

Japan Strategy Overview

October market outlook: Market set to pick up later as earnings improvement confirmed, even if it weakens on yen strength

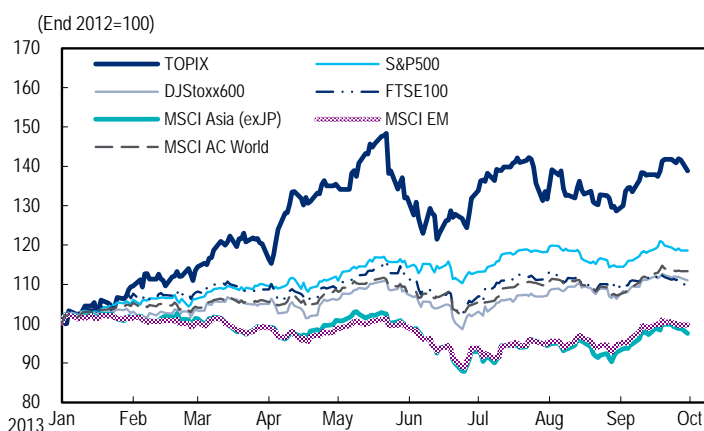
- **October market outlook** — In the first half of the month, we think the market could weaken on lower US equities due to the debt ceiling issue and yen strength resulting from an ongoing market shift to dovishness on the outlook for US monetary policy. Even if the consumption tax is hiked in line with the present law and an economic stimulus package worth ¥5trn is announced, this is the base-case market scenario, and we think the near-term impact would be limited. We think the market will find gains easier to come by in the second half of the month, reflecting the steady recovery in Japanese corporate earnings and a pause in yen strengthening. However, we caution on the risk of another leg up for the yen if FRB vice chair Janet Yellen is appointed the new chair.
- **Sector stances** — We overweight financials, which is appealing in valuation terms and positively affected by Abenomics, consumer cyclicals, which benefit from yen weakness and the recovery in the US economy, and basic materials, where the benefits of yen weakness and the strong auto sector are emerging. We underweight healthcare and consumer staples, which are losing some of their valuation luster, and IT, which is seeing smartphone and tablet growth slow.
- **Model portfolio** — We add Shiseido to our model portfolio, as domestic cosmetics sales are headed for a recovery phase and cost cuts are also running ahead of plan (see our September 19 memo, [Shiseido \(4911\) - Upgrading to Buy from Sell: The giant stirs](#)), and Mitsubishi Electric, as we anticipate medium-term growth for an increasing number of areas—FA, electric power, elevators, railroads, and defense—and we are optimistic about the prospects for stable earnings growth (see our August 29 memo, [Mitsubishi Electric \(6503\) - Upgrade to Buy: Profits recovering across the board](#)).

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Figure 1. Regional indices



Source: Datastream, Citi Research.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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October market outlook

October market outlook: Market set to pick up later as earnings improvement confirmed, even if it weakens on yen strength

In the first half of the month, we think the market could weaken on lower US equities due to the debt ceiling issue and yen strength resulting from an ongoing market shift to dovishness on the outlook for US monetary policy. Even if the consumption tax is hiked in line with the present law and an economic stimulus package worth ¥5trn is announced, this is the base-case market scenario, and we think the near-term impact would be limited. We think the market will find gains easier to come by in the second half of the month, reflecting the steady recovery in Japanese corporate earnings and a pause in yen strengthening. However, we caution on the risk of another leg up for the yen if FRB vice chair Janet Yellen is appointed the new chair.

Medium-term market outlook: Set to rise on multiple expansion

Upside potential for global equities

We continue to believe global equities are undervalued, if not as much as before, on valuation metrics such as cyclically adjusted P/E (CAPE). It is conceivable that the EPS outlook will be revised down further but valuations have room to rise toward the historical average. We also expect support from loose monetary policy, especially in developed nations. We forecast that global equities will continue to rise and set an end-2013 target for the MSCI AC World index of 420 (it is currently 385; see our July 5 report "[Global Equity Strategist - Time To Be Brave](#)").

We conclude Japanese equities have entered a longer-term uptrend

We believe Japanese equities have entered a longer-term upward phase as it appears a medium-term trend toward yen weakness versus the dollar is underway because of Abenomics and the recovery in the US economy. We think Japanese equities still have significant upside potential on metrics like CAPE. We forecast that TOPIX could reach 1,320 or so by end-March 2014.

Upside risks include an accelerated recovery in the US economy

Upside risks include an accelerated recovery in the US economy and fiscal stimulus measures in China, in our view.

Downside risks include the appointment of FRB vice chair Janet Yellen as FRB chair resulting in yen strengthening

Downside risks include problems related to reactor decommissioning, the appointment of FRB vice chair Janet Yellen as FRB chair resulting in yen strengthening, a greater-than-expected negative impact from hiking the consumption tax, and the emergence of a financial crisis in Europe and China.

Figure 2. Citigroup global strategy team's regional recommendations

Overweight	Neutral	Underweight
Emerging Markets	US	Europe ex-UK
Asia Pac ex-Japan	Japan	Australia
	UK	

Source: Citi Research.

Figure 3. Our forecasts for TOPIX and the Nikkei

	TOPIX	Nikkei 225
End-Mar 2014	1,320	15,800
End-Mar 2015	1,590	19,000

Source: Citi Research.

