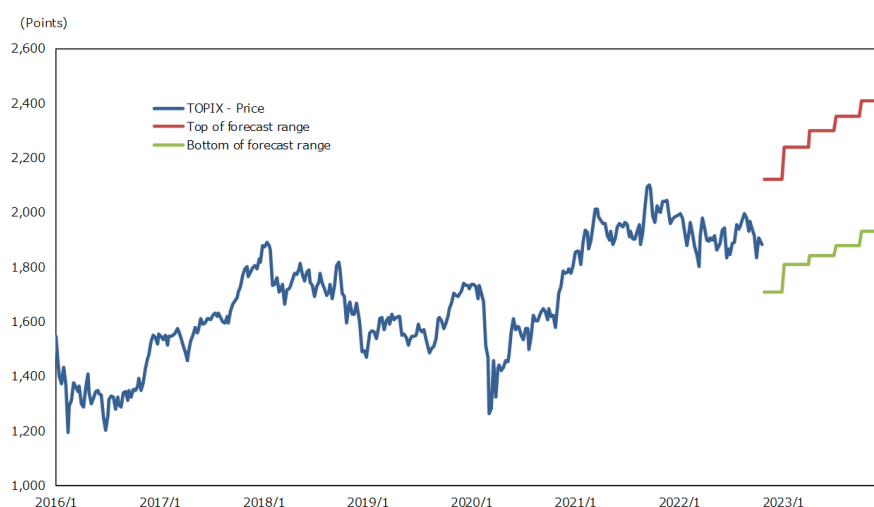


Japan Market & Economic Outlook

October 2022

Outlook on the Japanese equity market

- SMD-AM expect range trading in the Japanese stock market in the short term.
- We believe Japanese stocks will resume their bullish trend after the market confirms the peak of the US monetary tightening and signs of a turnaround of the global economy.
- We maintain our TOPIX target at 2,040 as of the end of March 2023 and 2,190 at the end of Dec. 2023. We also keep our Nikkei 225 target at 28,900 for FY 2022 and 31,100 for CY 2023.
- The market could be buoyed by the recovery in the domestic economy and accommodative monetary policy by the central bank, whilst the upside will be capped by the prolonged concern about the global economy in the near future.



Source: TOPIX: Tokyo Stock Exchange, forecast by SMDAM.
Note: TOPIX data is from Jan. 1st 2016 to Oct. 21st 2022

Upside and downside risks

We are optimistic about the recovery of inbound travel from China to Japan, while volatility is also declining for oil and metals, as well as other commodities markets. In addition to this, we foresee positive impact from the government's "Doubling Asset-Based Income Plan" by the cabinet. On the other hand, concern is rising over fiscal austerity and the impact of the financial crisis on the more vulnerable parts of the global economy.

Recovery of domestic economy and inflation on upward trend

The domestic economy is recovering while consumer sentiment has been subdued on the back of higher inflation. Business sentiment has improved, particularly for face-to-face services, as the number of COVID-19 infections has fallen. CAPEX, pent-up demand, "de-carbonization" and "digitization" are seen as economic tailwinds. After an economic downturn caused by the lockdown in Shanghai, an increase in industrial production has also been continuing so far. CPI is accelerating in Tokyo and nationwide. Special factors have contributed to the rise in the inflation rate, including the cost-push caused by rising import prices and the loss of the impact of last year's mobile phone rate cut.

Outlook on the Japanese economy

We have revised up our real GDP growth forecast for FY 2022 from +1.9% to +2.0% but remain unchanged at +0.7% for FY 2023. We raised our estimate for the current fiscal year due to the upward revision of CAPEX. Regarding the second half of the FY2022, we foresee a stable outlook due to rising CAPEX and easing supply-side constraints. On the other hand, we expect a slowing economic recovery owing to the deterioration of foreign economies.

We have raised the Core CPI forecast for FY 2022 from +2.4% to +2.7% and also revised up our FY 2023 forecast from +1.2% to +1.3%. Inflation forecasts have been raised due to increasing costs of foods, energy, and consumer durables. While core CPI is highly likely to accelerate to the 3-4% range YOY in the latter part of 2022, it could slow down in 2023 or thereafter thanks to easing pressure from cost-push inflation and a slowing economy.

PM Kishida is expected to maintain his accommodative economic policy. PM Kishida ordered his cabinet to compile a comprehensive economic package by the end of October. A supplementary budget is expected to be drawn up during an extraordinary Diet session and the size of the economic package is assumed to be 15 trillion yen. However, in a meeting with senior members of the ruling LDP, PM Kishida agreed that "a very bold policy is needed," suggesting that the size of the stimulus could be raised.

The Bank of Japan will maintain its accommodative monetary policy, even after the end of Governor Kuroda's term in April 2023 due to weak wage increases and the negative impact from the slowing global economy. The BOJ regards wage increases and continued monetary easing are the keys to consistently achieving their price target. While core CPI is likely to remain above 2% in the foreseeable future, the BOJ's assessment that cost-push inflation is temporary is likely to remain unchanged. Though PM Kishida's administration is expected to appoint new BOJ board members with the flexibility to review current monetary policy, it is unlikely to change monetary policy through 2023.

Please contact your Business Development representative for access to the full report.

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