

Shorting Abe's third arrow

Japan's Nikkei 225 index bounced 7.7% this week and subsequently fell in the next session after a month of losses in step with an emerging market selloff led by China. Gains of 20% in 2015 have been erased.

- Market value on loan swells by 18%, not giving credence to a market wide short squeeze
- A 10% increase seen in average short interest with top shorts at all-time highs
- Meanwhile short sellers cover positions in resilient watch maker Casio

Investors pin hopes on third arrow(s)

As in Chinese markets, investors in Japan are facing increased **volatility** in equities ahead of the Bank of Japan's October 30th meeting. Investors are struggling to gauge the impact of hopeful central bank intervention measures after the Nikkei 225's recent bounce. Year to date the index is up by a mere 2.5% after a month long sell off in equities led by Asian and emerging markets.

Nomura Nikkei 225 Index Linked Listed Investment



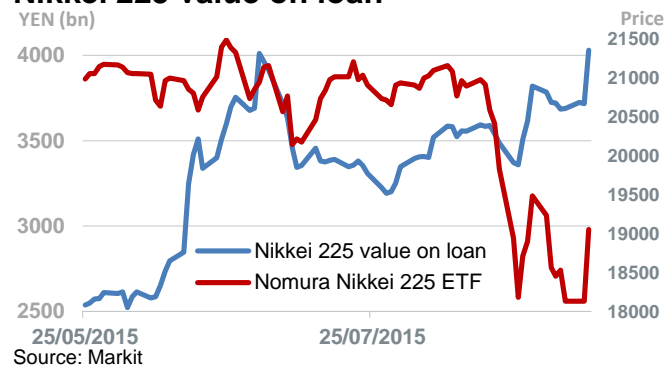
Short seller's bets increase

The sharp one day rise of the Nikkei 225 on September 9th was perhaps driven by **short sellers covering**; however **Markit Securities Finance** data indicates that on average, short interest in fact increased.

In contrast to Chinese equity markets where short selling in mainland names is prohibitive and short sellers make **use of ETFs** to gain short exposure - in Japan, year to date, the value of short positions across single names

has increased by 18% to \$33.45bn or ¥4031bn. The Nomura Nikkei 225 ETF sees minimal shorting activity.

Nikkei 225 value on loan



Prior to recent selloff, the Nikkei 225 was up 20%, in line with an increase in the total value on loan of short sellers. However, the value on loan has continued to increase over the last month, despite the index falling.

Nikkei 225 most shorted

53% of Nikkei 225 firms have seen short interest rise over the last week with the total average increasing 10% to 2.1%. Retail, real estate, technology hardware & equipment sectors contributed the greatest to the recent increase. Overall average short has trended materially higher over the last 12 months, rising 42% from 1.47% to 2.1%.

Top ten most shorted

Name	Ticker	Sector	Short Interest	Change over Month
Nikon Corp	7731	Consumer Durables & Apparel	19.7	6%
Sharp Corp	6753	Consumer Durables & Apparel	17.1	-10%
Mitsumi Electric Co Ltd	6767	Technology Hardware & Equipment	16.2	4%
Casio Computer Co Ltd	6952	Consumer Durables & Apparel	14.5	-4%
Advantest Corp	6857	Semiconductors & Semiconductor Equipment	13.7	-14%
Tokuyama Corp	4043	Materials	13.5	0%
Pacific Metals Co Ltd	5541	Materials	12.1	33%
Yaskawa Electric Corp	6506	Technology Hardware & Equipment	10.3	0%
Mitsui Osk Lines Ltd	9104	Transportation	8.4	5%
Ricoh Co Ltd	7752	Technology Hardware & Equipment	8.3	30%

Source: Markit

Global consumer electronics makers Nikon, Sharp and Casio remain some of the top most shorted companies in the country along with component maker Mitsumi electronics. Shares outstanding on loan in Nikon have risen to 19.7% hovering near all-time highs of 20%.

Nikon Corp



Sharp has had a torrid year as a slowdown in China continues to impact demand and the company restructures operations in multiple markets. Short sellers increased positions earlier in the year but have covered in recent weeks with shares outstanding on loan currently at 17.1%.

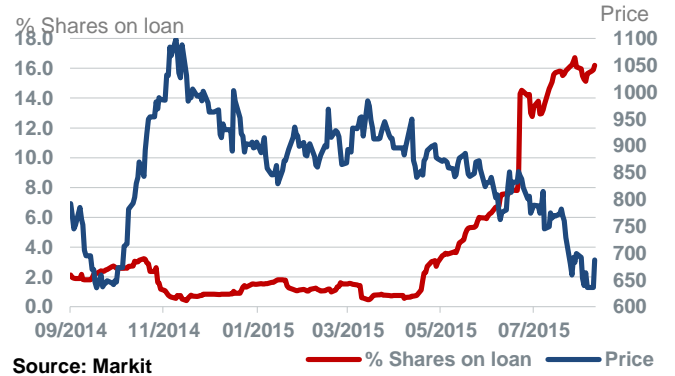
Sharp is down 45% over the last 12 months and caught the recent rally, rising by 6%.

Sharp Corp



Mitsumi Electric has 16.2% of shares outstanding on loan and the company's shares have continued to slide, down by 29% in the last six months with shorts sellers increasing positions tenfold.

Mitsumi Electric Co Ltd



Short sellers have however covered positions in Casio in the last three months as the resilient watch maker's shares are up 28% over the last 12 months. Consensus forecasts for the company point towards a 30% increase in earnings expected for the 2016 financial year.

Casio Computer Co Ltd



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