

## MACRO-DRIVEN MARKET IN THE WORLD: JAPAN AS AN EXCEPTION

US Equity remain stable, expecting a 'comfortable' level of rate hike by the Feds with sustainable economic growth. VIX (The CBOE Volatility Index) cooled down from 3mth high to 9mth average level. Though some (media) raise an alarm over its relatively high valuation and the CDO market expansion in Europe (approx. +6%YoY), the credit market is far different from 'opportunistic' or 'optimistic' environment seen before the Lehman crisis. We remain bullish for US stocks & bonds in mid-term.

Apr-June GDP in Japan was +4%p.a., very strong, and equity valuation (vs corporate earnings) remain attractive to BUY. However, structural-reform of the economy, 'inflation target' failures, and geopolitical issues (N.Korea) make it difficult to outperform for the short-term (TOPIX 3mth expected range 1550-1650).

Nikkei225 index fell more than 5% since mid-June, while TOPIX is down 3% since its high in early Aug; BOJ is buying the shares sold by foreign investors (BOJ's ETF and REIT purchases were approx. 624bln yen in Aug, whilst foreign investors reduced/sold 724bln yen position during the period). With cautious view for N.Korea, we continue to recommend selective theme based investments for Japanese equities.

Thai & Philippine equities continue to be more attractive within APAC (incl Japan and China). Apr-June GDP growth in Thailand was +3.7%, confirming the healthy recovery. Corporate earnings in the Philippines are doing better than expected, positive outlook for the market in 2017 H2.

## CHINA'S ICO BAN

Crypto-currency & ICOs have been highlighted to disrupt the traditional financial industry (check our previous memo for our basic & fundamental view), whilst not a day goes by without progress.

The People's Bank of China (PBoC; the central bank of the country) and Chinese regulators declared ICOs to be "illegal", requesting funds to be returned (announced 4/Sep). The ban from regulators of the world's largest crypto-currency

community (including ICOs) hit the market quickly: major crypto-currencies fell 10-30% immediately, and recovered to approx. 10% discount level prior to the announcement. In addition, there is now some unconfirmed news in the market saying that China is gearing up to shut-down local crypto-currency exchanges.



'China' has recently been known to intervene in fund raising activities by Chinese issuers via markets like HKG and Singapore, regardless of whether 'crypto-currency' or not. Moreover, taking control over 'shadow-banking' and debt (vs GDP) inflation are more urgent issues on the table. There is little surprise to its choice of 'complete restriction' until proper regulations are in place; they halted crypto-currency exchange operations in 2009 or 2013 before, from a similar aspect.

The process may be less shocking, but regulatory and operational infrastructure are still under development for crypto-currency & ICOs around the world (including Japan, US, and Europe); AML/CFT (anti-money laundering and counter financing of terrorism) are also immediate challenges. Such development, along with the wholesale network (traditional financial institutions) participation, shall be soon.

Crypto-currency, run by the block-chain technology innovation, continue to be one of the disruptive & unavoidable FinTech infrastructure in long-term. We continue to recommend buying crypto-currency on weakness.

## WORLD WIDE SHIFT TO ZERO-EMISSION

150-200 years of industrial development relying on internal combustion engines, which generate power through the combustion of fuel, is now accelerating its shift to electric motors and hybrid systems. The evolution is one of the attractive investment themes for long-term investment.



Technology innovation of the power-terrain, especially for consumer applications such as cars and motor-cycles, have always been incentivized by energy price hike and efforts of engineers & manufacturers. However, regulatory guidance/policy has become most influential now, not just inspired by environmental benefits but also as part of the economic development strategy. The shift is a huge opportunity to grasp economic share in the next-generation industry.

In June, India has announced to electrify all new vehicles by 2030. France and U.K. are now saying goodbye to petrol and diesel cars by 2040 (announced July 2017). China is now reported to be studying the impact from similar ban. U.S. gas emission regulations are somewhat relatively relaxed, whilst ZEV program (requiring automakers to sell certain percentage of zero emission vehicles vs all sales; or else, penalty fees) in California will increase its presence from 2018.

The shift will create losers and winners, influencing many investments. Here, for the general model portfolio, we include PANASONIC[6752] (1468 yen) as BUY.

## EXAMPLE INVESTMENT IDEAS

### RECRUIT HOLDINGS[6098] BUY

- TSE1st listed stock, 1919yen/share, 3-6mth view -> Now Y2356
- 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 Y107.8/\$

### KDDI[9433] BUY

- TSE1st listed stock, 3020yen/share, 3-6mth view -> Now Y2938
- High ESG ratings, good earnings momentum, share buy-back

### THAI EQUITY SET50 ETF[1559] BUY

- TSE1st listed ETF, 3010yen/share (SET50 Index 999) -> Now Y2940 (SET50 Index 1046)
- Good to pair vs SELL in Singapore & HKG indices

### iShares MSCI Philippines ETF[EPHE]

- NYSE Arca ETF, Mid-term (few months), \$36.50
- Any funds with high correlation to Philippine Composit Index is ok

### BUY Bitcoin[BTC] for industry growth

- Y454,620, mid-long term -> Now Y473,143

### PANASONIC[6752] BUY

- TSE1st listed stock, Now Y1468
- Automotive Lithium Ion Batteries
- Profit recovery for Mar 2018 good

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