Monthly Economic Report

October 21, 2019
Mizuho Research Institute
On October 10-11, US-China ministerial talks reached a partial agreement in “Phase One.”

- According to the US government, China agreed to commit to the following matters. The two countries are continuing to work on documenting the agreement.
  - Purchase US agricultural products worth USD 40-50 billion per year.
  - Improve the transparency of its foreign exchange policy and expand the financial services market
  - Strengthen protections of intellectual property rights
- The US has suspended the first to third rounds of punitive tariff rate hikes (25%→30%) upon China that had been scheduled for implementation on October 15.

The focus now is on whether a written agreement can be agreed to at the US-China summit expected to be held in November and whether they will mutually suspend tariff actions scheduled for December 15.

- In terms of the effectiveness of this agreement and enforcement monitoring procedures, gaps in US-China are expected to remain significant. Structural issues such as mandatory technology transfers and industrial subsidies have been postponed until "Phase Two" or later. The possibility of renewed tensions persist.

**US additional tariffs against China**

<table>
<thead>
<tr>
<th>Target import value</th>
<th>Additional tariff</th>
<th>Timing</th>
<th>Items</th>
<th>New measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) USD34bn</td>
<td>25%</td>
<td>Jul 6, 2018</td>
<td>Industrial machinery, aircraft etc.</td>
<td></td>
</tr>
<tr>
<td>(2) USD16bn</td>
<td></td>
<td>Aug 23, 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) USD 200bn</td>
<td>10%</td>
<td>Sep 24, 2018</td>
<td>Food, clothing etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10%–25%</td>
<td>May 10, 2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) A USD 110bn</td>
<td>(10%)</td>
<td>Sep 1, 2019</td>
<td>3,243 items such as color TV sets</td>
<td>Additional tariffs raised from 25% to 30% → Suspended</td>
</tr>
<tr>
<td>(4) B USD 160bn</td>
<td>(10%)</td>
<td>Dec 15, 2019</td>
<td>555 items such as mobile phones</td>
<td></td>
</tr>
</tbody>
</table>

**China’s retaliatory tariffs toward the US**

<table>
<thead>
<tr>
<th>Target import value</th>
<th>Additional tariff</th>
<th>Timing</th>
<th>Items/New measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) USD34bn</td>
<td>25%</td>
<td>Jul 6, 2018</td>
<td>Soy beans, chemicals, automobiles etc.</td>
</tr>
<tr>
<td>(2) USD16bn</td>
<td></td>
<td>Aug 23, 2018</td>
<td></td>
</tr>
<tr>
<td>(3) USD 60bn</td>
<td>5%/10%</td>
<td>Sep 24, 2018</td>
<td>Lumber, LNG, etc.</td>
</tr>
<tr>
<td></td>
<td>Max 25%</td>
<td>Jun 1, 2019</td>
<td></td>
</tr>
<tr>
<td>(4) A USD 29bn</td>
<td>5%/10%</td>
<td>Sep 1, 2019</td>
<td>Additional tariffs added to approx. USD 75bn (5,078 items) including existing tariff items (Rounds 1-3)</td>
</tr>
<tr>
<td>(4) B USD 45bn</td>
<td>5%/10%</td>
<td>Dec 15, 2019</td>
<td></td>
</tr>
<tr>
<td>Approx USD 11.7bn</td>
<td>5%/25%</td>
<td>Dec 15, 2019</td>
<td>Resumption of tariffs on automobiles and parts (Rounds 1-3, 211 items) suspended since Jan 2019</td>
</tr>
<tr>
<td>(2018)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Made by MHRI based upon releases by the US and Chinese government and various media reports
There are concerns that the sanctions bill against China currently debated in US Congress may have a negative impact on US-China talks

- Among measures being considered by the US Congress is legislation to delist Hong Kong, Taiwan and Chinese companies from US stock exchanges.
  - The House of Representatives approved the "Hong Kong Human Rights and Democracy Act" on October 15. The Senate Foreign Relations Committee also approved the bill on September 25.
  - The Chinese government has expressed "strong indignation and firm opposition" and indicated that it would “strongly oppose” domestic interference by the US.
  - The "TAIPEI Act" was passed by the Senate Foreign Relations Committee on September 25.
  - In matters regarding the financial sector, some in Congress are calling for excluding Chinese company stocks and bonds from US investment indexes and index funds and a block on investments in index funds including Chinese companies by US government pension funds.
  - As for specific bills, Senator Marco Rubio (Republican-Florida) and others submitted the “EQUITABLE Act” to Congress in June this year.

[China-related bills currently under consideration in the US Congress]

<table>
<thead>
<tr>
<th>Hong Kong Human Rights and Democracy Act of 2019</th>
<th>The Secretary of State annually evaluates Hong Kong's adequate autonomy and reports to Congress.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Visa applications must not be refused on the grounds of the applicant’s arrest for participation in non-violent protests in support of human rights and the rule of law.</td>
<td></td>
</tr>
<tr>
<td>• If the president determines that Hong Kong does not have sufficient self-government, special treatment of Hong Kong can be suspended by presidential decree (1992 Act).</td>
<td></td>
</tr>
<tr>
<td>• The president will provide Congress a list of individuals responsible for human rights violations in Hong Kong. These individuals will have their visas cancelled and their US assets frozen.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taiwan Allies International Protection and Enhancement Initiative (TAIPEI) Act of 2019</th>
<th>The US government is required to work with other governments to maintain diplomatic relations with Taiwan and strengthen non-governmental exchanges.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Authority is given to the US State Department to lower the level of or suspend diplomatic relations and take measures to reduce support, including military financing, for countries considering revising their relationship with Taiwan.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EQUITABLE Act (Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges Act)</th>
<th>Companies based in China and Hong Kong are to be supervised and audited regularly by the US Public Company Accounting Oversight Board (PCAOB).</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Foreign companies are required to disclose the ownership ratio of their home country government and the names of members of the Communist Party of China who are members of the board of directors.</td>
<td></td>
</tr>
<tr>
<td>• Companies that do not meet the requirements for three consecutive years from 2025 onward are prohibited from listing on US stock exchanges.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Made by MHRI based upon proposed bills and various media reports
Brexit: UK government and EU reached a deal on a withdrawal agreement but UK parliament refused an immediate vote and postponed the issue

- Boris Johnson’s administration reached agreement with the EU on a new withdrawal agreement (Oct. 17).
  - The new withdrawal agreement will align Northern Ireland regulations and duties with those of the EU, effectively leaving the area in the EU customs union.