Figure 4. TOPIX EPS forecast figures

	Citi	YoY (%)	Bloomberg	YoY (%)
FY2012 (A)	52	34.9	52	34.9
FY2013 (E)	79	54.2	81	56.5
FY2014 (E)	89	12.5	89	11.0

Source: Bloomberg, Citi Research.

Sector stances

**Overweighting financials, consumer
cyclicals, and basic materials**

We overweight financials, which is appealing in valuation terms and positively affected by Abenomics, consumer cyclicals, which benefit from yen weakness and the recovery in the US economy, and basic materials, where the benefits of yen weakness and the strong auto sector are emerging. We underweight healthcare and consumer staples, which are losing some of their valuation luster, and IT, which is seeing smartphone and tablet growth slow.

Figure 5. Sector stance

Overweight	Neutral	Underweight
Consumer discretionary	Industrials	Consumer staples
Financials	Telecommunications	Healthcare
Basic materials	Energy	Information technology
		Utilities

Source: Citi Research.

Themes in the spotlight

Rising asset prices: Daiwa Securities Group, Sumitomo Mitsui Financial Group, Sumitomo Realty & Development

Ageing society: Astellas Pharma, Secom

Rising communications fees: Konami, Namco Bandai Holdings, KDDI

Yen depreciation, US economic recovery: Nippon Steel & Sumitomo Metal, Honda Motor, Bridgestone, Aisin Seiki

(Note: Stocks taken from our model portfolio)

Key stocks in our model portfolio

Figure 6. Five key stocks in our model portfolio

Code	Company	Price (¥)	Rating	Analyst	Reasons to Buy
5108	Bridgestone	3,575	1	Arifumi Yoshida	We like 1) evidence of impressive price control ability thanks to strong brand value and 2) high exposure to the North American market, where latent demand has accumulated.
7267	Honda	3,735	1	Arifumi Yoshida	We think the market will start to price in earnings improvement from FY3/14 stemming from new model launches in North America and Southeast Asia. Honda also benefits significantly from the recent trend toward yen weakness.
7752	Ricoh	1,131	1	Masahiro Shibano	Looks strongly undervalued. In addition, we think earnings momentum should be better than at peers as structural reform benefits are emerging.
8316	Sumitomo Mitsui Financial Group	4,745	1	Hironari Nozaki, CFA	Valuations have fallen to historically low levels. We believe interest rate normalization and other positives have not been priced in.
8830	Sumitomo Realty & Development	4,655	1	Yoshizumi Kimura	Significantly undervalued. Involved in many superior projects. Demand for high-end properties with strong earthquake resistance has increased since the March 11 disaster. Governments are implementing monetary easing globally.

Note: As of September 30. Reasons for our Buy ratings are from our fundamental analysts.
Source: Citi Research.

Model portfolio

Adding Shiseido and Mitsubishi Electric

We add Shiseido to our model portfolio, as domestic cosmetics sales are headed for a recovery phase and cost cuts are also running ahead of plan (see our September 19 memo, [Shiseido \(4911\) - Upgrading to Buy from Sell: The giant stirs](#)), and Mitsubishi Electric, as we anticipate medium-term growth for an increasing number of areas—FA, electric power, elevators, railroads, and defense—and we are optimistic about the prospects for stable earnings growth (see our August 29 memo, [Mitsubishi Electric \(6503\) - Upgrade to Buy: Profits recovering across the board](#)).

Also, we remove Toyo Suisan and Toshiba.

Figure 7. Model portfolio (As of September 30)

