Kiyoshi Kimura Dreamvisor Newsletter Summary 8th of May 2006

Calls for FED Rate hike postponement is a laughing matter!

Last end of week United States published April job statistics, non farming job rolls proved beneath market expectations. Observers then deducted that after the last 25 basis points rate hike, FOMC would postpone further hikes.
Bond market went down and US $ was sold off, however equities market went up strongly on the basis of lower rates expectations and weak US $; the Dow rose to 2000 year high (11750).
First new high of the Dow for the past 6 years is quite important event. The NASDAQ is still hovering at half its historical peak however a + 17% rise of the more representative S&P 500 rise would bring it to historic peaks .

This said SP mid caps 400, SP small caps 600 both registered new historic peaks with a + 50 % rise.

Logically a slowing US economy and a low US $ are both negative factors for Japanese equities. Japanese expansion has in fact supported the US deficit and US $ plunge. Therefore entering another round of Yen strength and US $ weakness should lead to profit taking in Japanese equities.
Furthermore the FED did mention that the market was overly optimistic in their assessment of a pause in US Fed rate rise policy. It should prove difficult for the FED to stop its current policy as the current deficit is rapidly worsening, the saving rate continue going down, inflation (CPI core indexes) have reached the 2 % level. Should the FED make a pause in their rate hike policy that would imply economic situation has worsened? ISM indexes (services and industry) are still at high levels therefore this possibility is low. Worsening economic indicators will undoubtedly lead to lower US $, so weak US stocks and weak US currency cannot lead to Japanese equities new highs.

Oil barrel reached 70 US $ which led to huge income flows for oil producing countries but this has been given back to developed countries in payments. Money earned from oil is deposited in bank accounts, part of it is channeled back to developed countries and it is obvious such capital flows lead to forex movements. This said within the back fund flow the share channeled to US has been heavily down. In fact those fund flows can explain the surge of commodities indexes and other financial products (including

Japanese stocks actually).

As it seems very unrealistic to forecast a slow down in oil demand from developing countries and a sudden decrease of US consumption oil price will not go down. Therefore worldwide investors are becoming wary of US $ denominated assets, the Iran problem then become a key factor to forecast US $ movements.