- Parliament refused to vote immediately for the new agreement. The Johnson administration was legally compelled to seek postponement of the withdrawal deadline (October 19).
  - MPs passed an amendment tabled by a group of MPs led by Oliver Letwin by 322 votes to 306 to shelve approval of the withdrawal agreement by the House of Commons until a withdrawal-related law is passed. In response to this result, the UK government will cancel the withdrawal agreement and apply for a postponement of the withdrawal deadline.

[ Key points of the UK-EU withdrawal agreement ]

1. **Issue regarding Ireland**
   - After the transition period, Northern Ireland will withdraw from the EU Customs Union with the UK. However, Northern Ireland will effectively remain in the EU Customs Union as it will have the same tariff rates and regulations as the EU.

2. **Preserving the mutual status of citizens**
   - The status of EU citizens currently living in the UK and UK citizens living in the EU will be preserved even after withdrawal.

3. **Brexit financial settlement**
   - A total of 33 billion pounds will be paid, including funds that the UK has already decided to contribute to the EU budget.

4. **Transition period**
   - Until end-December 2020. A one-time-only extension of 1 or 2 years is possible.

[ Voting results for the Letwin amendment in the UK Parliament (October 19) ]

Source: MHRI

Source: Made by MHRI based upon UK Parliament
The probable course of events: UK parliament rejects the withdrawal agreement, the EU approves postponement of the withdrawal deadline, UK general election

- The probable course of events is that the UK House of Commons rejects the withdrawal agreement, the EU will approve extension of the withdrawal deadline, UK dissolves parliament and holds a general election.
  - While France is opposed to accepting a withdrawal extension, it is unlikely that the EU would pull the trigger on a no-deal Brexit.
- A general election following dissolution of parliament may be held as early as late November to early December.

[ Future Brexit scenarios ]

Source: MHRI
1. Global economy and market trends: adjustment pressures persist in the global manufacturing sector

- The global manufacturing PMI (September) fell below 50 for the fifth consecutive month. In September, the PMI fell in the eurozone and Japan, and remains below 50 among the developed market (DM) economies.

- The OECD Composite Leading Indicator (CLI) suggests that the DM economies will continue to slow down. While the CLI indicates that China will bottom out in the second half of 2019, this will depend largely on the future course of US-China trade tensions.

Note: The Purchasing Managers’ Index (PMI): an index calculated by multiplying new orders, production, order backlogs, prices, employment and purchase amounts, etc. by a fixed weight. 50 is the “expansion-contraction” threshold.

Source: Made by MHRI based upon Markit
Overview of financial markets: focus of attention on the future course of the US economy and US-China talks

- The market is watching closely the future course of the US economy and US-China talks. The 10yr UST yield rose to the 1.7% level, reflecting a partial agreement in US-China trade talks. The 10yr JGB yield was in the lower half of the -0.1% range, and the Nikkei Stock Average climbed to the JPY22,000-level. The yen traded at a level of USD1 =108 yen.

Note: Currency exchange rates are based upon the nominal effective exchange rates as released by the authorities of each country.
Source: Made by MHRI based upon Bloomberg
2. (1) The US economy: corporate business conditions declined in both the manufacturing and nonmanufacturing sectors

- In September, the ISM manufacturing PMI fell to 47.8, falling below 50 for the second month in a row. This is the lowest level since June 2009 (46.3).
  - The export orders index deteriorated rapidly to 41.0. This suggests exports will continue to slow down.

- In September, the ISM nonmanufacturing PMI fell to 52.6. This is the lowest level since August 2016 (51.8).
  - Among all 18 industries, business conditions deteriorated in only four industries. While business conditions improved in 13 industries, the pace of improvement appears to be slowing.
  - A deterioration of business conditions was not evident in the healthcare and entertainment & recreation-related industries which were the main drivers of the rise of employment.
Machinery-related capital investment continues to slow down

- Shipments and new orders of core capital goods have flattened out since the end of 2018, when US-China trade tensions intensified.
  - In August, shipments and new orders (a leading indicator of machinery capital investment) remained more or less flat at +0.3% m-o-m and -0.4% m-o-m respectively.
- According to regional surveys by regional Federal Reserve banks, corporate willingness to engage in capital investment (6 months ahead) is declining in both the manufacturing and nonmanufacturing sectors.

[ Core capital goods shipments and new orders ]

[ Corporate capital investment outlook (6 months ahead) ]

Note: The manufacturing sector forecast for corporate capital investment is based upon surveys by Federal Reserve Banks of Philadelphia, New York, Dallas and Richmond (3-month average). The nonmanufacturing sector forecast for corporate capital investment is based upon surveys by Federal Reserve Banks of Dallas and Richmond (3-month average). The average value is taken for each sector. The nonmanufacturing sector capital investment outlook shows the outlook for capital and software investment.
Personal consumption is slowing down. Growing future uncertainties serve as headwinds

- Personal consumption-related data reveal an apparent slowdown of spending on both goods and services.
  - September core retail sales were flat m-o-m. Non-store sales turned down, and sales were generally weak.
  - In services consumption, hedonic spending on leisure, entertainment and dining out continued to slow down.

- The consumer sentiment index (October preliminary estimate) shows that while current sentiment has picked up from the downturn in August, future sentiment is only slightly higher.
  - This suggests that growing future uncertainties are serving as headwinds for personal consumption.

Note: Core retail sales are based upon data excluding restaurants, gasoline, automobiles and building materials.
Source: Made by MHRI based upon the US Department of Commerce

Source: Made by MHRI based upon the University of Michigan
September employment data confirms firm pace of job growth

- According to September employment data, nonfarm payrolls rose +136 thousand m-o-m and the unemployment rate fell to 3.5%.
  - Although the pace of job growth in the goods-producing sector is continuing to slow down, job growth remained firm in the service-providing sector.
- Average hourly wages stood at +2.9% y-o-y, indicating a slower pace of increase, mainly due to wholesale and information services.
  - Sectors with a high employment weighting such as professional and business services, education and health services and leisure continue to see steady growth.

