

Japanese Financial Markets

January 2012

Currency

- The yen is very close to its historic norms in real trade-weighted terms.
- In nominal terms, the currency is above its long run average against all of the other major currencies.
- Compared with the levels of six months ago, the yen is higher versus all of the other major currencies.

90 Day Rates

- Euroyen futures have been stable during the past six months.
- Official interest rates are priced to be steady during the coming year.
- The yield curve is marginally flatter than historical norms.

10 Year Yields

- Yields are 0.1% lower than their level of six months ago and, at 1.0%, they are close to recent historical lows.
- Japanese yields have fallen by less than global yields during the past six months so bond spreads have increased.
- Spreads are less negative than historical norms against the other major countries and are now positive vs Switzerland.

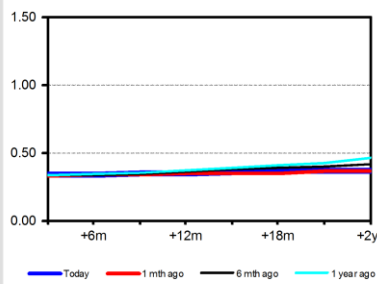
Equities

- Equity prices have fallen sharply recently and provided a negative return close to -15% during the past year.
- Japan was the worst major market in the past year, equal with the euro area.
- Japanese equities have had a loss of more than -50% during the past five years which has been the worst developed market during this time.

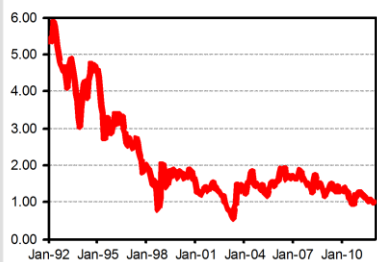
Real Trade-Weighted Index
(BoJ index)



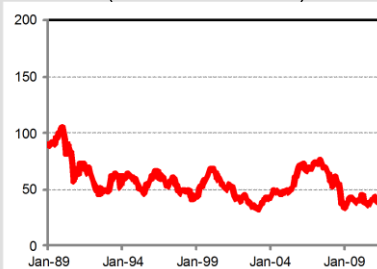
90 Day Future Strips
(%)



10 year bond yields
(%)



Japanese Equity Market
(Total return index)

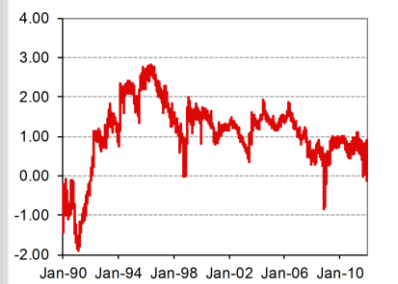


YEN: Now vs History

	Now	Average	Difference
USD	77	115	33%
EUR	98	137	29%
STG	119	193	38%
CHF	81	85	5%
SEK	11.1	15.7	29%
NOK	12.8	16.9	24%
CAD	76	89	16%
AUD	79	82	4%
NZD	61	69	11%
TWI	104	108	-4%

(average refers to 1990-2010)

Yield Curve
(10 year – 90 day)



Bond Spreads: Now vs History

	Now	Average	Difference
USA	-0.99	-3.12	213bp
Ger	-0.90	-2.79	189bp
UK	-1.10	-3.48	238bp
Swiss	0.29	-1.26	154bp
Swede	-0.71	-3.34	262bp
Nor	-1.05	-3.52	247bp
Can	-1.00	-3.33	233bp
Aus	-2.93	-4.39	147bp
NZ	-2.88	-4.68	180bp

(average refers to 1995-2010)

Recent Equity Returns

	6m	1 year	5 years
US	-4%	2%	-1%
Euro	-18%	-17%	-34%
Japan	-13%	-17%	-52%
UK	-14%	-9%	5%
Swiss	-6%	-11%	-33%
Swede	-13%	-15%	-3%
Nor	-6%	-9%	-12%
Can	-10%	-11%	-7%
Aus	-6%	-9%	-5%
NZ	-4%	1%	-18%