

Kimura Dreamvisor Newsletter Summary 13th July

Markets are full of rumors, within such volatile environment risk premium rise.

On the background of ZRP end market is experiencing Yen weakness and fixed income strength ?.

This very week the biggest event is of course the BOJ committee. In this morning edition the Nikkei released the following headline title 'end of ZRP at the corner, base rate to be increased to 0,4 – 0,5 %'. This is somewhat higher than I previously thought and brings an element of surprise but markets showed bizarre movements: stocks weakness, bond strength (normally that goes with rate easing) and yen weakness.

This said even if such movements are abnormal I do not feel I should change basic thinking about economic background and earnings forecasts. Following march 06 ZRP end decision it was just a question of timing and considering published economic indicators and asset price announcements this was much discounted. As stated by the previous Tankan BOJ announced that mid size companies earnings expectations hold firm and this supported BOJ conviction.

Three month rate futures are at 0,39 %, six month rate futures rose up to 0,46 %, that mean financial markets have discounted a 0,5% rate up to march 07. The reason behind bond buying is probably due to the fact there are no more unforeseen negative events. There is no impact on FX markets. Recent US\$ strength is probably due to the relative decrease of US deficit.

Furthermore markets are in the process of discounting risks associated with North Korea, Middle-east and India. As domestically the situation is wait and sees foreign funds are playing with futures on a bearish worldwide stance. In Japan non bank related finance companies were hammered down on the basis of interest rate cap, moreover supply demand situation has been worsening on the back of large stocks public issuance.

This said regarding the worsening supply demand situation let's not forget that the number of companies buying back own shares is expanding fast so this balances the above mentioned in my view. Recently investors active on the market tend to over react to good or negative news, it remain efficient to take a contrarian view on equity prices moved by such 'noises' (noise in the sense this does not have an impact on long term trends or cycles).

Looking at stocks more generally the TOPIX 100 (core TOPIX) largest capitalizations are the daily target of basket trading and enjoy relative stable volume, but for less capitalized stocks volatility is much more important. When trading volumes are low (as now) trading focuses on large caps, buying orders on mid small caps become scarce and if selling orders materialize falls can be sharp.

Even for the author of this report who does invest in mid small size caps this is a stressful period, but obviously it is good timing to buy at lows.

Weeks after weeks foreigners continue to buy.

Each morning foreigner's stance is announced on TV, there are investors getting exited when net buying is announced but I do not regard this as very important. First because daily statistics do not reflect properly foreigners stance. Second because daily foreigners buy/sell amount to 700 million stocks. Mornings orders are just 5 % of this figure. Usually large buy and sell orders equal themselves with little impact on prices, but when there are 5 million stocks difference between buy and sell orders this is due to stocks number and face value. As one stock of Mizuho FG worth 1 million Yen and Nippon steel stock worth 450 Yen are treated in the same way.

Previous week investor type buy/sell statistics were announced, for the whole week up to the 7th of July, foreigners bought net 219,6 billion yen. The week before net buying was 223,8 billion yen. Selling side was mostly for own account trading and amounted to 340 billion Yen. Global fund receive fresh capital on a continuous basis and must invest at least 50 % in global stocks. Provided there is no sudden change in economic background, it is difficult to consider that foreign investors would suddenly stop buying or sell altogether Japanese holdings considering the good value of Japanese stock market.

Investment trusts buy and sell on a short term basis but pension funds or university type pension trusts receive money on a specified period. Those funds adopt contrarian strategy, based on the long term fund management principles they buy heavily at lows and take profits at highs. It must be relatively non experienced foreign medium size funds who buy or sell in a hurry according to US stock market up and downs closing. Large players have their own account traders to leverage trading orders.

The author of this report wrote previously that according to the 3 – 4 months equity

cycle low would be hit the 14th of June then market rise for 6 to 7 weeks following that a downside correction from mid September and the second bottom hit by mid October. However looking at stock market movements I believe another scenario is materializing. July is volatile therefore accumulated energy should start to pull out from august and market reach high from second half of September to October. Then only after October the second bottom will materialize.

Each time one cannot expect the exact same pattern to materialize. There is a traditional story about stock market: 'markets like ghosts appear where no one expected them to be '... As I discovered that the scenario of October low came out in Medias from famous economists as much as absolute beginner investors I thought to myself that this time it would be different.