Source: Made by MHRI based upon the US Bureau of Labor statistics

[ Nonfarm payrolls ]

[ Average hourly wages ]

In September, +136 thousand people m-o-m change

Source: Made by MHRI based upon the US Bureau of Labor statistics
Note the rise of consumer concerns regarding the future course of the economy and employment

- The September consumer confidence index (Conference Board) saw declines in the assessment of both present conditions and expectations.
- In the present situation index, business sentiment dropped to the lowest level since March 2019. On the other hand, the labor market index fell only slightly and remains at a high level.
- The expectations index saw declines in the outlooks for business and the labor market. The levels are the lowest since January 2019 when stock prices fell and the government was shut down.

Note: The expectations index of the consumer confidence index is the average of the above three series. Source: Made by MHRI based upon the Conference Board

Note: The present situation index of the consumer confidence index is the average of the above two series. Source: Made by MHRI based upon the Conference Board
(2) US monetary policy: Wait-and-see on whether the October FOMC will continue easing measures

Meanwhile, the Fed announced an increase in supply of banks reserves

- The September employment data suggest that "the risk of weakness in the US corporate sector spilling over to the household sector" (summary of July FOMC minutes) is not materializing. On the other hand, the divergence of paths between the FOMC and financial market participants with respect to policy interest rates is an issue. The FOMC’s communication is important to prevent an unintentional tightening of financial conditions that may occur if a rate cut is shelved.

- In response to a surge in overnight interest rates in mid-September, the Fed announced that it would start to purchase USD60 billion per month in short-term Treasury bills (October 11).

[ Summary of September FOMC minutes ]

- For most participants, the baseline economic outlook was premised on a somewhat more accommodative path for policy than in July.
- Participants judged that the downside risk to the outlook for economic activity had increased, particularly those stemming from trade policy uncertainty and conditions abroad.
- With regard to the contrast between robust consumption growth and weak investment growth, several participants mentioned that uncertainties in the business outlook and sustained weak investment could eventually lead to slower hiring, which, in turn, could damp the growth of income and consumption.
- Manufacturing production remained lower than at the beginning of the year, and recent indicators suggested that conditions were unlikely to improve materially over the near term.
- A few participants judged that it might become necessary for the FOMC Committee to seek a better alignment of market expectations regarding the policy rate path.
- Several participants suggested that the Committee’s postmeeting statement should provide more clarity about when the recalibration of the level of the policy rate in response to trade uncertainty would likely come to an end.

[ FRB balance sheet (liabilities, key items) ]
A recovery in core inflation and a downturn in inflation expectations are coexisting

- In August, the core inflation improved to 1.8% y-o-y. The trimmed mean inflation rate remains steady at around 2%.
- On the other hand, market inflation expectations have been following a gradual downward trend since the end of 2018.

Note: BEI (forward) = 5-Year forward, 5-Year breakeven inflation rate
Source: Made by MHRI based upon the US Department of Commerce, Federal Reserve of Dallas, Haver
(3) US bond market: the US long-term interest rate fell temporarily to the 1.5% level and subsequently rose to the 1.7% level

- Given a series of economic indicators below expectations, the 10yr UST yield fell temporarily to the 1.5% level. The yield subsequently rose to the 1.7% level due to an easing of US-China trade tensions.
  - In addition to the fall of the ISM manufacturing PMI, the nonmanufacturing PMI also fell short of expectations, leading to the deterioration of investor sentiment. The probability of an October rate cut by the FOMC factored in by the market rose from around 40% at the end of September to nearly 85% at one point in time.

- US long-term interest rates are expected to trend around the mid-1% level due to factors such as concerns regarding the global economic slowdown.

[ ISM US manufacturing PMI and 10yr UST yields ]

[ Market participants’ forecast on the policy interest rate at the October FOMC ]

Source: Made by MHRI based upon Bloomberg

Note: Calculated based upon FF rate futures.
Source: Made by MHRI based upon Bloomberg
(4) US stock market: Tug-of-war between economic uncertainty and rate cut expectations
Range-bound trading anticipated

- Stock prices fell in early October partly in response to a weak ISM manufacturing PMI. The Dow Jones industrial average is currently trending at a high level of around USD27,000, reflecting the easing of US-China tensions, and the agreement on Brexit.

- Interest rate cut expectations in the face of economic uncertainty remains the foundation underpinning stocks. In the near term, attention will focus upon earnings announcements in late October to early November.

- The bottom side of the stock market should hold firm, given the upturn of market sentiment. Even so, expected declines of revenues in financial earnings announcements may serve as a drag upon the market.

[ S&P 500 Index growth rate and ISM indexes ]

[ Market forecasts on corporate earnings growth]

Note: S&P 500 index is weekly. The latest readings are as of October 17.
Source: Made by MHRI based upon Bloomberg

Note: Previous = as of end July; current = as of October 18.
Source: Made by MHRI based upon Refinitiv
3. The European economy: the deterioration of business conditions in the manufacturing sector is expected to keep economic growth weak

- The eurozone real GDP growth rate stood at +0.2% q-o-q in the Apr-Jun quarter of 2019, comparable to the low level in the Jul-Sep quarter of 2018.
  - Given the lack of export growth, external demand served to push down real GDP growth by -0.1%pt q-o-q.

- The Purchasing Managers’ index (synthetic PMI), having a high correlation with GDP, is approaching the expansion-contraction threshold of 50.
  - In addition to the ongoing deterioration of business conditions in the manufacturing sector, particularly in Germany, the service sector PMI also deteriorated sharply in September. The slowdown in the manufacturing sector is gradually spreading to the service sector.

