

## RETURN REVERSAL EXPECTED FOR SHORT-TERM: THEATRICAL MARKET

July US Core CPI (announced 11/Aug) rose less than expected, and triggered profit taking activities in equity. As proposed in the last memo, signs of overheat does not mix well with rising tension vs North Korea; VIX(The CBOE Volatility Index), widely considered as a measure of fear and uncertainty in the market, jumped to 3mth high. Steve Bannon's departure from the White House shed some hope, but S&P500 has corrected 3% in the past 10days. This "SHORT-TERM CORRECTION" will likely continue for the next few weeks.

The IMF raised China's economic growth (2018-2020) from 6.0%p.a. to 6.4%p.a. While the supervision over shadow-banking improved, the expansion of overall debt (vs GDP) is now advertised as "DANGEROUS" (IMF). Investments for Japan, Thailand, and Philippines look more appealing for the time being.

Japanese equities are currently sold by the offshore investors taking short-term profit, and reducing geo-political risk. Large-cap blue-chip names are weak. Selective investments carefully considering the monetary policy, ESG implementation (GPIF impact), and social & structural reforms are recommended (for Japan).

## CATCH-UP ON LATEST DEVELOPMENTS IN CRYPTO-CURRENCY AND ICOs

Japanese media are starting to show interest for the latest development in Crypto-Currency, triggered by the spike of its value. Year to date, Bitcoin is 3.9x, Ethereum 35x, Ripple 25x, etc. Market cap & liquidity are still limited, and moreover, the skepticism is still high from the Mt.Gox incident ('lost' more than \$450m BTC and \$25m cash)... but the global trend can't be dismissed.

'Crypto-Currency' is likely to be the next buzz-word in the financial industry, like 'FinTech', within 6-12mth; very important to stay ahead. There are more than thousand types of Crypto-Currency in the world, while the top 3 by market cap now trade more than \$1bn per day (aggregate of exchanges around the world).

### 5 LARGEST CRYPTO-CURRENCY BY MARKET CAP; APPRX FIGURES, HIGH VOLATILITY!

| Crypto-Currency | Code  | Market Cap | Daily Volume |
|-----------------|-------|------------|--------------|
| Bitcoin         | BTC   | \$76bn     | \$2.3bn      |
| Ethereum        | ETH   | \$34bn     | \$0.9bn      |
| Bitcoin Cash    | BCH   | \$9.6bn    | \$240m       |
| Ripple          | XRP   | \$8.4bn    | \$650m       |
| IOTA            | MIOTA | \$3.4bn    | \$30m        |

Crypto-Currency exchanges and markets in Japan have continued with their effort to attract usage by retailers and private individuals. Major retailers such as Marui and BicCamera have begun to participate, and its organic demand expansion is promising. However, we have strong interest for the industry growth from following 3 different perspectives.

## **MAJOR FINANCIAL INSTITUTIONS TO PARTICIPATE IN CRYPTO-CURRENCY**

Global bulge-bracket financial institutions are currently considering its participation, while Japanese firms are of no exception. MUFG and MizuhoFG have disclosed to develop its own currency and/or consider the use of Ripple. Infrastructure development is expected to accelerate with participation of major financial institutions and regulators; promising the wide-spread growth of the industry.

## **THE RISE OF INSTITUTIONAL CRYPTO-CURRENCY INDUSTRY**

As global financial institutions begin to take part in crypto-currency and the industry infrastructure develop, each individual exchange & market place will be connected via “Global Markets” market makers. The new ‘institutional’ industry will begin to form, which will minimize the current huge risk factor ‘liquidity’. Such institutional society is easy to develop in relatively short amount of time, leveraging the existing electronic infrastructure.

## **ICOs TO EXPAND**

ICO (Initial Coin Offering) is the new way to raise capital, showing rapid growth in the US this year. There have been 92 deals so far, which raised total of approx. \$1.4bn (as of 10/Aug). Investors will receive preferential service from these issuers through the crypto-currency usage, while many speculative investors participate also to target capital gain (as the result of whole industry growth).

As the country which pioneered to regulate Crypto-Currency, similar ICO trend will like pick-up from later this year. Organization COMSA(hosted by Tech Bureau Japan) announced to provide and ICO fund-raising platform, covering ‘tokenization(like securitization)’ of traditional assets, exchange functionality, legal counseling, and technology support. On 10/Aug, FISCO Crypto-Currency Exchange (Japanese financial information services company FISCO’s subsidiary) issued an experimental bond in Bitcoin, invested by its own group company.

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## THE RISK OF CRYPTO-CURRENCY

Medium & long-term growth of crypto-currency and the industry is promising. However, all good returns come with a risk. "Crypto-Currency Act" took effect in Japan from April, while we still have the obligation to research and perform due-diligence on exchange, market place, and any counterparty including KYC. Global regulatory environment is expected to develop for 'crypto-currency' soon, but much is still in process. Investor protection, anti-AML/CFT, lack of research are RISKS.

## EXAMPLE INVESTMENT IDEAS

### RECRUIT HOLDINGS[6098] BUY

- TSE1st listed stock, 1919yen/share, 3-6mth view -> Now Y2136
- High ESG ratings, good earnings momentum
- Innovative Web/IT business model to enter investment-return period

### BUY US\$ / SELL YEN

- Short-term(few weeks) & Mid-term (few months), expecting global interest rate hike
- Y110.7/US\$ -> now Y109.2/\$

### KDDI[9433] BUY

- TSE1st listed stock, 3020yen/share, 3-6mth view -> Now Y2950
- High ESG ratings, good earnings momentum, share buy-back

### THAI EQUITY SET50 ETF[1559] BUY

- TSE1st listed ETF, 3010yen/share (SET Index 1576) -> Now Y2958
- Good to pair vs SELL in Singapore & HKG indices

### BUY Bitcoin[BTC] for industry growth

- Now Y454,620, mid-long term

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