

Kimura Dreamvisor Newsletter summary 11th September 2006

Market is buying time.

Foreign securities houses futures trading stands out.

On the 11th I thought the market would be quiet as SQ had passed, NY was firm and GDP had been slightly revised up but machinery orders fall announced just after 14:00 pm led to heavy futures selling and bond buying. The market fall was quite severe and behind the scene I believe some investors took speculative positions.

According to futures watchers since mid may Credit Suisse Securities stood out buying and selling 225 futures on a large scale which resulted in a trend reverse to what could be observed on foreign stock markets and market sentiment as a whole.

Stocks and bonds futures mostly show reverse patterns, should it have been the case on the 11th third party large financial institutions that usually trade through Credit Suisse securities should have materialized. Anyway even if such type of trade has a short term effect, in the end positions squaring leads to equilibrium. No much reasons to be nervous about it.

On the other hand the 1st of October 2 new stocks will be selected for Nikkei 225. Compared to exit Nippon Flour Mills and Toei stocks incoming Tokyu Real Estate and Toho stocks prices are high. Index fund arbitrageurs have to sell not only the exit stocks but also sell part of their holdings to buy the new entrants. I don't believe that translates into a huge amount of selling but until selling pressure has eased buyers will remain sidelined. As short term players are very well aware of this downside risk remains important.

Out of the three declared candidates for LDP general election winner has nearly been decided. Market has already discounted this although some observers feel this could have some impact. Most observers (a majority of Foreigners) believe that should Takenaka Heizo and Miyauchi Yoshihiko leave the cabinet and take distance with the finance committee then Japanese structural reforms are in danger. Such players will not wait new cabinet member's staff nomination and reduce positions in advance.

In the end we can only expect buyers who assume a relatively optimistic scenario based on current earnings and economy and believe the inherent risk falls into accepted level (should the scenario diverge).

However excluding short term players there are numerous players who wish to cash in current stock market level. Rather than cashing in and shifting money to ordinary savings accounts I believe there are also lot of investors who believe it's better to hold and wait for the companies underlying value to be reflected in the stock price.

I don't believe Mr. Abe will get it right.

I do not want to negate the Koizumi cabinet successes. For sure Koizumi benefited from the economic recovery but he also smoothly settled the huge bad loans problem however considering he was forced into it, it looks difficult to credit him for all. However he resolved the problem of Japan post privatization and road public corporation. The fact he have runed himself into the impregnable is a prime minister's one life achievement. But he deserves criticisms on a few subjects.

Some prime ministers fall on careless comments but coming to Mr. Koizumi I don't know other prime minister who had such a rough manner to serve his duty. Koizumi was a genius at launching impressive catch phrases like 'the spirit of Kome hayppyo' (with reference to a famous Japanese historical event * rendered popular by Koizumi first public declarations) or 'without reforms no growth'.

However he used chopped logic to reply to the 30 trillion deficit covering government bonds or the secret massive destruction weapons existence in Irak, those declarations will be long remembered as a stain in the national assembly.

On one side he is a politician who keeps his promise as he did visit the Yasukuni shrine. But on essential points he his not consistent.

The worst I fear is the negative influence on youth education. If the nation's first civilian does not put out an argument fairly and uses state power and sophism to bury adversity this goes against Japanese sense of ethic and righteousness to sum up against good customs. I do not want to draw hastily conclusions but Koizumi cabinet declarations negligence may have lead Horiemon and Murakami to behave rashly ' we won't be punished for what it is not written by law'.

As far as I am aware they were not persons willingly breaking the law. And even if this is not Koizumi's responsibility I feel that since Koizumi came to power this was in the air.

Now the most right wing hair apparent Mr. Abe, like his predecessor, is quite popular but lacks vision. I have the impression that Abe is hiding his real intentions. He resumed only in four pages A4 format his political vision although his co runners did the

same on respectively 28 and 24 pages. He seems to take only into consideration supporters who solely want to bet on the winning horse, does his style lack that much concreteness?

The only thing he made clear was that constitution will be revised. If he did not make clear his intentions regarding Yasukuni shrine it is obviously because he does intend to visit the shrine. For now he wanted to avoid Asian countries criticism. By avoiding setting a precise schedule for VAT rate increase he bypassed an unpopular subject. He has been unclear regarding financing of retirement pension's payment. It is necessary to prepare those who will be penalized for the source of revenue in order to promote risk taking among the nation. It ends up like Koizumi taking the good things out of an argument.

On this point at least Mr. Tanigaki honestly repeated that to finance payments VAT rate ought to be increased to 10 %. Like bitter enemies in the same boat, Abe cabinet lacks a clear collective purpose and difficulties lie ahead.

* <http://www.city.nagaoka.niigata.jp/dpage/syomu/kome100/english/e-spirit.html>