Source: Made by MHRI based upon Eurostat

Note: The reading of 50 in the Purchasing Managers’ Index (PMI) is the "expansion-contraction" threshold.
Source: Made by MHRI based upon Markit, Bloomberg
The slowdown of exports to areas outside the eurozone remains unchanged

- In July 2019, exports to areas outside the eurozone stood at +3.1% y-o-y, a slight improvement from the growth rate in the previous month (+1.3%).
  - Intra-eurozone exports fell -1.7% y-o-y, recording a y-o-y decline for the second consecutive month.
  - The US imposition of retaliatory tariffs on EU aircraft, alcohol and other products (tariffs took effect on October 18) over subsidies to aircraft giant Airbus is also a source of concern.

- In July, industrial production in the eurozone decreased sharply (-1.8% y-o-y).
Despite the ongoing strength of the labor market, there are concerns regarding the future course of employment

- In August, the eurozone unemployment rate stood at 7.4%, improving 0.1%pt from the previous month (7.5%).
  - In the Apr-Jun quarter of 2019, compensation per employee in the eurozone, stood at +2.1% y-o-y, remained on firm footing.
- Meanwhile, employment expectations continued to decline in the manufacturing sector.
  - The employment expectations DI for the next-three-months in the manufacturing sector continued to decline, dragged down mainly by Germany.

[ Eurozone unemployment rate and compensation per employee ]

[ Eurozone employment expectations DI by sector ]

Note: “Zero” is the "expansion-contraction" threshold. The figures are based on queries on employment expectations over the next three months.
Source: Made by MHRI based upon the European Commission
Eurozone core inflation remains close to 1%

- In September, the eurozone inflation rate (flash estimate) stood at +0.9% y-o-y, generally unchanged from the previous month (+1.0% y-o-y).
  - The core inflation (excluding volatile items such as energy and food) also remained more or less unchanged (+1.0% y-o-y) from the previous month (+0.9% y-o-y).
- The inflation swap forward rate (five-year, five year), a measure of the market's inflation expectations, has continued to linger at a low level around 1.2% since June 2019.

[ Eurozone CPI (y-o-y % change) ]

[ Market participants' expected inflation in the eurozone ]

Source: Made by MHRI based upon Eurostat

Note: Estimates made by using the inflation swap forward rate. “T-year, N-year” means market participants' expectations of the average inflation rate for the period of N years from T years later.
Source: Made by MHRI based upon Bloomberg
ECB to study effects of monetary easing for the time being

- The ECB, which eased monetary policy further at its Governing Council meeting on September 12, decided to assess the easing effect for the time being.
- Strong opposition toward the resumption of asset purchases from inside the ECB, led to the resignation of Sabine Lautenschlaeger (Germany) as member of the Executive Board of the ECB. A successor is expected to come from Germany, and there are media reports that it will be decided by the Eurogroup on November 7.
- The summary of the September 12 Governing Council meeting reveals that there were various objections within the ECB to the easing package.
- The difference between deposit and lending rates has already narrowed. While the negative effect of pushing rates into negative territory for large deposits and of negative interest rates are being widely publicized, the hurdles for additional rate cuts are correspondingly high.

[ Key points from ECB policy board meeting (September 12) and minutes (October 10) ]

<table>
<thead>
<tr>
<th>Matters decided</th>
<th>Criticisms within the ECB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deepening negative interest rates and mitigating adverse effects</td>
<td>The interest rate on the deposit facility will be decreased to -0.50%. At the same time, the negative interest rate for excess reserves is stratified into two levels.</td>
</tr>
<tr>
<td>Forward guidance on policy interest rates</td>
<td>The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen (1) the inflation outlook converge to a level sufficiently close to its projection horizon, (2) the probability of reaching this outlook are done &quot;robustly,&quot; and (3)such convergence has been consistently reflected in underlying inflation dynamics.</td>
</tr>
<tr>
<td>Resume asset purchase program</td>
<td>Net purchases will be restarted at a monthly pace of EUR20 billion as from 1 November. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.</td>
</tr>
<tr>
<td>Relaxing TLTRO III requirements</td>
<td>The applicable interest rate will be set at the same level as the main refinancing operation interest rate (0%). Preferential interest rates up to -0.6% can be applied. The maturity of the operations will be extended from two to three years.</td>
</tr>
</tbody>
</table>

[ Changes in interest rates on deposits and loans at eurozone financial institutions ]

Note: Changes in spreads from January 2014. Deposits and loans for households and business corporations of financial institutions (excluding insurance and pensions etc.) in the euro zone. The effective interest rates are the weighted averages of the outstanding balance and interest rates by deposit type/period and loan type/period.
Fiscal policy expectations should serve as upward pressure on German long-term interest rates

- The German long-term interest rate rose to the -0.3% level reflecting expectations toward fiscal stimulus and the ebb of concerns regarding US-China tensions.
  - Downward pressures upon German interest rates against the backdrop of a significant drop in US interest rates were offset by expectations toward fiscal stimulus stemming from comments by ECB officials.
  - S&P raised its rating for Spain, leading to a temporary fall of Spain’s long-term interest rate.
- Given the expected persistence of soft fundamentals, the German 10yr government bond yield is expected to hover around -0.5%.

[ US and German long-term government bond yields ]

[ Eurozone 10yr bond yields ]
4. The Chinese economy and EM financial markets: Jul-Sep quarter real GDP growth slowed down

- China’s real GDP grew +6.0% y-o-y in the Jul-Sep quarter (Apr-Jun quarter: +6.2% y-o-y), marking a slowdown for the second consecutive quarter.
  - Although investment in fixed assets mainly in infrastructure and the manufacturing sector has expanded, a lower contribution by inventory growth and a slowdown in exports have led to a slowdown of growth.
  - Looking at the breakdown of investment by month, infrastructure investment grew +5.0% in September (August: +4.9%), recording a slight acceleration for the second month in a row. Even though investment in the manufacturing sector grew +1.9% (August: -1.6%), revealing an upturn from the sharp decline in August, manufacturing sector investment is still slowing down when averaged out.
- The Chinese economy is expected to gradually slow down while avoiding a major decline due to government support measures. However, it should be noted that downward pressures upon the overall economy may intensify in the event of the escalation of US-China trade tensions.
The yuan remains weak. The People's Bank of China is cautious about aggressive monetary easing

- A weak yuan tone of the market is persisting amid concerns regarding US-China tensions.
  - The People's Bank of China (PBoC) set the reference rate for the yuan at 7.07-7.08 yuan to the dollar to stabilize the market.
  - Even though US-China ministerial level trade talks held October 11-12 resulted in some agreements, future uncertainties failed to be dispelled. We expect that future developments will continue to depend on developments in US-China talks.