Code	Company	Market-weight share price (¥)	Citi weight	Rating	RP YoY (%)		PER (x)		RoE (%)	Market cap (¥bn)	Pct chg vs. TOPIX (%)	
		30 September		30 Sept	FY13E	FY14E	FY13E	FY14E	FY13E	30 Sept	3m	1m
Consumer staples Underweight		6.9%	4%									
2914	Japan Tobacco	3,530	2%	1	27.2	10.7	14.3	12.9	23.1%	6,416	-7.8	-1.4
4911	Shiseido	1,764	2%	1	81.7	10.9	23.9	21.4	9.5%	702	4.6	5.3
Materials Overweight		7.5%	12%									
3402	Toray Industries	645	4%	1	26.9	10.7	15.4	13.6	8.8%	1,051	-7.7	-0.5
4063	Shin-Etsu Chemical	6,000	4%	1	19.9	14.7	19.5	16.9	7.9%	2,550	-12.1	-5.8
5401	Nippon Steel & Sumitomo Metal	333	4%	1	406.9	27.7	12.1	9.8	10.1%	3,022	5.5	10.8
Health Care Underweight		5.7%	3%									
4503	Astellas Pharma	5,000	3%	1	2.6	24.6	21.7	16.0	9.6%	2,256	-17.4	-7.4
Industrials Neutral		21.0%	21%									
6141	Mori Seiki	1,523	4%	1	96.9	25.9	17.6	12.7	8.8%	167	7.3	4.8
6503	Mitsubishi Electric	1,030	4%	1	257.5	21.7	16.0	12.7	10.1%	2,211	-8.2	-2.2
8031	Mitsui & Co.	1,426	4%	1	30.2	-5.4	6.4	6.7	11.8%	2,603	-2.3	-3.0
9020	East Japan Railway	8,440	5%	1	4.9	8.4	16.7	15.0	9.5%	3,329	-3.8	4.3
9735	Secom	6,140	4%	1	8.1	4.9	19.1	18.2	10.1%	1,340	0.6	1.6
IT Underweight		9.5%	6%									
7752	Ricoh	1,131	3%	1	142.4	16.7	9.8	8.3	8.9%	820	-9.4	-1.3
9766	Konami	2,266	3%	1	32.3	39.0	18.3	13.1	7.4%	314	-7.4	-2.8
Consumer Discretionary Overweight		21.1%	24%									
5108	Bridgestone	3,575	5%	1	46.6	4.8	10.4	9.9	18.1%	2,799	-7.3	3.1
6758	Sony	2,098	5%	1	1.3	29.3	34.7	16.7	2.9%	2,121	-10.6	-0.9
7259	Aisin Seiki	4,185	5%	1	19.4	11.1	13.3	11.9	9.9%	1,180	-6.2	3.0
7267	Honda Motor	3,735	5%	1	66.3	10.2	10.9	9.9	11.7%	6,732	-9.1	-1.9
7832	Namco Bandai Holdings	1,835	4%	1	-1.9	6.7	12.7	11.9	12.3%	403	2.7	9.0
Financials Overweight		21.0%	24%									
8316	Sumitomo Mitsui Financial Group	4,745	5%	1	24.7	-3.6	10.0	9.8	7.9%	6,488	-4.9	1.6
8591	ORIX	1,595	5%	1	20.2	18.3	16.1	13.6	7.5%	2,007	3.3	9.7
8601	Daiwa Securities Group	880	5%	1	-31.2	13.9	31.6	27.7	5.1%	1,496	-5.3	3.0
8830	Sumitomo Realty & Development	4,655	5%	1	10.3	7.3	32.0	29.5	10.5%	2,207	0.4	0.1
8960	United Urban Investment	150,000	4%	1	16.8	13.8	2.7	28.3	5.0%	357	9.1	10.2
Telecommunication Services Neutral		3.9%	4%									
9433	KDDI	5,040	4%	1	20.5	12.4	13.4	12.3	13.1%	3,881	-10.1	0.0
Utilities Underweight		2.3%	1%									
9531	Tokyo Gas	538	1%	1	13.3	-12.0	12.6	13.9	11.3%	1,351	-10.6	-1.7
Energy Neutral		1.1%	1%									
1605	Inpex	1,158	1%	1	-5.0	-1.6	11.8	11.9	5.6%	1,691	-3.9	-3.2

Note: The index composition indicates the sector weight as a proportion of the S&P Japan Equity Index.
Source: S&P Global Equity Indices, Citi Research.

Key data

Performance by sector and size indices relative to TOPIX

Figure 8. Performance by sector and size indices relative to TOPIX: Outperformance for other financing business, iron & steel and REITs

	2012	2013						
	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Jun	Jul	Aug	Sep
TOPIX (absolute return)	16.6	20.3	9.6	5.3	-0.2	-0.2	-2.3	8.0
Core 30	3.2	-1.2	2.0	-1.2	0.9	-0.3	-0.1	-0.9
Large 70	-0.8	0.1	-0.8	-0.8	-0.5	-0.3	0.2	-0.7
TOPIX 100	1.5	-0.7	0.9	-1.1	0.3	-0.3	0.0	-0.8
Mid 400	-2.5	1.4	0.1	1.0	-0.0	0.3	-0.2	1.0
Small	-2.3	0.4	-6.4	4.4	-2.3	1.2	0.4	2.6
High-tech								
Electric Appliances	3.7	-6.4	1.7	-0.8	-3.5	-1.2	-0.3	0.8
Transportation Equipment	14.3	-0.3	7.8	-1.4	-2.3	0.6	-0.4	-1.6
Information & Communication	-16.4	4.0	11.5	0.7	6.1	2.1	0.4	-2.0
Machinery	10.8	-2.3	-0.7	4.4	-6.3	-0.4	2.8	1.8
Precision Instruments	-8.9	-11.9	7.3	-6.2	-5.2	-2.1	-3.0	-1.0
Cyclicals								
Chemicals	-0.2	-1.1	-0.6	-3.0	1.2	-3.0	0.8	-0.7
Wholesale Trade	-4.5	-6.5	-10.4	4.3	-4.6	2.6	1.6	-0.2
Iron & Steel	17.6	-10.0	4.2	17.9	-0.0	6.9	1.0	9.0
Nonferrous Metals	3.6	-9.6	-7.4	13.7	-5.4	7.9	3.9	0.7
Glass & Ceramics Products	6.0	-15.5	2.7	11.2	-3.9	2.0	5.0	3.4
Textiles & Apparels	-5.4	-3.5	-9.8	-0.6	-7.1	0.3	-0.1	-0.8
Oil & Coal Products	-1.7	-9.0	-13.7	1.8	-3.6	6.3	2.6	-7.4
Rubber Products	2.8	24.0	-4.7	-1.0	-0.2	2.3	-5.4	2.6
Marine Transportation	23.1	10.0	-0.2	11.3	0.5	0.5	6.0	4.1
Pulp & Paper	6.9	-8.5	-4.6	5.9	5.4	2.8	-3.1	6.6
Mining	-17.5	-8.2	-23.9	6.6	-6.1	3.8	6.1	-3.9
Domestic demand								
Retail Trade	-12.1	9.0	-3.2	-3.3	3.0	1.1	-2.2	-2.1
Land Transportation	-8.5	11.8	-9.0	-2.2	3.5	-0.4	-1.7	0.0
Real Estate	16.9	9.0	-3.7	8.6	1.9	-0.0	5.7	2.4
REIT	-7.5	27.0	-24.6	2.8	2.3	-5.8	1.3	8.2
Construction	2.1	-15.2	6.9	3.5	2.5	-1.4	0.9	4.2
Other Products	-13.1	1.7	-2.8	1.5	5.0	3.0	0.4	-2.0
Services	-9.3	7.6	-3.5	6.6	3.5	1.3	3.1	1.7
Metal Products	-4.3	-8.2	4.4	-5.8	-2.5	-1.5	-2.5	-1.6
Air Transportation	-14.9	-8.5	3.0	6.0	-2.5	0.5	2.0	3.2
Warehousing & Harbor Transportation Services	1.8	16.8	-21.4	1.3	0.4	0.7	-3.6	4.6
Financials								
Banks	4.4	5.1	-3.2	-2.1	5.6	-1.3	-1.0	0.4
Other Financing Business	11.3	0.5	-1.6	7.9	-2.4	2.7	-6.3	12.8
Securities	53.1	7.3	11.5	2.2	-6.7	1.9	-4.6	5.5
Insurance	7.5	-10.5	8.4	-4.5	2.9	-1.2	-0.2	-3.1
Defensive								
Pharmaceutical	-14.7	9.5	-12.3	-6.4	0.9	-2.2	1.9	-6.2
Electric Power & Gas	-1.0	-8.6	18.9	-6.3	2.3	-2.5	-5.6	2.6
Foods	-15.1	3.6	-2.1	-5.3	0.2	-1.8	-0.9	-2.5
Fishery, Agriculture & Forestry	-7.0	-11.2	0.7	-4.7	2.0	0.6	-1.0	-4.4

