

WEEKLY ANALYSIS

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POSITIVE MOMENTUM FOR JAPANESE STOCKS

New contraction in Q2?. Leading indicators not encouraging. Domestic consumption remains weak. Imports +46%. Exports +19%. Low inflation in international comparison. Status quo at the BoJ. Opportunities in stocks.

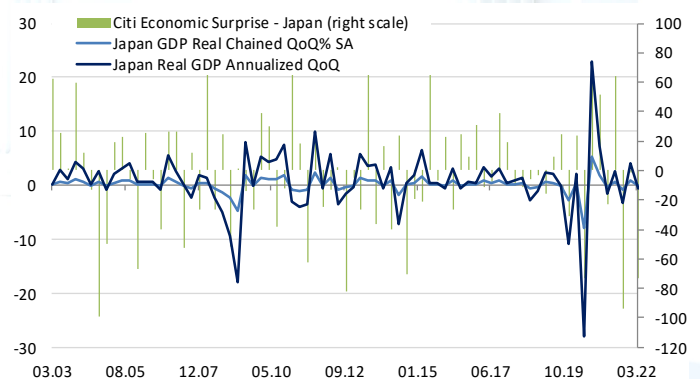
Key points



- Is a new contraction of GDP in Q2 possible ?
- Growth outlook revised downward
- Leading indicators point to further limited growth in Q3
- Households remain cautious
- The trade deficit will be reduced in the short term
- Japanese inflation remains limited despite high commodity prices
- The BoJ is not ready to change its policy
- Reduced fluctuations in capital markets
- Yen is still in a sluggish trend
- Nikkei index remains on an upward trend

then played a more important role in the 2nd quarter as the USD/yen exchange rate continued to weaken from 121.7 to 135.72 at the end of June, its highest level in 20 years. The inventory development in the first quarter should certainly have a negative impact on the level of industrial production in the second quarter. Companies that had to stockpile their production to the tune of +0.5% of GDP should then logically try to sell off their inventories before restarting production, thereby limiting the capacity for a rebound in growth. Government spending has contributed less than expected, but is expected to be higher in the quarter under review. At the end of the quarter, the outlook for the consumer sector was somewhat better due to an expected higher propensity of households to resume their activities at a normal pace without the health restrictions.

Performance of the Japanese economy (GDP) in yen



Sources: Bloomberg, BBGI Group SA

Is a new contraction of GDP in Q2 possible ?

The Japanese economy was already following a similar trajectory to that of the US economy in the first quarter, with a contraction in real GDP of -0.1% and -0.5% annualized. The recovery at the end of the quarter seemed a bit more dynamic, but over the quarter the main contributor to curbing the fall in GDP turned out to be the "inventories" component, a sign suggesting that weakness was probably more important. Inventory rebuilding contributed +0.5% to GDP growth over the period, which is unlikely to be repeated in Q2. Spending on capital goods was down -0.7%, while private consumption (+0.1%) failed to show a real recovery due to constraints related to the fight against Covid. Exports also slipped by -0.4% in a context of slightly weaker international demand. The weakness of domestic demand in the first quarter logically raises concerns about the future evolution of household consumption. Japanese inflation is certainly below the average for industrialized countries, but it is also certainly reducing the purchasing power of households and their real income. The fall of the yen at the end of the quarter could not have had an impact on imported inflation and the competitiveness of Japanese exports. However, this factor

However, the second quarter is not expected to see household confidence strengthen significantly to allow for a clear recovery in consumption. The latter should only have a limited positive contribution. The zero-covid policy in China is expected to have had a negative impact on GDP through the significant drop in Chinese demand and its impact on the level of Japanese exports to China. A further contraction of GDP is therefore conceivable in Q2 but unlikely.