

Weekly Update

CO | EXTERNAL PUBLICATION

Japanese equities – attractive in many ways



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This week-end sees Japan go back to the polls for the snap general elections called by Prime Minister Abe on 25 September. As is often the case, this decision was quite opportunistic – the decline in the approval ratings for Abe’s Liberal Democratic Party (LDP) in the first semester was halted by his hawkish stance in the face of rising tensions in the Korean peninsula. His long-standing intention to revise Japan’s pacifist constitution took on new relevance in this light.

The economic context is also quite supportive for Mr Abe. The combined impact of the Abenomics structural reforms, the Bank of Japan’s extraordinarily accommodative monetary policy and the pick-up in regional and global trade has seen Japan’s annual growth rate reach 1.5% in the first half of 2017, well above the country’s negligible growth potential. Total employment in Japan reached 58.5 million in August, an all-time high despite the declining population, as Abe’s “womanomics” policies brought more women into the workforce. And with wages rising faster than consumer prices over the past twelve months, household confidence is higher than at any point since the 2014 elections.

This year’s election has been marked by a number of shifts in the opposition to Abe’s ruling coalition with the Komeito party. First, Tokyo governor Yuriko Koike – an ex-member of the LDP – announced she was setting a new Party of Hope (PH), which prompted the opposition Democratic Party (DP) to disband and join forces with Koike. Then, the more liberal ex-members of the DP decided to split from the DP to form yet another new party, the Constitutional Democratic Party of Japan. Finally, Ms Koike, the Party of Hope’s only nationally recognized figure, announced that she would not stand for election. In light of this confusion, [Abe’s hand has been strengthened in the run-up to this week-end’s elections](#) – according to a recent Kyodo News poll, the LDP is set to win 298 seats and Komeito 30, or around two-thirds of the 465 in the Lower House.

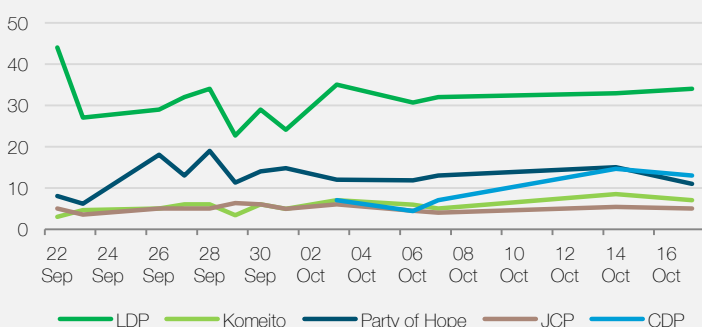
If Shinzo Abe is returned to power, what are the implications for Japan? First, [we would expect BoJ Governor Kuroda to be reappointed](#) when his five-year term expires next April, suggesting that monetary policy will remain growth-supportive for the foreseeable future. Second, the constitution is likely to evolve to enable Japan to better defend itself if regional tensions continue to rise. Third, Abenomics reforms are likely to continue. On a less positive note, the LDP is likely to go ahead with the planned consumption tax hike – from 8% to 10% in October 2019 – which could slow consumer spending as previous hikes have shown.

Bottom line. Japan’s economy continues to outperform expectations. Corporate earnings growth remains strong. Equity valuations are attractive in both absolute and relative terms. The prospect of another five years of Abenomics, with the visibility that would bring, underlines the [attractions of the Japanese equity market](#).

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CA716/OCT/2017

Shinzo Abe’s LDP party is still leading the polls
Voting intentions since 22 September 2017 (in %)



Sources: Societe Generale Private Banking, Media outlet (data as of 19/10/2017)

Japanese corporate profits supported by a stronger economic recovery
MSCI Japan – Forward EPS growth (% YoY)



Sources: Societe Generale Private Banking, Media outlet (data as of 19/10/2017)

This week and next

EUROPE

- Consumer prices for the Eurozone printed slightly higher in September than previous month from 0.3% MoM to 0.4%. Final estimate of inflation was confirmed at 1.5% YoY, flat from previous month whereas core inflation slightly decreased from 1.2% in August to 1.1% in September.
- In Germany, the ZEW index of economic sentiment outlook continued to improve in October from 17.0 to 17.6. However, for the eurozone, the ZEW economic sentiment index decreased from 31.7 to 26.7 in October.



Next week's key events		Per.	Prev.	Cons.
23 Oct.	Eurozone consumer confidence	Oct	-1.2	-1.1
24 Oct.	Eurozone composite PMI	Oct	56.7	56.5
25 Oct.	Germany: IFO business climate	Oct	115.2	115.0

UNITED KINGDOM

- As expected, consumer prices rose from 2.9% to 3% YoY in September. Core inflation stayed flat at 2.7% YoY.
- The output producer price index eased down from 3.4% to 3.3% YoY in September. Upward pressure from energy was offset by downward effects from other industries.
- Jobless claims increased from -0.2k to 1.7k in September. Over the June-August period, unemployment remained unchanged at a multi-decade low of 4.3%.
- Retail sales fell more than expected in September (-0.8% MoM).



