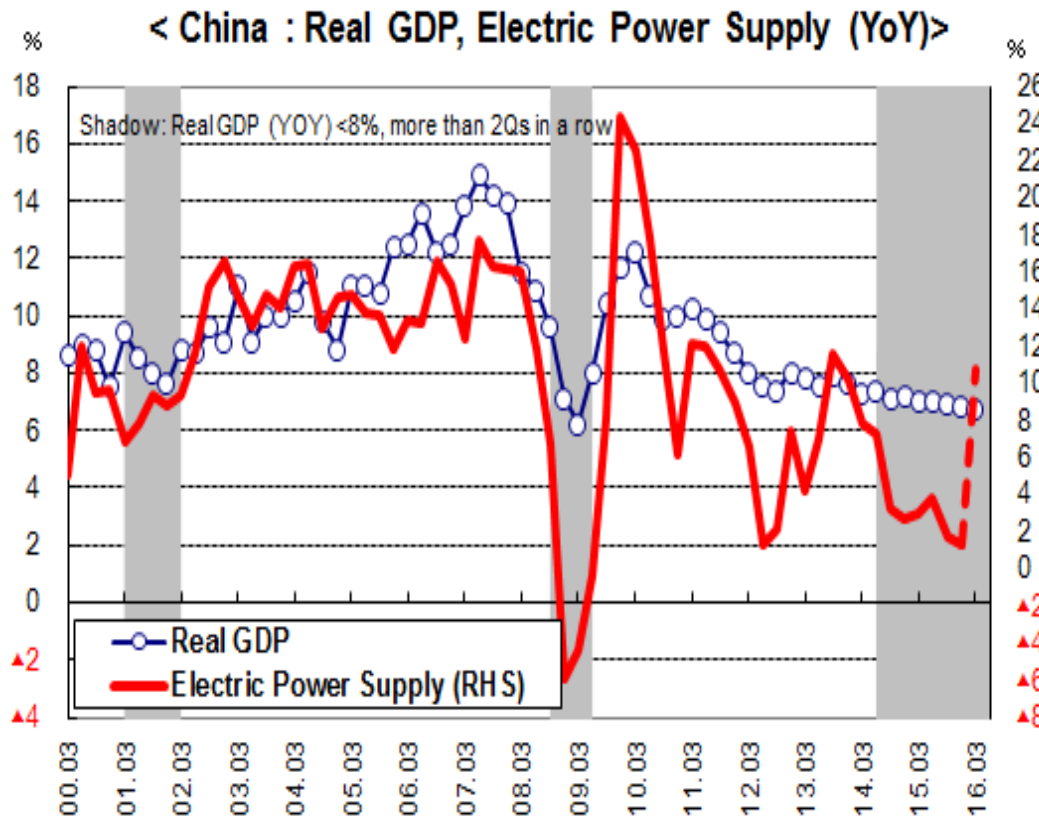
- ◆ Corporate debt / Nominal GDP : Hovering at lower stable level
 - Japan is accused **NOT** to borrow money.