Note: We bold the sectors with the best performance from among the TSE 33 sectors and TSE REIT Index, while sectors with the worst performance are italicized.

Source: Astra Manager, Citi Research.

Company forecasts and Quick consensus forecasts for FY13

Figure 9. FY13 company forecasts and Quick consensus forecasts

		No. of companies that have announced FY13 forecasts	FY13 company forecasts (YoY, %)				No. of companies in Quick consensus forecasts	FY13 Quick consensus forecasts (YoY, %)				
			Sales	OP	RP	NP		Sales	OP	RP	NP	MoM RP growth
	TSE1	1,525	3.5	2.2	13.7	32.5	933	9.3	15.2	30.3	59.3	→
	TSE1 (excl. electric power companies)	1,522	3.5	2.3	13.9	32.7	922	9.3	12.2	26.7	45.6	→
	TSE1 (excl. financials)	1,417	8.7	22.4	20.6	46.1	877	10.1	36.1	35.3	79.1	→
	Manufacturers	774	9.7	33.0	32.1	75.2	514	10.7	45.9	47.2	100.6	↓
	Non-manufacturers	751	-3.1	-24.5	-1.1	4.6	419	7.8	-12.0	16.1	30.3	→
High-tech	Elec. App.	137	6.9	48.6	88.5	To black	114	7.1	54.4	95.4	To black	↓
	Trans.Equip.	61	11.2	36.0	35.1	41.3	48	14.4	58.5	57.4	63.0	→
	Inf.&Com.	88	4.1	5.1	5.8	8.9	60	12.8	14.8	12.0	19.4	→
	Machinery	110	11.8	36.1	28.4	32.7	76	13.0	42.2	36.7	38.3	→
	Prec. Inst.	24	6.4	48.7	45.4	38.9	15	6.4	57.3	59.6	50.4	↓
Cyclicals	Chemicals	118	11.1	28.2	19.8	54.1	73	10.9	32.5	25.2	66.0	→
	Whsle Trade	127	10.0	21.4	10.5	8.2	52	10.6	27.5	17.0	14.3	→
	Iron & Steel	29	23.5	193.0	224.7	To black	23	18.6	421.4	297.0	To black	↑
	Nonfer.Mtls	21	13.9	21.3	15.2	22.8	14	11.4	23.6	18.1	24.8	→
	Gl.&Cer.Prod	30	8.2	10.5	5.9	5.1	18	8.0	21.2	20.3	25.2	↓
	Text&Apparel	36	8.9	34.7	25.7	103.3	12	8.4	30.0	23.3	88.9	→
	Oil&Coal P.	11	10.0	14.4	13.1	83.5	8	10.1	17.7	14.6	93.5	↑
	Rubber Prod.	11	16.6	34.3	27.1	35.1	6	17.2	41.3	36.5	43.1	↑
	Marine Trans	9	10.9	3,329.7	2,092.2	To black	3	10.2	795.4	710.0	To black	↑
	Pulp&Paper	10	9.1	22.2	10.7	2.8	5	9.4	19.6	7.9	23.0	→
	Mining	7	1.1	-9.6	-10.0	-5.8	4	10.0	-0.8	-6.8	-1.2	→
Domestic demand	Retail Trade	127	6.6	11.3	7.9	12.8	72	7.2	11.7	8.8	9.6	→
	Land Trans.	37	3.6	1.1	2.3	7.0	23	4.5	4.9	7.0	10.8	→
	Real Estate	31	8.0	12.4	11.4	16.6	19	7.2	11.0	11.7	16.0	↓
	Construction	91	5.4	24.3	13.2	41.9	38	6.7	28.6	18.4	48.0	↑
	Other Prod.	43	8.1	79.7	37.2	48.1	24	8.2	98.6	55.8	75.2	↓
	Services	90	12.3	6.9	5.6	2.6	61	9.5	9.9	8.8	5.3	→
	Metal Prod.	33	6.6	27.3	13.9	61.0	15	6.6	31.0	17.4	73.8	↓
	Air Trans.	3	5.8	-16.1	-20.8	-23.6	3	5.2	-10.4	-12.9	-13.7	→
	Whsng&H.Tr.S	20	7.9	9.5	6.3	11.3	11	8.8	7.7	6.3	8.6	→
Financials	Banks	83	--	--	-21.4	-15.3	27	0.7	--	2.9	-8.4	→
	Oth.Fin.Bus.	18	0.4	19.5	15.7	21.0	18	6.1	34.4	28.5	34.4	→
	Sec.&Com.Fut	1	20.8	26.6	16.2	12.2	5	30.7	136.6	123.4	124.9	↑
	Insurance	6	--	--	11.9	17.8	6	-3.7	--	14.6	24.6	→
Defensive	Pharm.	35	7.6	7.3	-2.5	-2.7	27	7.5	12.1	10.8	4.8	→
	Elec.Pwr&Gas	9	6.6	-5.0	-13.9	-8.6	15	8.4	To black	Loss reduced	To black	-
	Foods	65	5.4	11.8	9.6	20.8	36	5.3	13.6	12.2	24.1	↓
	Fish/Ag.&For	4	3.4	65.4	39.1	384.2	2	1.8	46.9	25.4	To black	→

