

WEEKLY ANALYSIS

M. Alain Freymond—Partner & CIO



MODERATE POSITIVE OUTLOOK FOR THE NIKKEI

Economic downturn. Leading indicators still mixed. Weak consumer confidence. Inflation at its highest. Yen stabilises. Policy monetary policy still expansionary. Moderate positive outlook for the Nikkei.

Key points



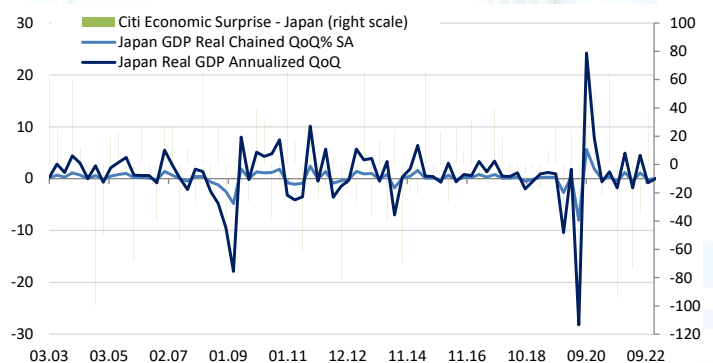
- Japanese economy shrinks by 0.8% in Q3
- Outlook for Q4 still gloomy
- Leading indicators still moderately optimistic
- Consumer confidence is at an all-time low
- Trade deficit remains at an all-time low
- Japanese inflation hits a new high
- BoJ will maintain its strategy of absolute control of the yield curve
- Japanese bonds still offer no interest
- Yen stabilises after three months of extreme volatility
- Moderately positive outlook for the Nikkei index

The Japanese economy will face further difficulties at the end of the year and in early 2023 due to the likely weakness of global demand. A recession seems likely if the economy does not regain momentum from domestic activity in the coming months. This factor, which is essential to offset the risks of a more marked downturn in international demand, does not seem to be improving. Consumption reacted very weakly in the third quarter and has little reason to assert itself as the key element capable of supporting growth in the coming months. Prime Minister Fumio Kishida has already put in place support measures to counter the negative effects of a rise in inflation, even though inflation remains low by international standards in Japan. We can therefore logically expect positive effects of these measures on future household consumption figures. On the monetary policy side, the BoJ's position is clear: key interest rates will remain low, thus preventing any possible spillover to interest rates and overall financing costs for households and companies in Japan.

Japanese economy shrinks by -0.8% in Q3

The global economic slowdown also hit Japan, which recorded a contraction of its GDP by -0.2% for the third quarter and by -0.8% over one year. After having surged by +3.5% in the 2nd quarter, the Japanese economy suddenly changed pace by suffering a greater than expected setback during the summer according to the first published results of -1.2%. The recent revision of its performance is finally rather in line with expectations. The effects of Covid and the fall of the yen have not been without effect on the economy of the Rising Sun, which is nevertheless expected to recover slightly at the end of the year. This revision underlines that exports have finally limited the negative effects in terms of foreign trade, while spending on capital goods by Japanese companies has held up rather well. The increase in inventories has also been a positive component supporting GDP, but there is a rather worrying aspect to this trend as it reflects insufficient demand in contrast to the actual output of production of Japanese companies. Consumption also proved less dynamic in a logical reaction to the negative effects of the Covid during the summer.

Performance of the Japanese economy (GDP) in yen



Sources: Bloomberg, BBGI Group SA

Outlook for Q4 still gloomy

The recovery of external demand and household consumption is therefore largely uncertain. While domestic demand for services may support growth during the quarter, the effects of the fall in the yen on imported prices and on