

Flash Note 30/07/2018

Alex Fusté
[@AlexfusteAlex](#)
alex.fuste@andbank.com

Japan - Hard times ahead for this equity market?

Bank of Japan

- Asset Purchase program (bond's purchases continue): The BOJ announced the third fixed-rate JGB purchase operation this month with a yield of 0.100% after benchmark 10-year yields reached 0.110% on Monday, the highest since February 2017. Institutional investors are focusing on the next developments as super-long JGBs with a 1% yield are seen as attractive.
- Asset Purchase program (Equity purchases under scrutiny): The BOJ will also consider reducing investments in ETFs tracking the Nikkei 225 Stock Average because its purchases are having strong stock market distortions an outsized impact on its companies. **This may suggest that hard times for this market are glimpsed on the horizon.**
- The BOJ also revised down inflation forecasts (for the July 30-31 meeting). According to a report, inflation forecasts for FY18 will be lowered to around 1.0% from 1.3% and FY19 will be cut to mid 1.5% from 1.8%.
- Given the 2% inflation target is unlikely to be reached, the central bank plans to maintain its massive monetary easing policy.

Financial Market

- Japan benchmarks closed lower Monday with the Nikkei down 0.74% and Topix down 0.43%.
- Topix sectors were mixed; gains were led by rubber products and banks, while oil & coal and utilities posted biggest losses.
- The yen edged lower against the majors. JGBs in focus again as BOJ announced another fixed-rate purchase operation. Press noted trading activity remained subdued ahead of the BOJ meeting announcements tomorrow.

Politics

- Abe moves closer to third term. Japanese Prime Minister Shinzo Abe looks increasingly likely to secure a third consecutive term as Liberal Democratic Party president with a key rival Fumio Kishida declining to declare candidacy for the vote this fall.
- Former Defense Minister Shigeru Ishiba has already expressed an intention to run, with an official announcement expected soon.

- Seiko Noda, minister for internal affairs and communications, is also interested in joining the race but having trouble securing the necessary 20 endorsements to get on the ballot.

Data (mixed results)

- July flash manufacturing PMI 51.6 vs 53.0 in prior month.
- June retail sales +1.8% y/y vs consensus +1.7% and revised +0.6% in prior month. Supermarket sales +0.1% y/y vs -2.3% in prior month. Department store sales +3.1% y/y vs 2.0% in prior month

Best regards