Note: As of September 30. The universe is TOPIX constituents with fiscal periods ending in February and March. If a company announces FY13 forecasts but omits one of the four items we look at we exclude it (we only exclude banks and insurers if they do not announce RP and NP forecasts). In our MoM RP growth rate column above, → signifies growth/decline of 2% or less, ↑ signifies growth of more than 2%, and ↓ signifies a decline of 2% or more.

Source: Astra Manager, Citi Research.

Figure 10. FY14 Quick consensus forecasts

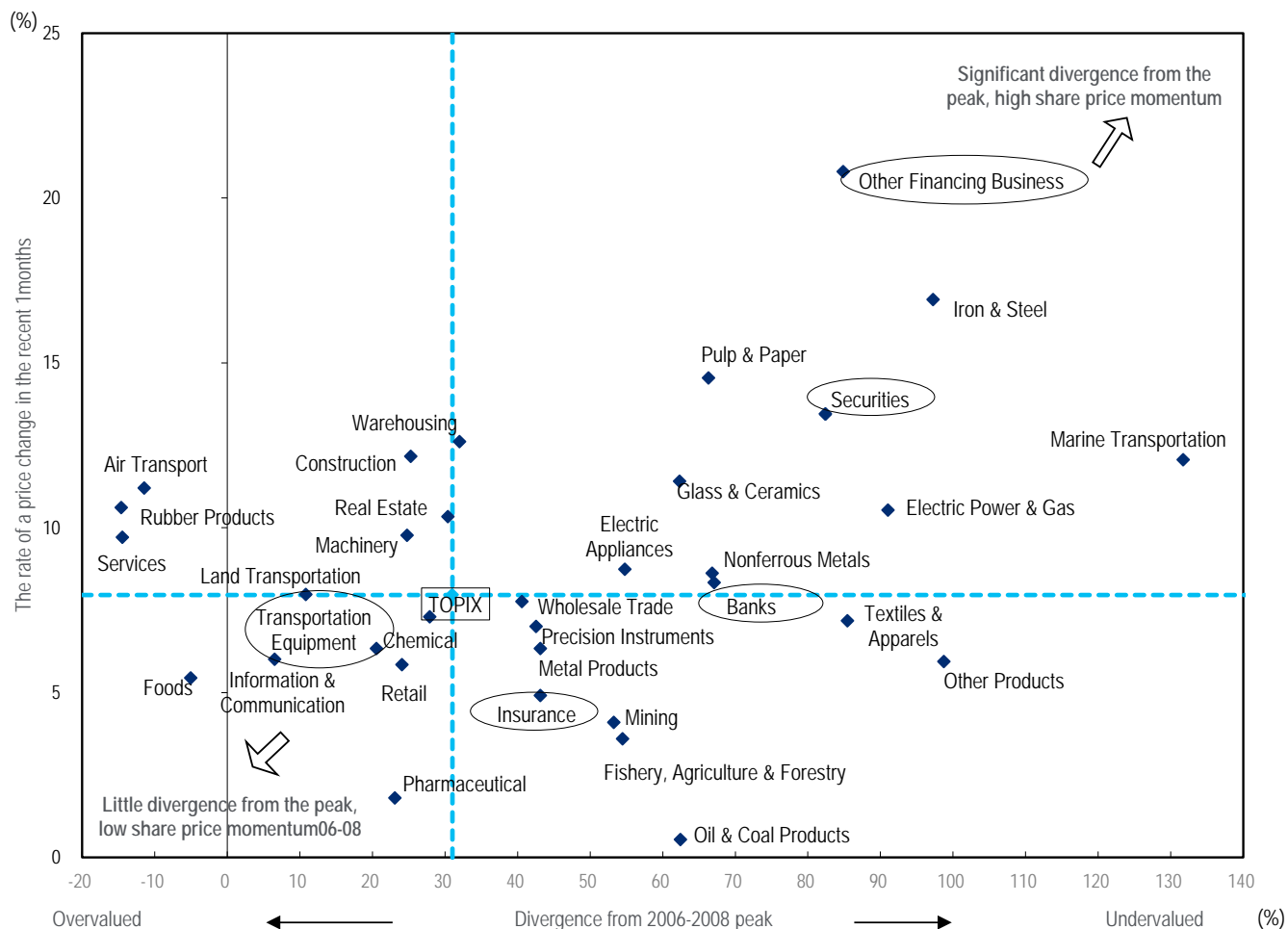
		No. of companies in FY14 Quick consensus forecasts	FY14 Quick consensus forecasts (YoY, %)				
			Sales	OP	RP	NP	MoM RP growth
	TSE1	929	3.4	13.2	11.1	10.8	→
	TSE1 (excl. electric power companies)	918	3.4	10.1	8.6	8.8	→
	TSE1 (excl. financials)	873	3.5	13.4	13.3	13.2	→
	Manufacturers	513	3.7	12.9	13.4	13.9	→
	Non-manufacturers	416	3.1	13.6	8.8	7.4	→
High-tech	Elec. App.	114	2.6	17.2	19.0	25.8	→
	Trans.Equip.	48	5.3	11.4	12.1	11.4	→
	Inf.&Com.	59	4.7	5.7	4.8	5.4	→
	Machinery	75	7.4	14.5	13.8	13.5	→
	Prec. Inst.	15	3.7	17.6	20.5	15.6	→
Cyclicals	Chemicals	73	3.5	12.1	11.8	13.5	→
	Whsle Trade	52	3.3	8.6	4.4	4.4	→
	Iron & Steel	23	3.4	24.1	22.8	17.1	→
	Nonfer.Mtls	14	5.0	19.4	18.6	25.3	↑
	Gl.&Cer.Prod	18	3.0	16.4	19.6	39.9	→
	Text&Apparel	12	3.6	14.4	15.5	24.9	→
	Oil&Coal P.	8	0.5	0.5	2.8	0.5	↓
	Rubber Prod.	6	5.2	8.6	9.3	10.2	↓
	Marine Trans	3	4.3	41.4	39.5	43.7	↑
	Pulp&Paper	5	1.4	19.4	16.8	14.0	→
	Mining	4	5.2	1.3	0.9	4.9	→
Domestic demand	Retail Trade	70	3.7	6.9	6.7	7.9	→
	Land Trans.	23	2.0	3.0	3.8	3.4	→
	Real Estate	19	3.9	7.7	8.4	8.9	→
	Construction	38	1.5	6.5	6.7	4.4	→
	Other Prod.	24	3.0	15.8	11.6	12.0	→
	Services	61	3.2	6.3	6.5	12.3	→
	Metal Prod.	15	4.4	14.6	15.7	20.6	↑
	Air Trans.	3	3.0	7.4	10.1	9.1	→
	Whsng&H.Tr.S	11	5.5	9.8	9.8	5.9	→
Financials	Banks	27	1.4	--	-1.3	-3.2	→
	Oth.Fin.Bus.	18	4.6	10.2	9.6	9.0	→
	Sec.&Com.Fut	5	-1.5	-13.3	-12.6	-14.6	→
	Insurance	6	2.1	--	3.1	0.8	→
Defensive	Pharm.	27	2.0	5.1	5.3	2.5	→
	Elec.Pwr&Gas	15	2.6	997.7	To black	557.7	-
	Foods	36	2.3	8.6	9.3	4.8	→
	Fish/Ag.&For	2	1.8	13.9	11.9	16.7	↑

