

Weekly Analysis

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YIELD DIFFERENTIAL IN FAVOR OF THE YEN

Exports support GDP. Q1 2025 probably solid. Positive momentum in services. Further rate hike in March. Potential appreciation of yen to 140 against USD. Increasing risks for the Nikkei. Ten-year yield at 1.5%.

Key points



- Strong Japanese economic recovery supported by rising exports
- First quarter of 2025 likely to be solid
- Leading indicators supported by services
- Consumption resilient but still cautious
- Inflation rebounds to +4% again
- BoJ to raise key rates again in March
- 10-year yields approach 1.5%
- Yen-friendly yield differential
- Nikkei likely to consolidate

Strong Japanese economic recovery supported by rising exports

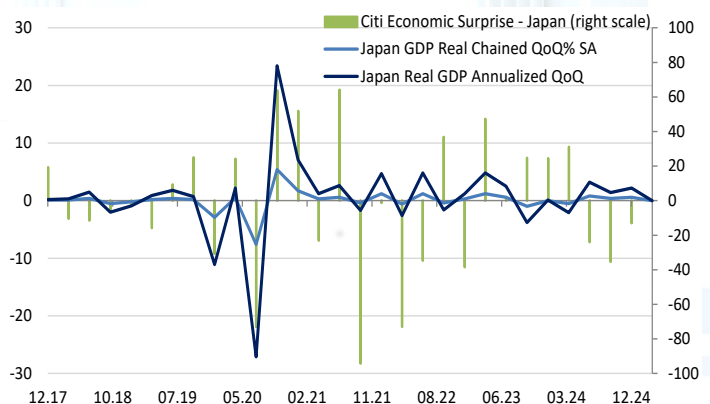
Japanese growth lacked dynamism before the onset of winter, but the surprise strong growth in Q4 has now rekindled expectations of a stronger-than-expected Q1 2025. Observers did not expect the Japanese economy to pick up during this period, which turned out to be much better than expected. Japanese real GDP finally grew by +0.7% in Q4 (seasonally adjusted), twice as fast as the consensus forecast of +0.3%.

On an annual basis, GDP value added would thus be +2.8% for Q4, but on a year-on-year basis, Q4 results barely enabled Japanese GDP to grow by +0.1%.

This is the lowest growth rate since the pandemic. Household consumption remained relatively moderate, growing by just +0.1%, however, it was significantly higher than the negative estimates of economists, who were expecting their spending to contract by -0.3%. The most notable positive surprise came from net exports, which rose by +0.7%, proving more dynamic than expected (+0.4%).

The Japanese economy thus outperformed economists' forecasts, with business spending and foreign trade being the most important contributors to growth. Japan recorded its third consecutive quarter of growth, underpinned by net exports that were also better after revisions to data published for Q3. However, caution must be exercised in this respect, as net exports were boosted by a sharper fall in imports (due to lower energy prices). On the private consumption side, the increase remains limited, which does not yet suggest a favorable change in household perceptions, which will probably remain cautious into 2025. Better positive effects could be expected from the wage increases agreed during the wage negotiations at the beginning of 2024, aimed at compensating to some extent for the trend in inflation, but the latter unfortunately remains too high in Japan at the end of the year, thus preventing real wage growth.

Japanese economic performance (GDP) in yen



Sources: Bloomberg, BBGI Group SA

First quarter of 2025 likely to be solid

Despite resilient consumption, Japanese GDP remains more than ever too dependent on international demand, which is still too weak, and on the results of its foreign trade. The expected evolution of inflation does not appear to be a positive factor for household consumption at the start of 2025, as it is likely to remain on a trend that will probably not