



Nikkei Average plunges on surging oil prices and weak US employment data

Japan Market Insights - March 2026

Japan Equity Research Team SMDAM

We are one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.

- The Nikkei Average opened sharply lower this week, with potential downside targets at the 51,300 yen, 50,300 yen, and 47,000 yen levels.
- The near term looks challenging, but potential for a sharp rebound in equities remains if Trump shifts on his Iran policy.

The Nikkei average opened sharply lower Monday, with support levels at around ¥51,300, ¥50,300, and ¥47,000

On 9 March, WTI crude futures surged to \$111.24 per barrel in early trading (Japan time), marking the first time it had reached the \$111-level since July 2022. This appeared to be in reaction to fresh reports that President Trump was considering the option to deploy special forces on the ground in Iran (as reported by Bloomberg News), in addition to the news that the US State Department had ordered the departure of US personnel and diplomats stationed in Saudi Arabia (reported by The New York Times).

The Nikkei Stock Average also saw a significant decline from opening on 9 March. In reassessing the Nikkei's downside targets, the key levels to watch include the lower boundary at ¥51,361.31 (valid until 11 March), the closing price of ¥50,339.48 on 30 December last year (a breach would negate the year-to-date gains), and ¥47,080.22 (a 20% decline from the recent high on 27th February; a breach would signal a bear market).

How does this impact the dollar-yen rate?

Japan's high dependence on Middle Eastern energy means worsening terms of trade are intensifying depreciation pressure on the yen. If inflation concerns and expectations of rate hikes strengthen in Europe and the US, interest rate differentials with the Bank of Japan will widen, creating a risk that yen depreciation will accelerate further. Foreign exchange intervention is likely to become a topic. We are considering revising the projected dollar-yen trading range toward further yen weakness.

Could we see a sharp stock rebound?

Factors including strikes and model changes likely distorted the latest US employment figures. Our assessment suggests that the labour market remains characterised by low hiring and low firing, with no widespread surge in layoffs. We have not changed our view that the policy rate will be held at the current rate. However, the extent to which rising crude oil prices persists remains a key focus for assessing the US economy outlook.

Regarding the situation in Iran, it appears we are moving closer to the third scenario outlined in our previous report (on 5 March): 'Conflict between the US/Israel and Iran escalates and becomes protracted, causing crude oil prices to surge.' While a challenging period for equity markets is expected in the near term, if high oil prices and falling stocks are deemed detrimental to the US economy, we expect to see a shift in President Trump's policy stance towards Iran.

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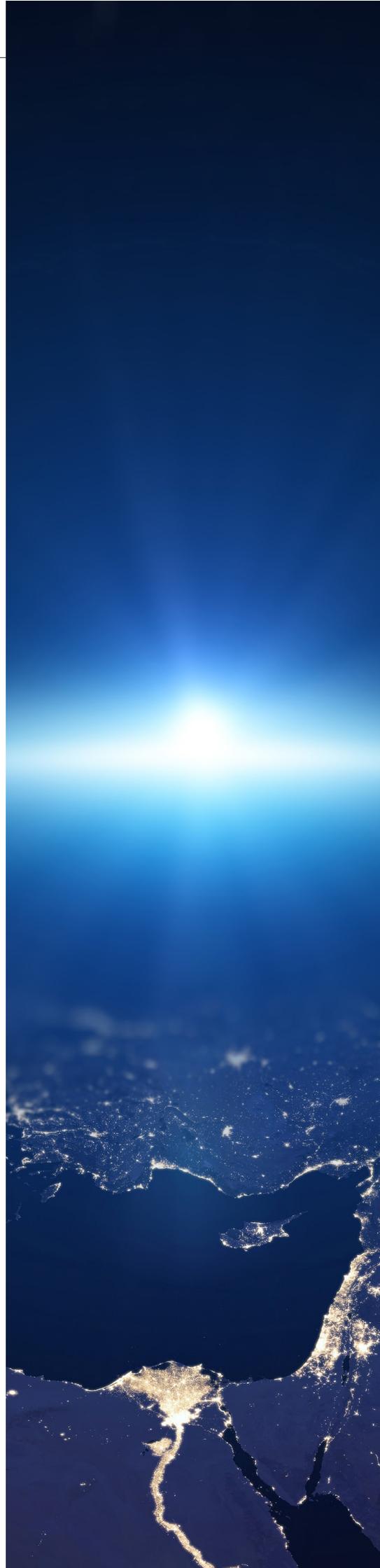


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