Note: As of September 30. The universe is TOPIX constituents with fiscal periods ending in February and March. If a company announces FY13 forecasts but omits one of the four items we look at we exclude it (we only exclude banks and insurers if they do not announce RP and NP forecasts). In our MoM RP growth rate column above, → signifies growth/decline of 2% or less, ↑ signifies growth of more than 2%, and ↓ signifies a decline of 2% or more.

Source: Astra Manager, Citi Research.

Value and momentum by sector

Figure 11. Rate of divergence from the 2006-2008 market cap peak and share price performance over the past month: Based on value and momentum, other financing business, iron & steel and marine transportation look appealing



Note: The horizontal axis shows divergence from the 2006-2008 market cap peak for the TSE's 33 sectors. As we calculate this based on differences between natural logs some sectors may exceed 100%.

Source: Astra Manager, Citi Research.

Citi style index trends

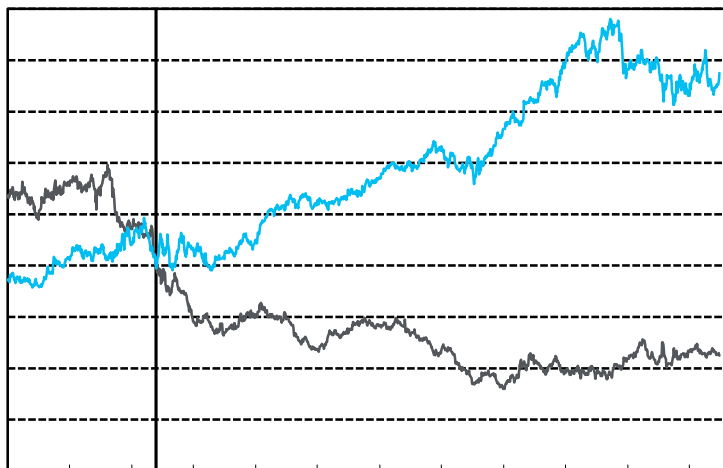
Figure 12. Citi style index trends: Risk index strong, but size index weak

	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Jun	Jul	Aug	Sep
Size	3.8	-1.3	2.9	-0.8	1.3	-0.3	-0.2	-0.4
Value	-1.8	1.2	-4.7	3.2	-2.2	2.9	-0.6	0.9
Growth	-3.3	1.9	-0.8	0.6	-1.6	-0.3	-0.2	1.1
Risk	16.1	-9.1	7.8	4.9	-4.7	3.4	-2.3	3.8
Momentum	-2.0	3.9	-4.4	4.4	0.3	0.9	1.5	1.9
Quality	-7.2	-6.4	-4.2	2.1	1.6	2.0	-1.1	1.2

Note: Based on our six style indices. September values are for the month through September 27.