- The September 1yr LPR (Loan Prime Rate) stood at 4.2%, down 5bp from the previous month (4.25%). The 5yr rate remained unchanged at 4.85%.
  - At the September 24 press conference, Yi Gang, Governor of the PBoC, stated that the central bank would adhere to moderate monetary policy and stressed that it would refrain from helicopter money. Looking forward, in the event of the rise of concerns regarding economic slowdown, the central bank will most likely resort to targeted monetary easing such as the TMLF (targeted medium-term lending facility).

![USD/RMB rate chart](chart1.png)

Set the reference rate for the yuan at 7.07-7.08 yuan to the dollar

![LPR and MLF interest rates chart](chart2.png)

Aug 20: New LPR introduced
Sep 20: LPR fell 5bp

Note: LPR is the average of the prime rates of 18 major banks. MLF is a medium-term lending facility of the People's Bank of China.

Source: Made by MHRI based upon People's Bank of China, CEIC data
**EM financial markets: accelerated monetary easing following US FF rate cuts**

- Given expectations of progress in US-China trade, EM stocks showed some improvement in mid-September. Even so, the upside remains heavy.
  - Developments in US-China relations have been sparse prior to the National Day holidays of the People's Republic of China (October 1-7). Despite some progress at the ministerial-level talks in mid-October, the outlook remains uncertain.

- EM currencies generally remained weak from September onward, due to the weak recovery of Latin American countries, which declined mainly in Argentina in August.

- An increasing number of countries are implementing monetary easing in response to the global economic slowdown, and a number of countries, including Brazil (September 18) and South Korea (October 16), are cutting interest rates.

- Despite the rise of expectations toward economic recovery through monetary easing, the odds are high that EM markets will remain weak due to the rise of risk aversion worldwide.

[ EM stocks and currency ]

<table>
<thead>
<tr>
<th>Country/period</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan-Mar</td>
<td>Apr-Jun</td>
</tr>
<tr>
<td>China</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>South Korea</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>India</td>
<td>-</td>
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<tr>
<td>Thailand</td>
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<td>Philippines</td>
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<td>Indonesia</td>
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<td>Malaysia</td>
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<tr>
<td>Brazil</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Mexico</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Russia</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>South Africa</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

Note 1: ○ refers to an interest rate hike, ● refers to an interest rate cut. The numbers refer to the number of rate hikes/cuts during the period.

Source: Made by MHRI based upon Refinitiv, MSCI, JP Morgan

[ Rate cuts in major EM countries ]
5. (1) The Japanese economy: August Indexes of Business Conditions reverts to a “weakening” assessment

- In August, the indexes of business conditions fell by -0.4%pt m-o-m, the first decline in two months, and the overall assessment of business conditions was downgraded to “worsening.”
  - The industrial production and shipment indexes, commercial sales (wholesale) and the ratio of job offers to job seekers fell.
  - The overall assessment of business conditions may return to a “bottoming out”, given a positive contribution by sales of durable goods and retail sales due to a front-loading of demand in September prior to the consumption tax hike. However, given expectations of a reactionary decline after the consumption tax hike in October, the Japanese economy is expected to remain weak for the time being.

[Indexes of business conditions (Composite Index (CI) of coincident indicator)]

Note: Indexes of Business Conditions: An index created to consolidate the movements of indicators that react to economic trends such as production and employment, and to contribute to understanding the current state of the economy and making forecasts. The CI of coincident index is calculated using indices that move in line with economic trends.

[Overall assessment of business conditions]

<table>
<thead>
<tr>
<th>Overall assessment</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Improving</td>
<td>Indicates the likelihood of economic expansion</td>
</tr>
<tr>
<td>(2) At a standstill</td>
<td>Indicates the likelihood of economic expansion coming to a standstill</td>
</tr>
<tr>
<td>(3) Signalling a possible turning point</td>
<td>Indicates the likelihood that the economic trough to be determined ex post facto existed in the prior few months</td>
</tr>
<tr>
<td>(4) Weakening ※ as of August</td>
<td>Indicates the likelihood of an economic recession</td>
</tr>
<tr>
<td>(5) Bottoming out</td>
<td>Indicates the likelihood of an economic recession bottoming out</td>
</tr>
</tbody>
</table>

Source: Made by MHRI based upon Cabinet Office, Indexes of Business Conditions
BOJ Tankan: assessment of business conditions among large manufacturing enterprises worsened for the third consecutive quarter

- The Business Conditions DI of large manufacturers stood at +5%pt (June survey: +7%pt), deteriorating for the third quarter in a row.
  - In addition to the deterioration in machinery-related sectors reflecting the global economic slowdown, the deterioration of commodity prices exacerbated worsening conditions of basic material industries.

- Although the DI among large nonmanufacturers also worsened to +21%pt (June survey: +23%pt), it remains at a high level.
  - Although the special demand related to the change of era and long Golden Week holiday has faded, demand spurred by reduced tax rates and cashless payments through the rebate program in the form of reward points, and progress in public works are supporting business conditions.

[ Business Conditions DI ]

<table>
<thead>
<tr>
<th>(%)Pt</th>
<th>March 2019 Survey</th>
<th>June 2019 Survey</th>
<th>September 2019 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual result</td>
<td>Forecast</td>
<td>Actual result</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>17</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Nonmanufacturing</td>
<td>21</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Medium-sized enterprises</td>
<td>13</td>
<td>9</td>
<td>13</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Nonmanufacturing</td>
<td>18</td>
<td>12</td>
<td>18</td>
</tr>
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<td>Small enterprises</td>
<td>10</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6</td>
<td>-2</td>
<td>-1</td>
</tr>
<tr>
<td>Nonmanufacturing</td>
<td>12</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Made by MHRI based upon Bank of Japan, Short-Term Economic Survey of Enterprises in Japan (TANKAN)
BOJ Tankan: earnings projections for FY2019 have been revised downward. Yen appreciation is a downside risk

- FY2019 current profit projections (all enterprises, all industries) were revised down to -6.7% y-o-y (revision rate: -2.5%) from the June survey.
  - In the manufacturing sector, the revision of predicted exchange rates to a stronger yen, intensifying trade tensions, and overseas economic slowdown are weighing down upon profit projections.
  - In the nonmanufacturing sector, earnings were also revised downward in the September survey for the first time since FY2012. The stagnation of demand following the consumption tax hike served as downward pressure.

