

Flash Note  
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**News from Asia (Japan's GDP, Diplomatic dispute between China and the US ...)**

**JAPAN:**

- **Data**
  - Q2 preliminary GDP +1.0% q/q vs consensus +0.6% and +0.4% in prior quarter.
- **Central bank**
  - **BoJ balance sheet surpasses Fed's:** The BoJ's balance sheet expanded to JPY502T at June-end. Translating to \$4.56T (at a USD/JPY rate of 110), this eclipsed the Fed's balance sheet (\$4.46T) for the first time since the Fed embarked on its version of quantitative easing in 2008.
  - The BoJ's assets are also closing in on those of the ECB at JPY543T (EUR4.2T).
  - While western central banks are planning to unwind their assets, there is no end in sight for the BoJ.
- **Corporate**
  - **Companies revise up FY guidance:** Japanese listed companies expect aggregate net profit to rise 13.6% y/y in FY17, up 3-ppt from projections at the start of the year with automakers upgrading projections on strong performance in Asia and Europe.
  - Now, 64% of firms expect net profit to increase and about 20% of the total expect to top records.

**CHINA:**

- **Diplomacy**
  - **Trump to ramp up trade pressure on China:** If news reports are right, the US Trade Representative will launch an investigation into Chinese technology transfer practices under Section 301 of the US trade statute.
  - Although the media will likely portray this as the start of a trade war, our sources suggest that the US and China are not headed toward a cold war over trade:

- The US is resurrecting an ancient tool, Section 301, to target China for its discriminatory practices against US technology firms. Section 301 essentially empowers a US administration to take unilateral action against a trade partner found to engage in discriminatory practices against American firms. Back in the 1980s, before the WTO, the US used Section 301 to force Japan to adopt voluntary export restraints. A variant, called “Special 301” was used to name and shame Chinese violators of US intellectual property rights in the 1990s. The WTO put an end to all that.
- A Section 301 case against China will generate some breathless press, but will have little concrete impact.

Kind regards

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