Source: Bloomberg, Citi Research.

Figure 13. Citi style index trends

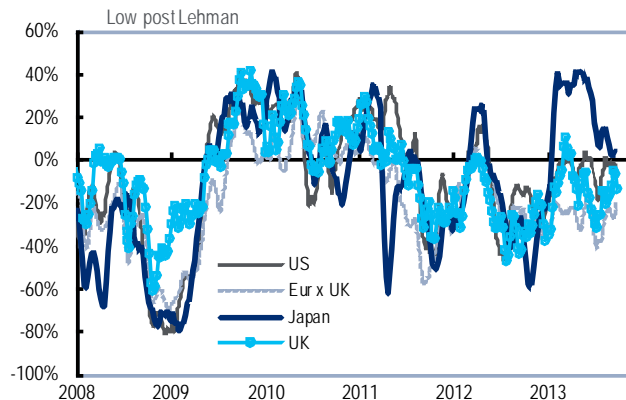


Note: As of September 27.

Source: Bloomberg, Citi Research.

Citi Revision Index trends

Figure 14. Citi Revision Index trends (developed economies): Japan's revision index in positive territory



Note: Four-week moving average.
Source: Bloomberg, Citi Research.

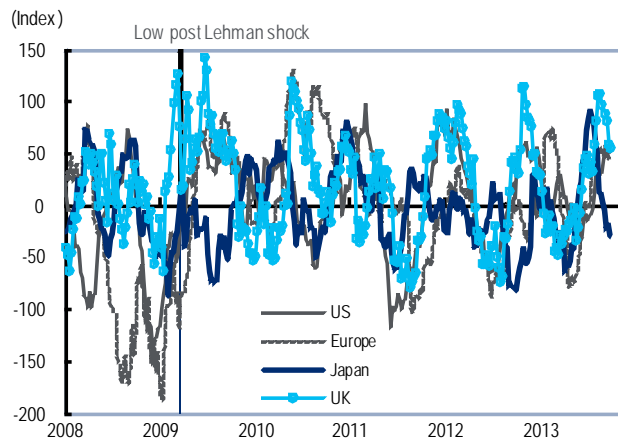
Figure 15. Citi Revision Index trends (by region)



Note: Four-week moving average.
Source: Bloomberg, Citi Research.

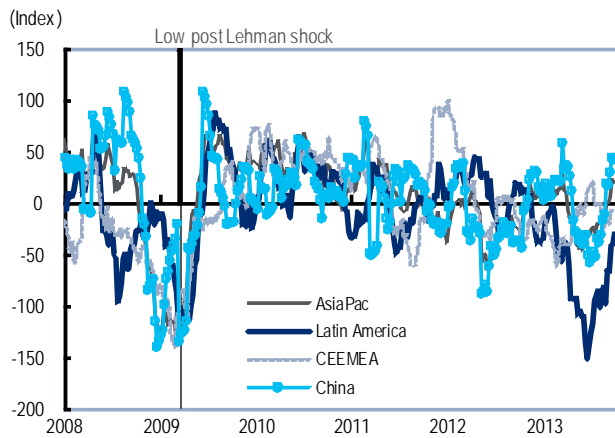
Citi Surprise Index trends

Figure 16. Citi Surprise Index trends (developed economies): Japan Surprise Index declining



Source: Bloomberg, Citi Research.

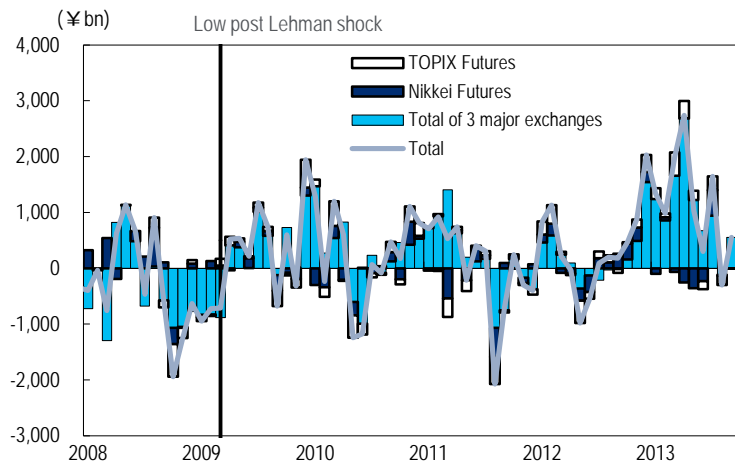
Figure 17. Citi Surprise Index trends (by region)



Source: Bloomberg, Citi Research.