- Although the exchange rate at the end of September trended around the same level as the average of predicted exchange rates, if the yen continues to strengthen due to intensifying trade tensions and growing speculation about additional interest rate cuts in the US, it will be necessary to keep a close eye upon the possibility of a downswing of earnings.

Source: Made by MHRI based upon Bank of Japan, Short-Term Economic Survey of Enterprises in Japan (TANKAN)
**BOJ Tankan: fixed (capital) investment momentum slowing due to worsening earnings and growing uncertainty**

- In the September survey, FY2019 fixed investment projections (all enterprises, all industries) was revised upward to +2.4% y-o-y from the June survey (+2.3% y-o-y). (Fixed investment projections are usually revised up in the September survey from the June survey.)

- However, the manufacturing sector was revised down (-0.4% y-o-y), marking a negative revision rate for the first time since FY2009. The breadth of the revision rate of the nonmanufacturing sector (+0.4% y-o-y) also turned out to be smaller than usual.
  - In the manufacturing sector, it appears that investment to upgrade output capacity such as production machinery was postponed, reflecting sluggish demand accompanying the overseas economic slowdown and rising uncertainties.
  - Turning to the nonmanufacturing sector, despite support by investment for automation & labor saving and investment related to redevelopment-related investments, the momentum is weaker than usual due to the downturn of earnings projections and other factors.

[Fixed investment projections (including land purchasing expenses and excluding software and R&D investment)]

<table>
<thead>
<tr>
<th>(Y-o-y % change)</th>
<th>FY2018 Actual</th>
<th>Mar survey projections</th>
<th>Jun survey projections</th>
<th>Sep survey projections</th>
<th>Revision rate</th>
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<tbody>
<tr>
<td>All enterprises</td>
<td>6.6</td>
<td>-2.8</td>
<td>2.3</td>
<td>2.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.6</td>
<td>2.0</td>
<td>7.7</td>
<td>7.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>Nonmanufacturing</td>
<td>5.4</td>
<td>-5.6</td>
<td>-0.8</td>
<td>-0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>7.3</td>
<td>1.2</td>
<td>7.4</td>
<td>6.6</td>
<td>-0.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.0</td>
<td>6.2</td>
<td>12.9</td>
<td>11.8</td>
<td>-1.0</td>
</tr>
<tr>
<td>Nonmanufacturing</td>
<td>7.4</td>
<td>-1.6</td>
<td>4.2</td>
<td>3.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>Medium-sized enterprises</td>
<td>8.3</td>
<td>-6.6</td>
<td>-4.4</td>
<td>-3.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.4</td>
<td>-5.1</td>
<td>0.3</td>
<td>-1.1</td>
<td>-1.4</td>
</tr>
<tr>
<td>Nonmanufacturing</td>
<td>9.5</td>
<td>-7.5</td>
<td>-7.3</td>
<td>-5.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>2.6</td>
<td>-14.9</td>
<td>-9.3</td>
<td>-6.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>17.2</td>
<td>-6.1</td>
<td>-3.0</td>
<td>-0.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Nonmanufacturing</td>
<td>-4.4</td>
<td>-20.1</td>
<td>-13.0</td>
<td>-10.5</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Note: The graph on the right pertains to all enterprises and all industries
Source: Made by MHRI based upon Bank of Japan, Short-Term Economic Survey of Enterprises in Japan (TANKAN)
In contrast to signs that exports are bottoming out, production is weakening

- The export volume index stood at +2.1% m-o-m in September, turning positive for the first time in two months. In the Jul-Sep quarter, the index stood at +1.5% q-o-q, showing signs that exports are bottoming out.

*Adjusted for seasonal factors by MHRI

  - There are signs of recovery in electrical machinery. Integrated circuits are bottoming out, and progress in inventory adjustments and upgraded functions of new iPhones are pushing up exports.
  - However, main commodities other than electrical machinery, such as capital goods and transport equipment, remain weak.

- The industrial production index stood at -1.2% m-o-m in August, down for the first time in two months. A wide range of industries, such as the production machinery industry and the automobile industry, turned negative.

  - The index fell into negative territory in the Jul-Aug period (-0.9%, compared to the Apr-Jun quarter). In addition to personal consumption flattening out given the tepid front-loading of demand prior to the consumption tax hike, the overseas economic slowdown and rising uncertainties toward the future served as downward pressures.
  - Extrapolating September on the basis of the correction value, the industrial production index would stand at -1.0% q-o-q in the Jul-Sep quarter, providing reasons to believe that production will fall.
The labor market remains firm, but there are signs that employment is turning cautious. Personal consumption decreased due to weather factors

- The unemployment rate stood at 2.2% in August, remaining flat from the previous month. The number of employed persons increased by +190 thousand m-o-m. Even when averaging out the data, the trend is rising.
  - Although new job openings increased in August, on average the numbers lack strength and the stance toward employment may become somewhat cautious.

- In August, the consumption activity index stood at +2.0% m-o-m, a significant recovery from the decline due to bad weather in the previous month.
  - However, the Jul-Aug period was flat at +0.1% from the Apr-Jun quarter. This indicates that the front-loading of demand prior to the consumption tax was tepid.

