

# Yen 4Sight

## Highlights

- Machinery orders seem likely to have contracted in Q1, while consumer spending appears to have been flat at best.
- Key Cabinet Office measures of economic sentiment reported new cyclical lows in March.
- The BoJ's Regional Economic Report still points to economic expansion, but assessments were downgraded in 3 of 9 regions.
- The coming week features trade and CPI data for March, and the BoJ's Financial System Review and bank lending survey.

**Chris Scicluna**

 +44 20 7597 8326  
[chris.scicluna@uk.daiwacm.com](mailto:chris.scicluna@uk.daiwacm.com)
**Emily Nicol**

 +44 20 7597 8331  
[emily.nicol@uk.daiwacm.com](mailto:emily.nicol@uk.daiwacm.com)

### Interest and exchange rate forecasts

End period	12 Apr	Q219	Q319	Q419
BoJ ONR %	-0.10	-0.10	-0.10	-0.10
10Y JGB %	-0.06	-0.05	-0.05	-0.05
JPY/USD	112	110	107	105
JPY/EUR	127	126	121	118

Source: Bloomberg, BoJ and Daiwa Capital Markets Europe Ltd.

## Domestic machinery orders post meek rebound

The past week brought relatively few Japanese economic data, although the handful of reports released gave a helpful guide to domestic demand in Q1 and various survey results added to evidence of momentum in the economy (or, more accurately, the lack thereof) heading into Q2. A key focus was orders for new machinery, of particular interest in light of the weakness evident in January. As it turns out, total machinery orders – which are especially volatile from month to month – rose 5.4%M/M in February. Coming after a 7.9%M/M decline in January, this meant that these orders remained down 3.1%Y/Y. The most closely-watched series of core private orders – which excludes ships and other volatile categories – increased a disappointing 1.8%M/M. Coming after a drop of 5.4%M/M in January, these orders were still down a hefty 5.5%Y/Y, the biggest drop on this basis in five months and one surpassed only twice in the past two years.

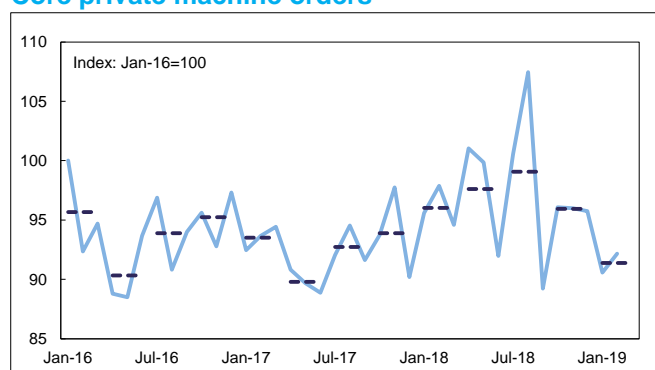
## Overseas machinery orders pick up in February

Within the detail, private orders from manufacturers rose 3.5%M/M in February but were still down 9.1%Y/Y – an annual decline somewhat exaggerated by the high level of orders reported in February last year. By contrast, core private orders from the non-manufacturing sector fell 0.8%M/M and were down 2.0%Y/Y. More positively, following two months of extraordinary declines – during which they fell by more than a third – orders from overseas rebounded 19.0%M/M in February. Even so, consistent with the weakness in capital goods exports since the start of the year, foreign orders were still down 1.9%Y/Y. March export data due in the coming week will be watched closely. But the drop in Chinese imports from Japan that month (-14.1%Y/Y, the steepest in more than three years) doesn't bode well. Finally, public sector orders rose for the second successive month in February and by 2.2%M/M but were still down 3.7%Y/Y.

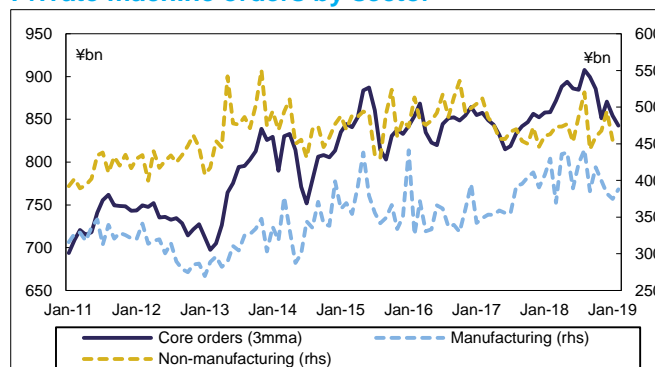
## Machinery orders on track for Q1 decline