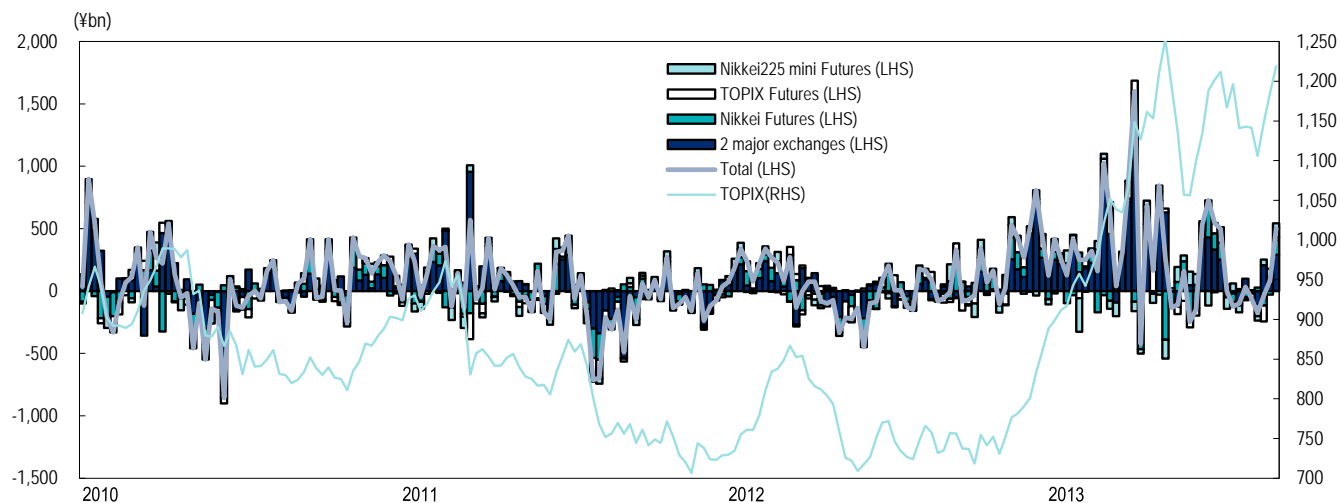
Trends in buying/selling by foreign investors

Figure 18. Trends in buying/selling by foreign investors: Foreign investors return to net buying in a turnaround from last month, when they were net sellers for the first time in 14 months



Note: Through the third week of September.
Source: Astra Manager, Citi Research.

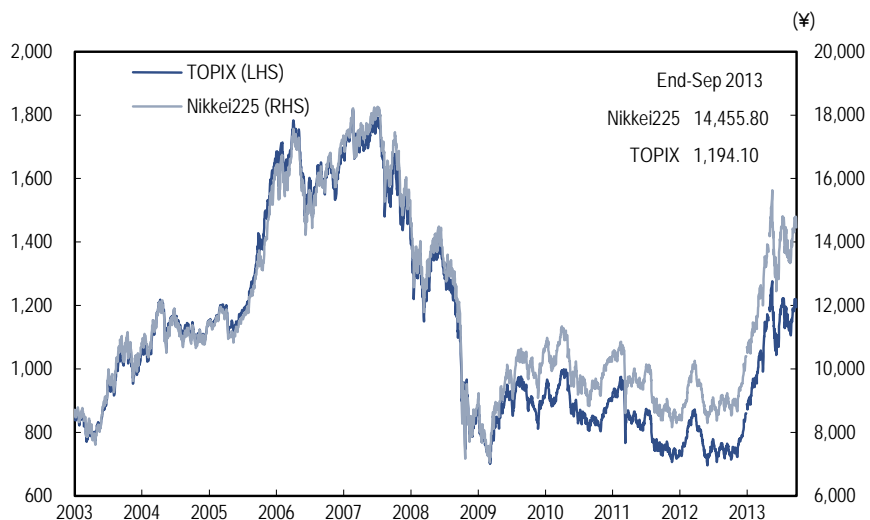
Figure 19. Trends in buying/selling by foreign investors



Note: Through the third week of September.
Source: Astra Manager, Citi Research.

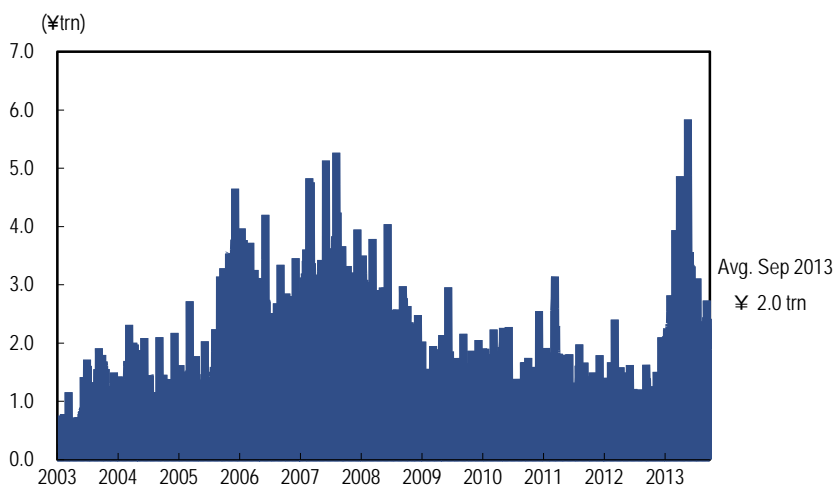
TOPIX and Nikkei trends, daily trading value for TSE1

Figure 20. Trends for TOPIX and the Nikkei 225



Source: Astra Manager, Citi Research.

Figure 21. TSE1 daily trading value



Source: Astra Manager, Citi Research.

Appendix A-1

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