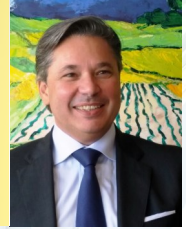


# WEEKLY ANALYSIS

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## JAPAN WELL POSITIONED TO BENEFIT FROM THE RECOVERY IN WORLD TRADE IN 2021

**Recovery will only get under way in Q2. High potential for recovery of Japanese exports. Consumption may strengthen significantly. Weakness of the yen is the only option. Upward revision of corporate profits.**

### Key Points

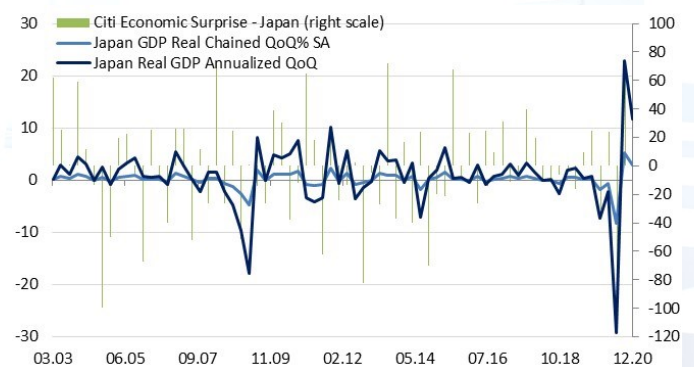
- Double-digit growth in Q4 points to positive momentum for 2021
- Increase in consumption and exports
- Better outlook for Q2
- Leading indicators still uncertain
- Consumer confidence is improving
- Japan's economic surplus hits USD 6 bn
- Japan can't seem to get rid of deflation
- The BOJ needs a new strategy
- Japanese long-term rates following the general trend
- Weak yen remains the only option
- Japanese equities to benefit from earnings revision cycle

### Double-digit growth in Q4 points to positive momentum for 2021

Japan's GDP grew by +2.8% in Q4, significantly less than in the previous quarter (+5.3%), as we expected. This result is nonetheless exceptional, as it represents an annualized increase in GDP of +11.7%. The last quarter was indeed expected to be weaker given the domestic context once again affected by a third wave of Covid-19, which was logically expected to have a negative impact on still-fragile household consumption. Japanese exports were also expected to decline due to the effects of the lockdowns implemented in various industrialised countries, customers of Japanese exporters. Q4 was therefore logically expected to be weaker than previously expected (+5.1%), but it ultimately turned out even slightly lower than our estimates of +3.8% GDP growth (SAAR). Over 2020 as a whole, Japan's GDP contracted by -4.8%, a rather positive result in

international comparison. An annualised quarterly growth rate of +11.7% seems rather promising in terms of an economic recovery in Japan at the beginning of 2021. The potential for economic recovery is therefore encouraging in the long term, even if hopes for a recovery in Q1 2021 must be put into perspective due to the government's declaration of a state of emergency in January to once again fight against the risks of a return of the pandemic. At the time of writing, the situation is unchanged, particularly in the city of Tokyo and its surroundings. Hopes for recovery have since been postponed to Q2, while the vaccine distribution process is now in place.

Performance of the Japanese economy (GDP) in yen



Sources: SECO, BBGI Group SA

### Increase in private consumption and exports

The main supporting factors were again both domestic and exogenous. Household consumption and export growth fuelled and supported the economic recovery in Q4. Corporate investment also recovered (+4.5%) after six months of decline. Consumer spending (+2.2%) nevertheless remains below trend given the health restrictions. However, households retain the capacity to resume consumption once the crisis is under control, undoubtedly a clear positive sign for Q2 2021.