Unfortunately, taking the January and February data together, core private orders are running 4.8% below the average level in Q4. The Cabinet Office's previous survey of machinery manufacturers had seen firms forecast a much smaller decline of 1.8%Q/Q following the 3.2%Q/Q drop in Q4. So, barring a substantial lift in orders in March (circa 8½%M/M), firms' downbeat expectations might well prove to have been insufficiently pessimistic. However, the relationship between machinery orders and private non-residential investment as

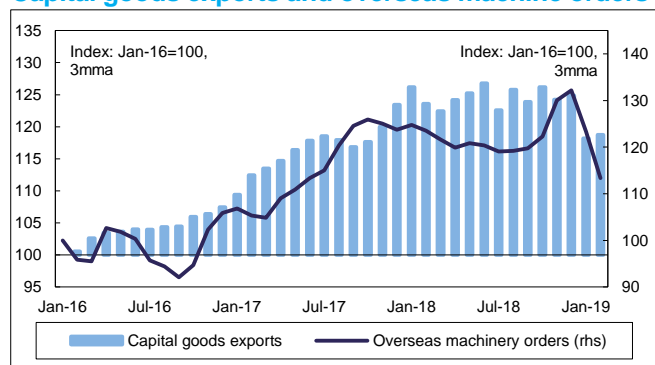
## Core private machine orders\*



## Private machine orders by sector



## Capital goods exports and overseas machine orders



portrayed in the national accounts is loose, not least because the latter includes other types of business investment aside from machinery, e.g. construction and intellectual property.

### Consumer spending likely flat at best in Q1

The other key activity indicator released in the past week was the Cabinet Office synthetic consumption index for February – the most reliable indicator of private consumption as measured in the national accounts. The good news is that the report included a sizeable upward revision to spending in January, which is now estimated to have rebounded 0.8%M/M from an unrevised 1.2%M/M slump in December. Unfortunately, from that higher base, spending declined an estimated 0.3%M/M in February and was down 0.1%Y/Y. As a result, spending over the first two months of Q1 was still running 0.3% below the Q4 average. Barring favourable revisions, spending will need to rise about 1%M/M in March – a result reached just once throughout last year – merely to deliver a flat result for private consumption in Q1. And so, taken together, the past week's consumption and machinery orders data point to a weak Q1 for domestic demand.

### Economy watchers more downbeat in March

Like the aforementioned hard data, the past week's sentiment indicators were also discouraging, albeit not surprisingly so in light of the [BoJ's Q1 Tankan](#). The headline current conditions index reported in the Cabinet Office's Economy Watchers survey declined 2.7pts in March to 44.8, the lowest level since July 2016. Moreover, the deterioration in this survey was widespread, with the index related to household demand falling 2.9pts to 44.2 and that related to corporate demand down 2.0pts to 44.9. Within the corporate sector particular weakness was evident in manufacturing whose equivalent index fell to just 41.9 – the lowest since October 2012. As previously, forward-looking indices pointed to some pickup relative to current conditions, but the degree of improvement expected was slightly less than the previous two months. The overall outlook index fell 0.3pt to 48.6, with the corporate sector index declining 1.0pt to 47.7.

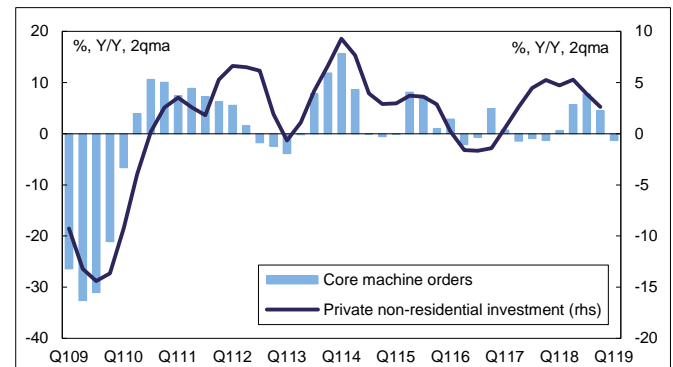
### Consumer confidence falls to four-year low

The Cabinet Office's consumer sentiment survey told a similar tale. A disappointing sixth consecutive drop in the headline index in March, down 1.0pt to 40.5, marked the lowest reading since January 2015 and took it below its long-term average. Within the detail, sizeable declines were recorded across all four main sub-indices. The index measuring consumers' willingness to buy durable goods fell 1.0pt to 39.9, the lowest since September 2015, while the index measuring income growth fell a less concerning 0.6pt to 41.2 albeit still the lowest level since November 2016.