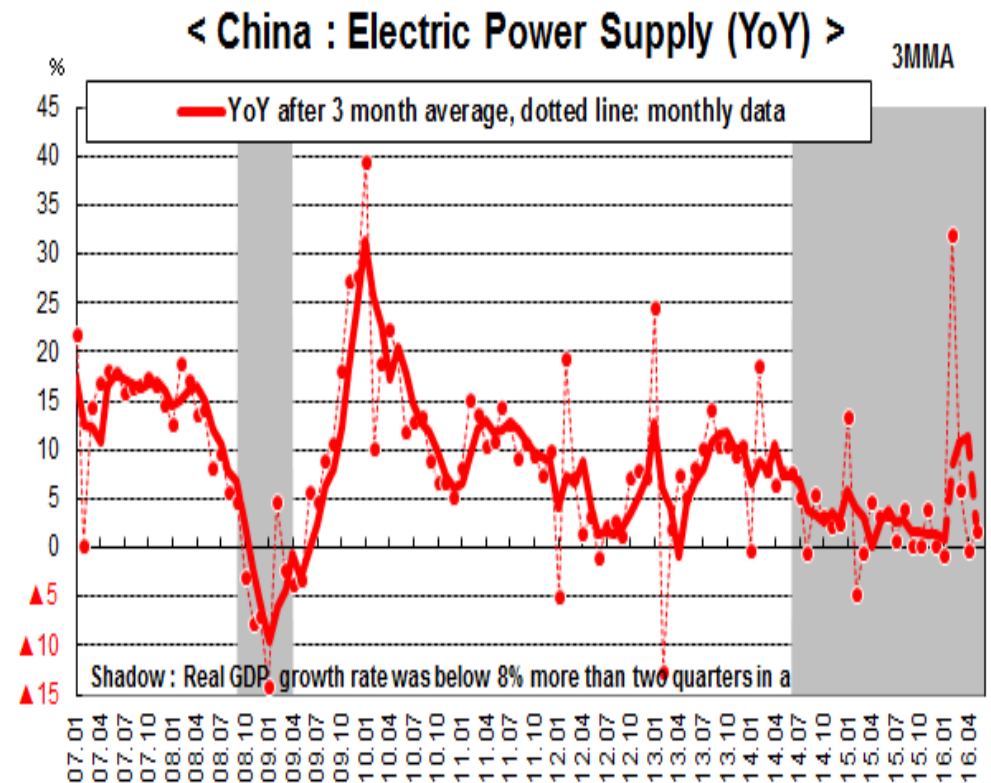
Economy : Bottomed but not Accelerated

- ◆ Estimated to bottomed out around new year
 - Structural reform has announced



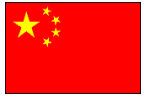
Source: NBS

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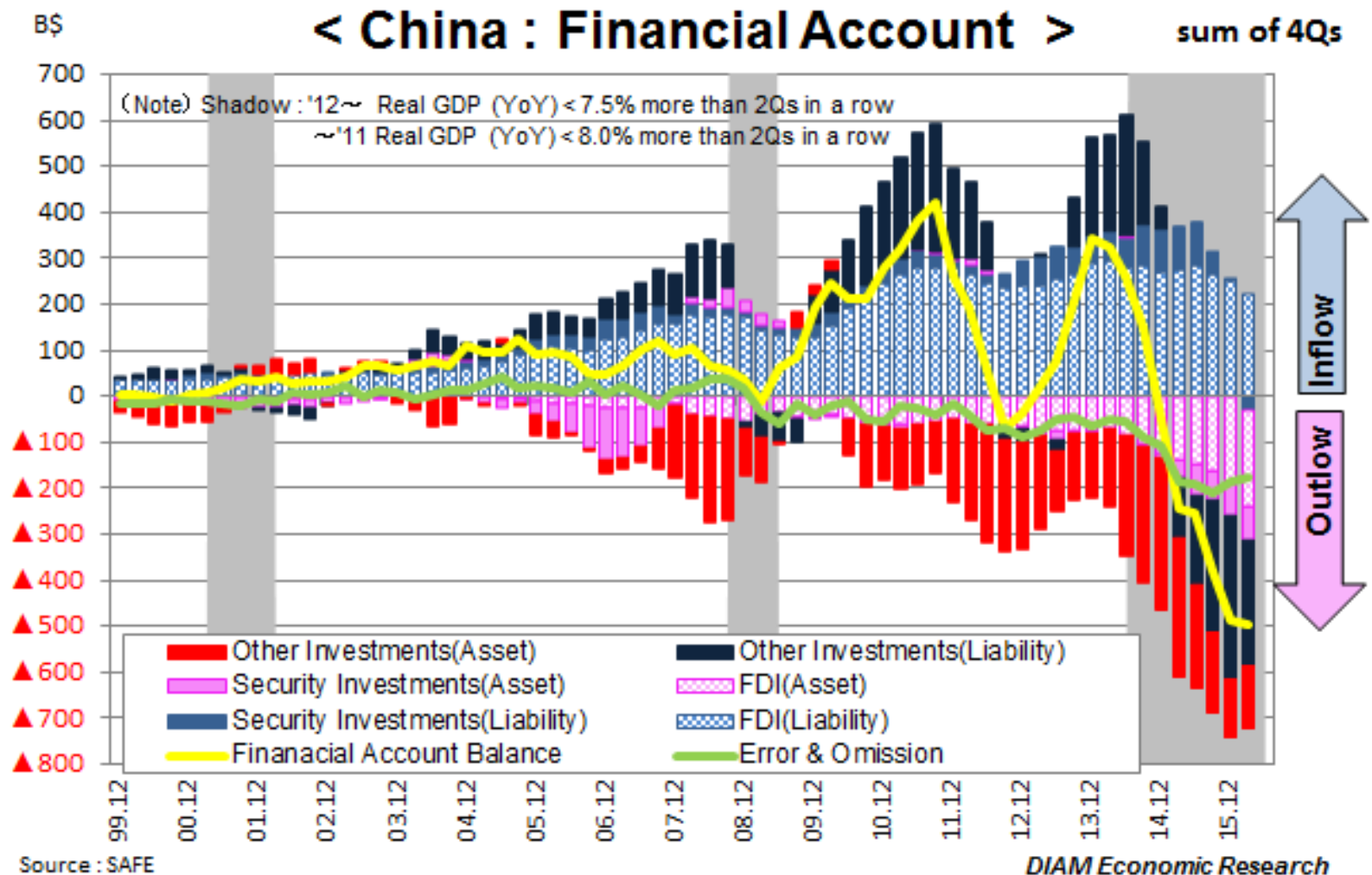
Source: NSO