![New job openings](source)

![Consumption activity index](source)

Source: Made by MHRI based upon Ministry of Health, Labour and Welfare, *Employment Referrals for General Workers*

Source: Made by MHRI based upon Bank of Japan, *Consumption Activity Index*
The front-loading of demand prior to the consumption tax hike is most likely smaller than the previous tax hike

- The front-loading of demand may be smaller than the previous consumption tax hike according to currently-available statistics.
  - Motor vehicle sales was clearly limited compared with the last-minute rush before the previous tax hike.
  - A look at POS data (weekly, September 23 as the latest date) confirms that there was a front-loading of demand in the week prior to the tax hike. However, the momentum is slightly smaller than the previous tax hike. The cumulative Jul-Sep quarter shows that the front-loading of demand was smaller than the previous tax hike.

- Although we believe that there will be a backlash to the rise of demand due to the consumption tax hike, the impact is expected to be small compared to the previous tax hike.

---

**Number of registered cars**

**POS-CQI: Weekly Consumer-purchase Quantity Index**

Source: Made by MHRI based upon Japan Automobile Dealers Association, *Shinsha hanbai daisu jokyou* (New vehicle sales) and Japan Mini Vehicle Association, *Keiyonrinsha shinsha hanbai* (New mini vehicle sales)

Source: Made by MHRI based upon *SRI-Hitotsubashi Consumer Purchase Indices*

Note: Quantity (excluding tobacco)
The number of South Korean visitors to Japan fell sharply due to the deterioration of Japan-South Korea relations. Core CPI growth rate declined slightly

- The number of foreign visitors to Japan declined for the third month in a row in September (-0.7% m-o-m). South Korean visitors fell sharply (-18.9% m-o-m) for the second consecutive month due to worsening relations between Japan and South Korea. *Adjusted for seasonal factors by MHRI.*
  - Assuming that the current pace will continue, the number of foreign visitors to Japan will reach 33.76 million in 2020, falling short of the government target (40 million).

- In September, the breadth of the rise of the nationwide core CPI (all items, less fresh food) narrowed slightly (+0.3% y-o-y). The breadth of the rise of the BOJ's core CPI also narrowed slightly (+0.5% y-o-y).
  - In addition to the y-o-y % change of energy prices falling further into negative territory, prices of overseas tour packages and recreational durable goods served as overall downward pressure.
  - Reflecting the expansion of the breadth of change of energy prices in negative territory, the breadth of the CPI in positive territory should gradually narrow.

### Number of visitors from China and South Korea to Japan

Note: Adjusted for seasonal factors by MHRI.
Source: Made by MHRI based upon the Japan National Tourism Organization (JNTO)

### Consumer price index

Source: Made by MHRI based upon Ministry of Internal Affairs and Communications, Consumer Price Index
(2) Domestic monetary policy: the October MPM is expected to maintain policy. If the yen rises sharply, interest rates may be pushed further into negative territory

- At the BOJ Monetary Policy Meeting (MPM) in September, there were more calls for preventative responses to downside momentum for price increases. There were concerns among Policy Board members regarding the impact of the consumption tax hike amid the slowdown of overseas economies.
  - The BOJ’s output gap (Apr-Jun quarter) narrowed from the previous quarter. However, the level since 2006 has been maintained.

- The BOJ is expected to maintain its policy until the impact of the consumption tax hike is determined. However, if the downside risk of momentum becomes evident due to the appreciation of the yen and other factors, the BOJ may take additional easing steps, such as digging deeper into negative interest rates.
  - If negative interest rates are pushed deeper into negative territory, the BOJ is expected to take measures to ease the side effects and curb the decline in super-long-term bond yields.

**Note:** Output gap announced by the BOJ (most recently, the Apr-Jun quarter)

**Source:** Made by MHRI based upon Bank of Japan
Japanese long-term interest rates: 10yr JGB yield rose to around -0.15%

The 10yr JGB yield rose temporarily to around -0.15%, reflecting the decrease of the BOJ’s purchase of government bonds. Subsequently, the yield fell slightly following a brief pause of the rise, due to factors such as the US ISM manufacturing PMI recording the lowest level during the past 10 years. Currently, US bond-selling pressures are rising given the partial agreement reached in US-China talks. Reflecting these developments, yen bond yields are also rising again.

- The BOJ’s October bond purchasing stance is clearly headed downward. There is even a possibility that the BOJ will not engage in bond purchasing operations by changing its statement on purchase frequency.

At the press conference following a meeting with the Kansai Economic Federation (September 24), BOJ Governor Haruhiko Kuroda, suggested that when pursuing negative interest rates, the BOJ would also take measures to steepen super-long yields at the same time. Interest rates are unlikely to decline much for the time being.

[ Trend of JGB yields ]

[ Change in BOJ's purchases of long-term government securities ]

Changes in statements on the frequency of purchases of long-term government bonds (changes underlined)

<table>
<thead>
<tr>
<th>Residual maturity</th>
<th>September auction (approximate)</th>
<th>October auction (approximate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>100-1,000</td>
<td>100-1,000</td>
</tr>
<tr>
<td>More than 1 year less than 3 years</td>
<td>2,500-5,000</td>
<td>3,000-5,500</td>
</tr>
<tr>
<td>More than 3 years less than 5 years</td>
<td>2,500-5,000</td>
<td>2,000-4,500</td>
</tr>
<tr>
<td>More than 5 years less than 10 years</td>
<td>2,500-5,000</td>
<td>2,000-4,500</td>
</tr>
<tr>
<td>More than 10 years less than 25 years</td>
<td>1,000-2,500</td>
<td>500-2,000</td>
</tr>
<tr>
<td>More than 25 years less than 25 years</td>
<td>100-1,000</td>
<td>0-500</td>
</tr>
<tr>
<td>Inflation-indexed bonds</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Floating-rate bonds</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Source: Made by MHRI based upon Bloomberg
(4) Japanese stock market: value stocks and domestic demand-related stocks underpin the market

- The market performed well in early September reflecting the global risk-on mode. Amid the rise of interest rates, value stocks rose, outperforming US stocks.
  - Accordingly, valuations have improved, with the forward P/E ratio at the end of the month recovering to 13x level for the first time since October last year.

- Currently, domestic demand-related stocks and semiconductor-related stocks are pushing up the market, remaining at a high level since the beginning of the year. They are continuing to outperform overseas stocks.

- Looking forward, the upside of the market should gradually be weighed down by global economic uncertainties. As for the impact of the consumption tax hike, it should take several to six months to identify its impact upon the economy.

