

Flash Note 16/02/2018

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

News from Japan - Kuroda forever. Profits up. Meagre GDP. Waiting for Powel to buy UST

Japan investors waiting for Powell before return to Treasuries

- Bloomberg discussed strategies among Japanese investors related to US Treasuries, saying that investors will be reluctant to take new positions until Fed Chairman Jerome Powell's testimony 28-Feb. A number of market participants said the 10-year Treasury yield probably needs to hit at least 3% to spur the appetite of Japanese funds.

Bank of Japan: Outlook & internal discussion

- A parliamentary panel nominated Haruhiko Kuroda for reappointment as BOJ governor and M. Amamiya, and M.Wakatabe as new deputy governors. The government aims for the nominations to be approved in a March plenary Diet session. Kuroda's current term ends 8-Apr, while both deputies finish their terms 19-Mar. Kuroda dismisses stimulus exit talk (according to his remarks in parliament, where he again warned that the central bank should not prematurely discuss exiting its stimulus program). Kuroda said that when the time comes, the BoJ will communicate its intentions appropriately to ensure it doesn't unsettle markets.
- Recent upshift in Japan's CPI if sustained, is likely to prompt the central bank to consider raising its 0% target for the 10-year bond yield, possibly around the end of December. Wage rises of 2.3-2.4% should help push underlying inflation toward 1%. And if the BOJ is confident about the outlook, will consider raising the target.
- Official voices are increasingly pointing that BOJ's prolonged large-scale monetary stimulus is causing a "serious" drag on profit margins for lenders and making the BOJ's eventual exit from aggressive easing more difficult.

Japan's growth outlook

- Despite recent weak 4Q GDP figures (growth declined to a +0.5% q/q annualized, vs consensus of 0.9% and +2.2% in prior quarter), private economists from 16 firms believe on average that Japan's real GDP will end up growing by 1.7% during fiscal 2017, which ends in March. The average projection for fiscal 2018 is a meagre 1.3%.

Corporate profits up 35% y/y in Apr-Dec.

- According to data compiled by the Nikkei, listed Japanese companies logged aggregate net profits of ¥23.63T (\$222B) in Apr-Dec, up 35% on the year. This marked the fifth straight record for the corresponding period. The story noted strength was broadly based, with 27 out of 32 nonfinancial industries posting profit growth. The biggest driver was the electrical machinery sector, which saw 150% growth, accounting for nearly 30% of the aggregate. Automakers registered growth of 51%.

Andbank's Outlook for Japanese Assets

- Equity (Nikkei): We keep our constructive outlook for Japanese equity indices this year. Target 23.700
- Fixed Income: NEGATIVE. We suspect the BoJ will raise its official goal for the 5-10 year yields in government bonds.
- Fx (jpy-usd): CAUTIOUS. Little room for further fundamental gains.