

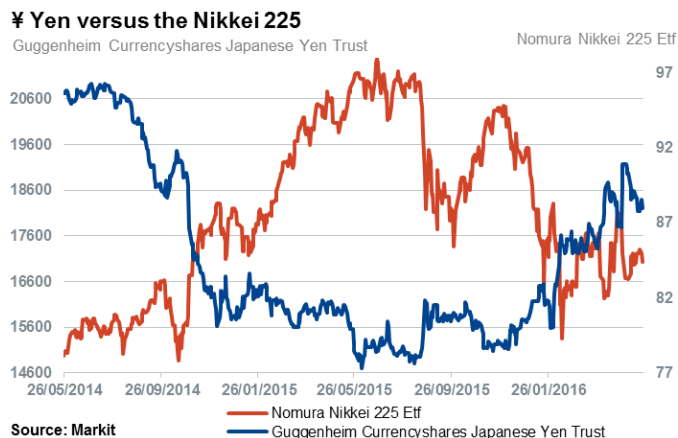
Japan running out of Abenomic arrows

Analysts have aggressively downgraded the outlook for longer term earnings in Japan as the yen continues to rise, placing more pressure on exports which are vital to achieve the country's growth ambitions.

- Earnings outlook for Japanese firms rapidly deteriorates as analysts revise estimates lower
- Japanese exporters see earnings dilution as yen strength continues - despite NIRP
- Number of Japanese companies expected to lead global earnings growth halves

Currently hosting the G7 summit, Japan's prime minister Shinzo Abe has **hinted** that the planned (but already delayed) sales tax hike in 2017 may in fact not go ahead as the economy once again grapples with stagnation.

Alluding to the fragile economy and 'crisis' like conditions being experienced, Abe plans to further nurture markets as the country's extensive monetary easing programme continues. This includes **support** through substantial Bank of Japan (BoJ) purchases of domestic ETFs, amid some of the **strongest** ETF outflows of foreign funds seen in two years.

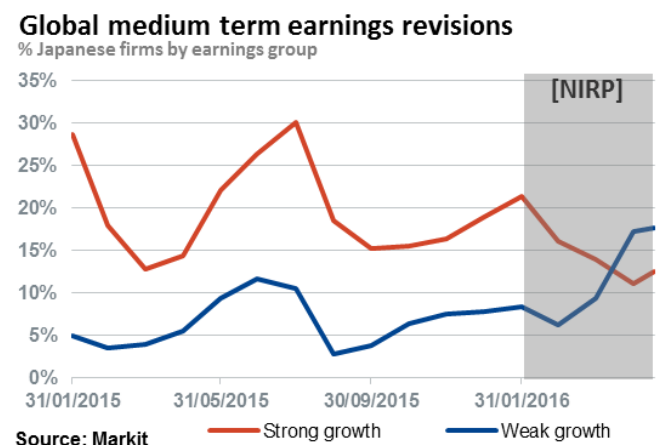


However the BoJ is running out of economic arrows to stimulate the economy. The launch of the negative interest rate policy (NIRP) in late January has largely **backfired** with the yen trading towards two year highs. The stubbornly strong yen and emerging market selloff has seen stock the Nikkei 225 slump in

2016, reversing some of the Abenomics **boom** seen in equities since 2012.

With a stronger yen, the earnings outlook for firms hoping to grow exports on the back of stimulus has dimmed. According to Markit **Research Signals** 3-M Revision in FY2 EPS factor, which ranks firms according to revisions to medium term earnings estimates, analysts have downgraded their earnings estimates for Japanese firms across the board.

Over a global universe of 7000 stocks, the number of Japanese companies ranked in the top 10% of firms expected to grow earnings over a two year time horizon has halved in the past 12 months.



This trend accelerated post the introduction of NIRP in January. Additionally, the bottom 10% of firms expected to grow earnings (seeing the worst revisions to earnings

estimates) has seen the number of companies swell, increasing by over two fold.

Short sellers follow the analysts

One of the most shorted companies in Japan currently that ranks in the bottom ten percent of firms expected to grow earnings is Topcon Corp with 8.5% of its shares currently sold short.

Topcon Corp



Source: Markit

Recently reporting declining earnings, Topcon shares are down two thirds in the past 12 months. The firm manufactures and exports optical and digital imaging technology products, including mapping drones and eye care equipment, with three quarters of the company's sales coming from outside of Japan.

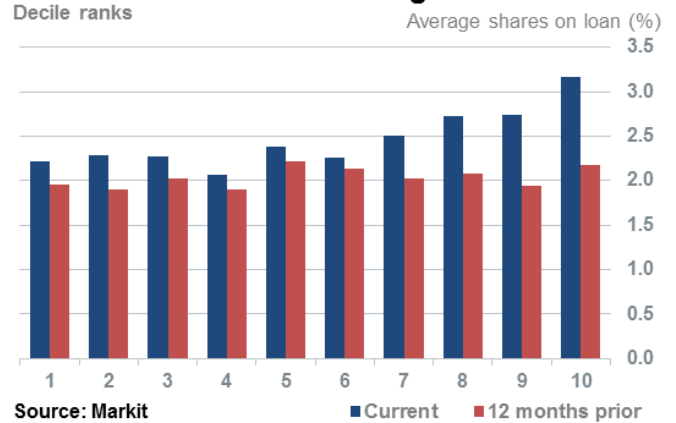
The top five most shorted Japanese companies where analysts have downgraded earnings outlooks the most are all related to equipment in the healthcare and technology sector.

Most shorted in Japan according to 3-M revision in FY2 earnings forecast factor (Decile 10)				
Name	Industry	Ticker	% Shares Outstanding On Loan	1 Month % Change
Topcon Corp	Technology Hardware & Equipment	7732	8.5	10%
Yaskawa Electric Corp	Technology Hardware & Equipment	6506	7.6	-7%
Cyberdyne Inc	Health Care Equipment & Services	7779	7.6	10%
Mitsumi Electric Co Ltd	Technology Hardware & Equipment	6767	7.3	-21%
Mani Inc	Health Care Equipment & Services	7730	7.0	13%
Yoshinoya Holdings Co Ltd	Consumer Services	9861	6.4	-10%
Showa Denko Kk	Materials	4004	5.6	-3%
Marubeni Corp	Capital Goods	8002	5.6	0%
Sanken Electric Co Ltd	Semiconductors & Semiconductor Equipment	6707	5.4	41%
Aeon Co Ltd	Food & Staples Retailing	8267	5.3	-7%

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Global medium term earnings revisions



Source: Markit

Globally, over the past 12 months, short sellers have congregated more towards companies that are expected to deliver poor earnings growth over the medium term as seen above, with short interest rising in the bottom half (decile 5-10) of companies ranked according to 3M revisions to FY2 earnings estimates.

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