Next week's key events		Per.	Prev.	Cons.
23 Oct.	CBI business optimism	Oct	5	--
25 Oct.	GDP growth (YoY)	Q3 A	1.5%	1.5%

UNITED STATES

- Consumer prices rose 0.5% MoM in September after 0.4% in August. Annual inflation increased from 1.9% YoY to 2.2% while core inflation stayed unchanged at 1.7%.
- Regional business surveys further improved in October. The Empire manufacturing survey jumped from 24.4 to 30.2 while the Philadelphia Fed bounced from 23.8 to 27.9.
- As expected, industrial production rose 0.3% in September after a disappointing -0.7% in August.
- Housing starts edged down from 1183k to 1127k in October.



Next week's key events		Per.	Prev.	Cons.
20 Oct.	Existing Home Sales	Sep	5.35m	5.30m
26 Oct.	Pending Home Sales (MoM)	Sep	-2.6%	0.3%
27 Oct.	Annualised GDP growth (QoQ)	Q3 A	3.1%	2.5%

ASIA & EMERGING COUNTRIES

- In Japan, industrial production edged up from 4.7% to 5.3% YoY in August.
- In China, consumer prices slowed from 1.8% to 1.6%. China GDP grew 6.8% YoY in Q3 after 6.9% in the first half of the year. Retail sales surprised positively, rising from 10.1% to 10.3% YoY in September. Industrial production increased from 6% to 6.6% over the same period.



Next week's key events		Per.	Prev.	Cons.
23 Oct.	Japan: Leading index	Aug	106.8	--
24 Oct.	Japan: Nikkei manufacturing PMI	Oct P	52.9	--

Sources: Datastream, Bloomberg, 20 October 2017, Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, ECB = European Central Bank

Our 6-month targets

	Thursday close	6mth target
EUR/USD	1.19	1.2
GBP/USD	1.32	1.25
USD/RUB	57	60
AUD/USD	0.79	0.72
EUR/CHF	1.16	1.15
USD/CNY	6.62	7.1
USD/CAD	1.25	1.37
USD/JPY	113	112
Brent	\$58	\$50
Gold	\$1288	\$1225

We maintain our 6-month targets this week.

Forecast figures are not a reliable indicator of future performance

Question time

Past performance should not be seen as a guarantee of future returns.



MACROECONOMICS

How do you read China's latest growth figures?

19 October 2017

According to China's National Bureau of Statistics, the gross domestic product (GDP) edged down from 6.9% to 6.8% year-on-year in Q3, pointing to [slightly weaker activity ahead of the People's Party congress](#).

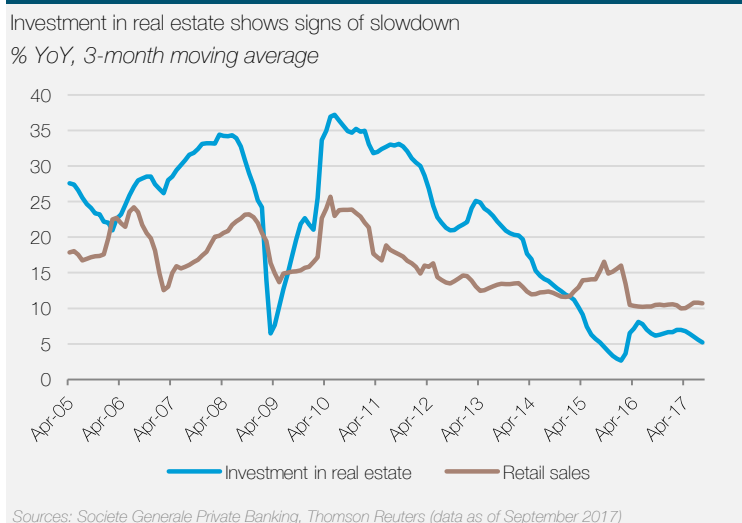
This can be explained by a mix of positive and negative factors. On the positive side, we have:

- Chinese exports. They have been boosted by the yuan's stability versus its basket of trading-partner currencies and a more synchronized global expansion, rising 12.4% YoY over the first three quarters mainly thanks to machinery and electric components.
- Consumer spending. Retail sales of consumer goods grew 10.3% YoY in September – online sales were up an impressive 34.2% YoY over the first three quarters. Cheap financing has pushed new yuan loans up to 9.2% YoY in September.

However:

- Business spending edged down over the first three quarters, with investment in fixed assets falling from 8.2% to 7.5% YoY. Real estate was hard hit, especially commercial properties.
- The country continued to register net non-resident capital outflows in August (-\$11.5bn according to the Institute of International Finance).