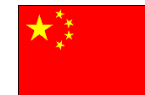
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Impossible Trinity

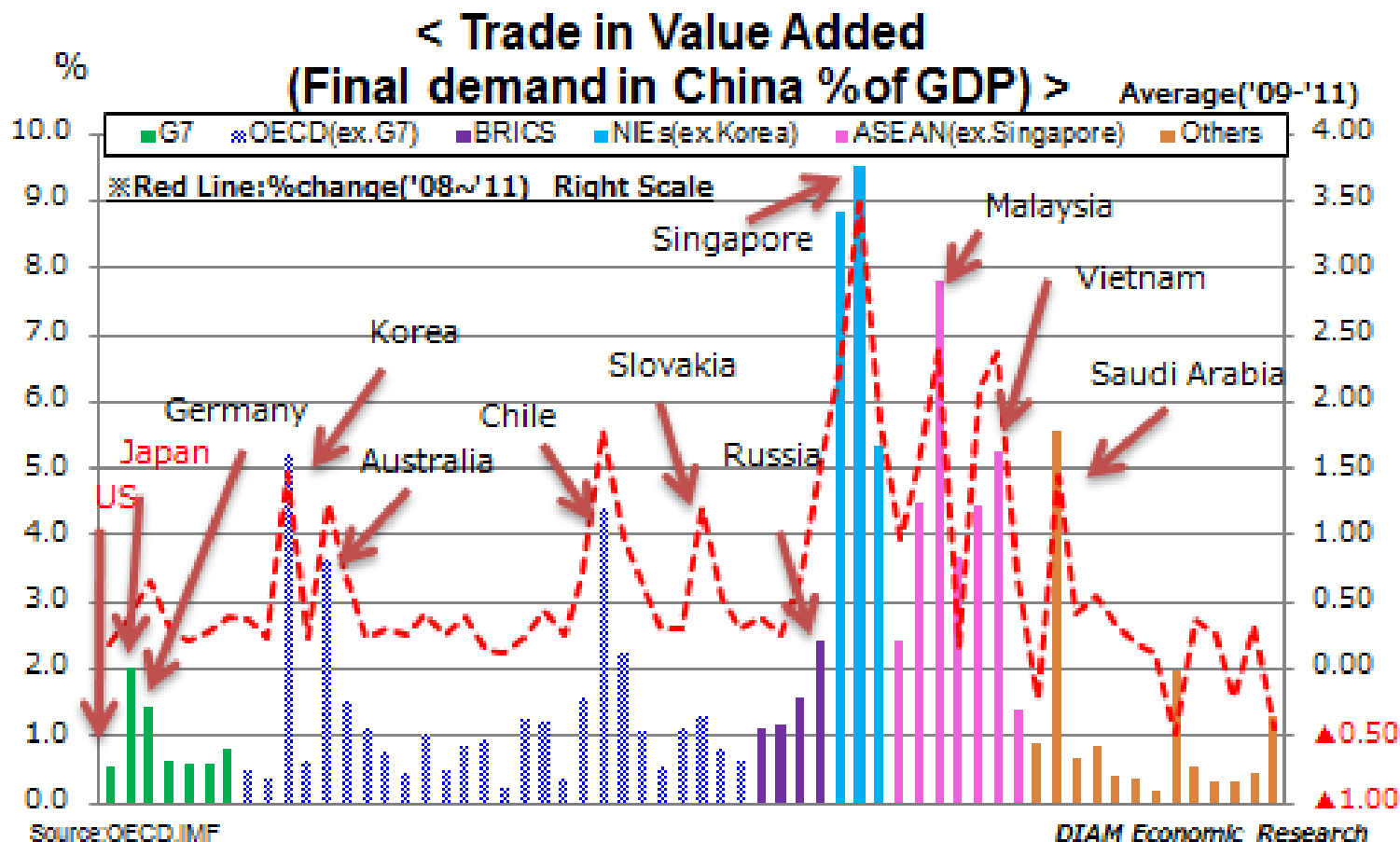
- ◆ Autonomy of monetary policy, free capital flow, fixed exchange regime





Export Dependency to China : Elevated

- ◆ Export depending on final demand in China : Higher centered in Asia
 - But marginal change from '09 – '11 : Germany is far at the top among G7
 - » Germany +0.67%pt, Japan +0.39%pt, US +0.19%pt





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