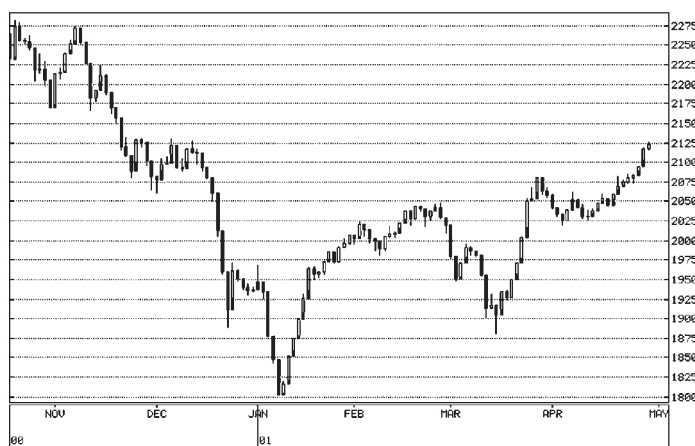


Japanese stocks could be world-beaters

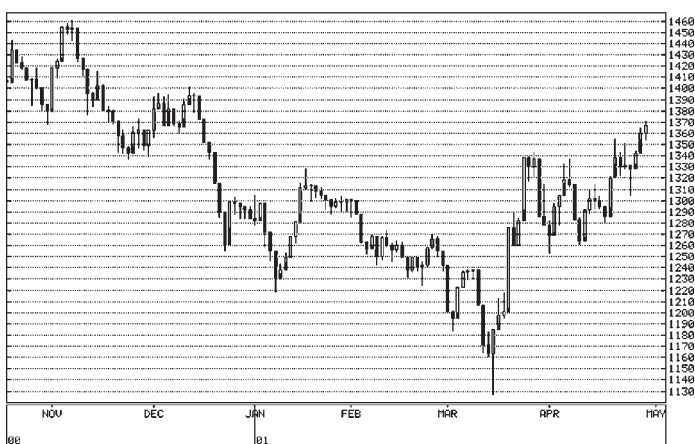
Special situations help to change sentiment - Just about everyone who wasn't already out of the market dumped Japanese stocks last year. Japan's percentage of global equity capitalisation fell to 10% - its lowest level for at least 15 years. The country's economic problems, while by no means unique, seemed interminable. Japan's educated and comparatively wealthy population have had enough, and want change. This week, grass-roots LDP members overthrew the traditionalists, electing 'hair apparent' and would-be reformer Junichiro Koizumi as Prime Minister. Even if the old guard waters down Koizumi's reform policies, Japan has crossed a political Rubicon. Over at the BoJ, deflation-abetting Governor Masaru Hayami had his fangs pulled a few weeks ago and will probably retire shortly. Meanwhile, as a born-again quantitative easer, Hayami is no longer a problem. The Government targeted the stock market in March and will continue to do so, because commercial banks cannot meet their capital adequacy requirements if the Nikkei falls below 13000. These changes make Japanese stocks a potentially world-beating recovery story, in line with 'The Triple Play' analysis in FM202. Even if Japan's political logjam has not been broken, it is shifting in a positive direction, which can only improve sentiment. The BoJ's reflation, which is likely to be massive, will boost money supply over the medium to longer term, weaken the yen and eventually reverse the deflationary cycle. This will unlock Japan's record-high savings and increase private consumption, enabling the economy to recover. A gradually declining yen will lift earnings for Japan's better export companies, with a knock-on effect throughout the economy, even if global GDP growth remains slow. Many Japanese companies have restructured in recent years and are cheap on a price to cash flow basis. On the all-important charts, Tokyo's Second Section Index of smaller companies bottomed on 11th January and is leading the recovery, just as it did in 1999. The Topix Index bottomed with a key day reversal on 15th March, rebounded strongly to break its medium-term downtrend and appears to have completed its consolidation of the initial gains. The Nikkei 225 Stock Average will reaffirm recovery scope on a clear break above 14200.

Best regards - David Fuller

Tokyo 2nd Section : 2123.23 (Daily One Year)



Japan Topix Index : 1366.46 (Daily One Year)



Nikkei 225 : 13934.32 (Daily One Year)

