Weekly Analysis

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NIKKEI LACKS CATALYST TO TEST 42,000

Economic momentum still weak. Slightly better end to the year. Consumption resilient. More restrictive monetary policy. Yen stabilizes at around 145 against the USD. Avoid bonds. Reduced outlook for the Nikkei.

Key points

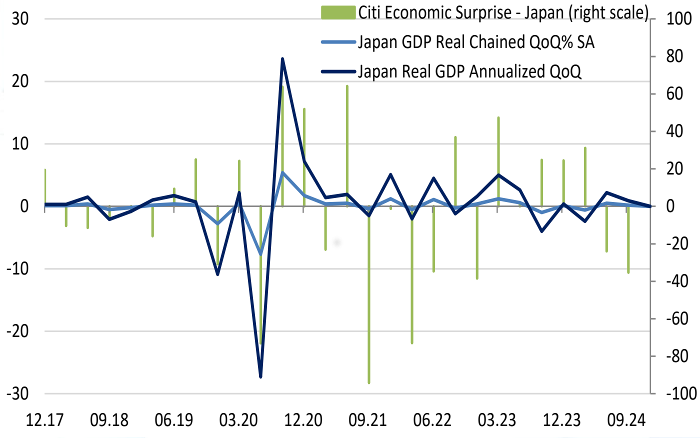
- Economic momentum remains weak in Japan
- Last quarter of 2024 probably a little better
- Leading indicators remain uncertain
- Consumption resilient but cautious
- Inflation rebounds in line with BoJ expectations
- BoJ determined to gradually tighten monetary policy
- Bond market still unattractive
- Could the yen appreciate?
- Nikkei fails the expected 40,000 test

Economic momentum remains weak in Japan

Japanese growth still lacks external support. In Q3, annualized GDP fell from +2.9% in the previous quarter to just +0.9% at the end of September. Momentum has in fact fallen sharply from +0.7% to just +0.2% over the last quarter. After a 1st quarter contraction of -0.5%, which brought the rate of decline to -1.8%, the Japanese economy seemed unlikely to recover in Q2, despite a further fall in the yen. Private consumption, which had been very disappointing at the start of the year, recovered in Q2 and held up relatively well in Q3. Private consumption continued to grow at a rate of +0.9%, slightly higher than in the previous quarter (+0.7%). The weakness of GDP in Q3 can be explained rather by a -0.2% contraction of companies worried about international developments and the yen, which followed an increase in the negative contribution of inventories (-0.1%) in Q2 to slight growth (+0.1%) this quarter, but it was above all exports that once again proved insufficient, with a contribution of -0.4% significantly more negative than at the end of June (-0.1%). As far as household consumption is concerned, we are probably finally seeing the positive effects of the wage increases agreed during the wage negotiations at the start of 2024, which have gone some way to offsetting the - unfortunately still too high - trend in consumer prices in Japan.

In nominal terms, Japan's GDP grew by +0.5% over the quarter, and remains above the 600,000 billion yen (approx. $4,200 billion) threshold set by the Japanese political authorities ten years ago. It remains to be seen whether this change in consumer attitude will be sustainable, as it should also be pointed out that for the first time in Japan's modern history, households are facing significant inflation, albeit down sharply to just +2.3% at the end of October. A revival in external demand is still essential if the situation in the manufacturing sector is to improve and export momentum to pick up. The trend in orders for basic machinery sank in Q3, but picked up again in October.

Japanese economic performance (GDP) in yen



Sources: Bloomberg, BBGI Group SA

Last quarter of 2024 probably a little better

Despite resilient consumption, Japanese GDP remains more than ever too dependent on international demand, which is still too weak. That said, Japanese exports surprised positively in October thanks to a recovery in Chinese and Asian demand, despite a drop in European and American demand. The year-on-year increase of +3.1% remains small by recent