All in all, [the coming quarters should see China faced with much weaker property sales and tighter financial conditions](#) as authorities try to curb the fast rise in corporate debt.



Market performance

Past performance should not be seen as a guarantee of future returns.

Interest rates	Last	1wk	3mth	YTD	12mth
EONIA (EUR)	-36 bp	0 bp →	0 bp	-3 bp	-1 bp
3mth Euribor (EUR)	-33 bp	0 bp →	0 bp	-1 bp	-2 bp
3mth Libor (USD)	136 bp	0 bp →	6 bp	36 bp	48 bp
3mth Libor (GBP)	39 bp	2 bp ↑	10 bp	3 bp	-1 bp
10-year US Treasury bond	232 bp	0 bp →	5 bp	-13 bp	57 bp
10-year German bond	40 bp	-5 bp ↓	-8 bp	29 bp	45 bp
10-year French bond	65 bp	-5 bp ↓	-14 bp	-3 bp	39 bp
10-year UK bond	131 bp	-10 bp ↓	7 bp	7 bp	23 bp

Government bonds*	1wk	3mth	YTD	12mth
United States (3-7yr)	-0.1 % →	-0.1 %	1.8 %	-0.6 %
United Kingdom (3-7yr)	0.3 % ↑	-0.5 %	0.0 %	0.1 %
Germany (3-7yr)	0.2 % ↑	0.7 %	-0.5 %	-0.6 %
Japan (3-7yr)	0.0 % →	0.1 %	-0.1 %	-0.7 %

Equities*	Last	1wk	3mth	YTD	12mth
MSCI AC World	496	0.4 % ↑	4.6 %	20.0 %	22.5 %
Eurostoxx 50	3 602	-0.1 % →	3.2 %	12.9 %	21.9 %
DAX	12 990	0.1 % →	4.3 %	13.1 %	22.0 %
CAC 40	5 368	0.1 % ↑	3.1 %	13.6 %	22.6 %
S&P 500	2 562	0.5 % ↑	4.1 %	16.3 %	22.0 %
FTSE 100	7 523	-0.4 % ↓	2.4 %	8.9 %	11.6 %
SMI	9 234	-0.7 % ↓	2.4 %	16.0 %	17.8 %
Topix	1 730	1.8 % ↑	7.5 %	16.2 %	30.2 %
IBOV Brazil	76 283	-0.5 % ↓	17.0 %	26.7 %	20.1 %
MICEX Russia *	2 073	-1.1 % ↓	6.2 %	-7.2 %	5.4 %
MSCI EM	1 117	-0.4 % ↓	5.9 %	32.4 %	25.5 %
SENSEX 30 India	32 584	1.3 % ↑	2.2 %	23.8 %	18.0 %
Hang Seng (H-K)	28 159	-1.0 % ↓	6.8 %	32.8 %	25.8 %
Shanghai Composite	3 370	-0.5 % ↓	4.3 %	8.6 %	9.3 %

Credit	1wk	3mth	YTD	12mth
BAML EURO Corp. IG	0.3% ↑	1.2 %	2.4 %	1.4 %
BAML EURO Corp HY	0.3% ↑	2.1 %	6.7 %	7.7 %
BAML GBP Corp IG	0.8% ↑	0.4 %	3.9 %	3.7 %
BAML US IG	0.2% ↑	1.1 %	5.8 %	3.0 %
BAML US HY	0.2% ↑	1.6 %	7.5 %	8.4 %
JPM Global EM Sov. Plus	0.3% ↑	3.2 %	11.5 %	6.9 %

Exchange rates	Last	1wk	3mth	YTD	12mth
EUR/USD	1.19	0.2 % ↑	2.9 %	12.7 %	8.0%
EUR/CHF	1.16	0.3 % ↑	5.2 %	8.0 %	6.6%
GBP/USD	1.32	-0.8 % ↓	1.1 %	6.6 %	7.1%
USD/JPY	113	0.2 % ↑	0.5 %	-3.7 %	8.8%
USD/BRL	3.17	-0.1 % ↓	0.6 %	-2.7 %	-0.1%
USD/CNY	6.62	0.4 % ↑	-2.0 %	-4.8 %	-1.8%
USD/RUB	57.3	-0.8 % ↓	-2.9 %	-6.5 %	-8.1%

Commodities	Last	1wk	3mth	YTD	12mth
Brent	\$58	2.4 % ↑	16.3 %	1.6 %	8.7 %
Gold	\$1 288	-0.3 % ↓	3.7 %	11.3 %	1.3 %
Silver	\$17.2	0.2 % ↑	5.9 %	7.4 %	-2.6 %

Source: Datastream, on 19 October 2017 1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7 year returns. Figures are rounded.

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