Source: Made by MHRI based upon Bloomberg

Positive

[ Value stocks index and growth stocks index
(Japanese stocks) ]

Source: Made by MHRI based upon Refinitiv

[ TOPIX forward P/E ratio and forward EPS ]

Note: Forward EPS and forward P/E ratio are for 12 months ahead.
Source: Made by MHRI based upon Refinitiv
6. Forex market: yen appreciation expected due to concerns regarding US-China trade tensions and global economic slowdown

- Even though the yen strengthened against the US dollar to around JPY107 to the dollar in October, reflecting the rise of concerns regarding US economic slowdown, the yen has weakened to around JPY108 to the dollar due to expectations toward the easing of US-China trade tensions.

- Looking forward, the yen should continue to strengthen against the US dollar due to concerns regarding US-China trade tensions and the global economic slowdown.

- As for the EUR/USD exchange rate, the euro weakened, temporarily breaking through USD1.09 to the euro, due to concerns about the slowdown of the European economy and other factors. Despite the strengthening of the euro has due to expectations of an agreement in Brexit negotiations, it appears that the future environment will continue to be conducive to euro depreciation.

[ USD/JPY exchange rate and Japan-US yield spread (10yr) ]  
[ EUR/USD exchange rate and Eurozone manufacturing PMI ]
7. The crude oil market is weakening again reflecting concerns regarding the future course of the global economy

- Although WTI crude oil futures rose temporarily to USD62.9 (September 16 closing price) following the attack on Saudi Arabian oil facilities, they have returned to the lower half of the USD50/barrel-level.
  - Given Saudi Arabia’s announcement that crude oil production has recovered, concerns about tight crude oil supply and demand are receding.
  - As for commodity prices, commodities other than crude oil, such as copper and aluminum, also continue to be weak.

- Considering background factors such as concerns regarding global economic slowdown including China, crude oil prices should remain soft for some time.
  - Even though the risk of attacks on oil facilities needs to be monitored, it should take some more time for global crude oil demand-supply to balance out.

![Crude oil prices (WTI crude oil futures)](image1)

![Commodity market prices and China's economy](image2)

Note: Crude oil prices is WTI, copper and aluminum prices are LME 3-month forward prices.
Source: Made by MHRI based upon National Bureau of Statistics of China, Refinitiv
8. Outlook on the financial markets

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>US</strong></td>
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<tr>
<td>FF rate (qtr-end value, %)</td>
<td>1.75~2.00</td>
<td>1.50</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
<td>1.75~2.00</td>
<td>1.75~2.00</td>
<td>1.75~2.00</td>
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<td>1.50~1.75</td>
<td>1.25~1.50</td>
<td>1.00~1.25</td>
<td>0.75~1.00</td>
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<td>10yr UST bond yield (%)</td>
<td>1.79</td>
<td>1.65</td>
<td>1.50</td>
<td>1.55</td>
<td>1.55</td>
<td>1.85</td>
<td>1.90</td>
<td>2.00</td>
<td>2.00</td>
<td>1.60</td>
<td>1.40</td>
<td>1.20</td>
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<td>Dow Jones Average (USD)</td>
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<td>26,000</td>
<td>25,500</td>
<td>26,000</td>
<td>26,500</td>
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<td>28,500</td>
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<td>23,000</td>
<td>21,000</td>
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<tr>
<td><strong>Japan</strong></td>
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<tr>
<td>Euroyen TIBOR (three months, %)</td>
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<td>0.01</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
<td>0.03</td>
<td>0.05</td>
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<td>0.00</td>
<td>0.00</td>
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<tr>
<td>10yr JGB yield (%)</td>
<td>-0.20</td>
<td>-0.20</td>
<td>-0.20</td>
<td>-0.20</td>
<td>-0.20</td>
<td>-0.10</td>
<td>0.00</td>
<td>0.10</td>
<td>0.10</td>
<td>-0.20</td>
<td>-0.25</td>
<td>-0.30</td>
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<tr>
<td>Nikkei 225 Average (JPY)</td>
<td>21,270</td>
<td>21,000</td>
<td>20,000</td>
<td>20,500</td>
<td>21,000</td>
<td>22,500</td>
<td>23,000</td>
<td>24,000</td>
<td>24,000</td>
<td>19,500</td>
<td>18,000</td>
<td>17,000</td>
<td>15,000</td>
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<tr>
<td><strong>Europe</strong></td>
<td></td>
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<tr>
<td>ECB repo rate (qtr-end value, %)</td>
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<td>-0.50</td>
<td>-0.50</td>
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<td>-0.50</td>
<td>-0.60</td>
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<tr>
<td>10yr government bond yield (German bonds, %)</td>
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<td>-0.50</td>
<td>-0.65</td>
<td>-0.60</td>
<td>-0.60</td>
<td>-0.30</td>
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<td>-0.60</td>
<td>-0.70</td>
<td>-0.80</td>
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<td><strong>Forex</strong></td>
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<td>USD/JPY rate (USD/JPY)</td>
<td>107</td>
<td>107</td>
<td>105</td>
<td>106</td>
<td>106</td>
<td>109</td>
<td>109</td>
<td>110</td>
<td>110</td>
<td>103</td>
<td>98</td>
<td>94</td>
<td>90</td>
</tr>
<tr>
<td>EUR/USD rate (EUR/USD)</td>
<td>1.11</td>
<td>1.09</td>
<td>1.08</td>
<td>1.08</td>
<td>1.08</td>
<td>1.11</td>
<td>1.11</td>
<td>1.12</td>
<td>1.12</td>
<td>1.11</td>
<td>1.15</td>
<td>1.20</td>
<td>1.20</td>
</tr>
</tbody>
</table>

- Sub-scenario 1 (upside scenario)
  - Long-term interest rates and stocks rise on heightened interest rate hike expectations driven by the acceleration of US economic recovery. The dollar continues to strengthen against the yen.

- Sub-scenario 2 (downside scenario)
  - Global economic slowdown, including Europe and the US, due to tariff hikes accompanying US protectionist policy. Long-term interest rates fall and stock prices fall. The dollar continues to weaken against the yen.
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