### BoJ regional survey still points to expansion

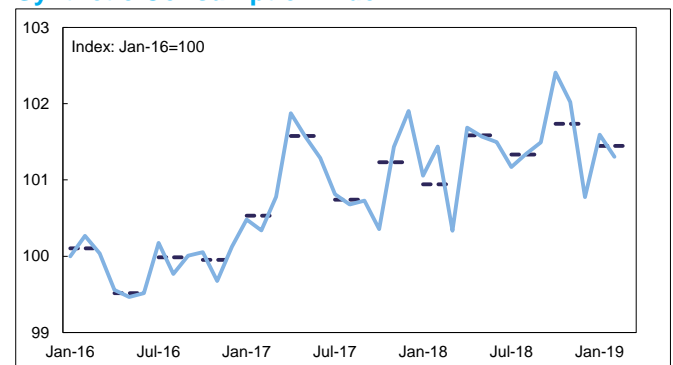
Notwithstanding the weakness evident in sentiment surveys, the BoJ's quarterly Regional Economic Report indicated that each of the nine major regions considered their economies to have been either expanding or recovering over the past three months. The assessment for Hokkaido was revised up due to continued recovery from the impact of September's Hokkaido Eastern Iburu Earthquake. By contrast, the economies of Tohoku, Hokuriku and Kyushu-Okinawa were all described in slightly less positive terms than in the

### Machine orders and non-residential investment



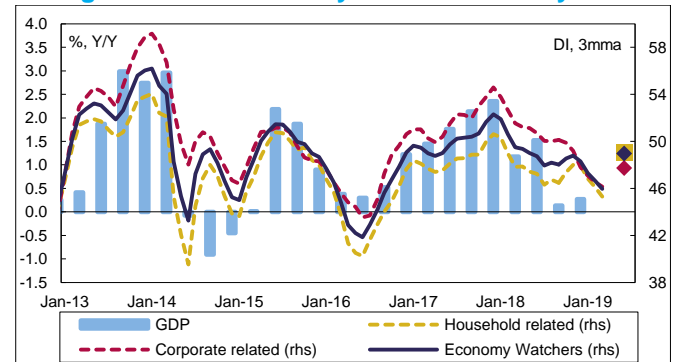
Source: Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Synthetic Consumption Index\*



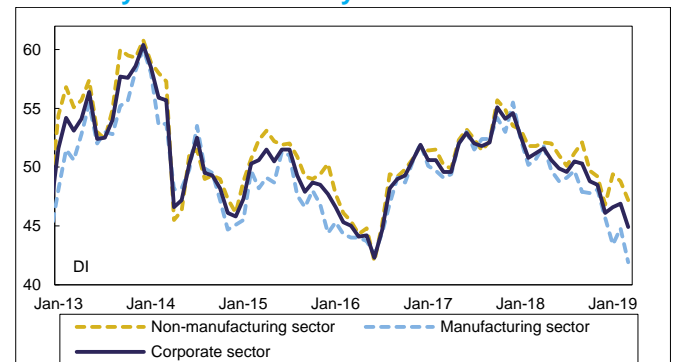
\*Dashed lines represent quarter averages. Source: Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### GDP growth and Economy Watchers survey\*



\*Diamonds represent latest reading of outlook index. Source: Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Economy Watchers survey – business sector



Source: Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

previous survey, with “some weakness ... observed in part” in Tohoku. Comments concerning “weakness” were most prevalent with regard to production, but business investment was described as increasing or flat at a high level. Notably, assessments of the labour market, household incomes and consumer spending remained generally favourable.

### Oil and metals push up producer prices in March

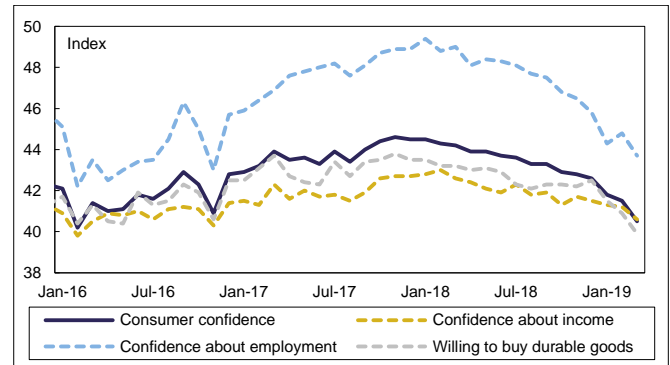
Turning to the past week’s pricing news, the goods PPI rose 0.3%/M/M in March which, when combined with a slight upward revision to historical data, lifted annual growth 0.4ppt to a three-month high of 1.3%/Y/Y. As in February, the largest price rises were seen in the petroleum/coal and non-ferrous metals, up 2.9%/M/M and 1.4%/M/M respectively. Similarly, in yen terms, import prices rose 1.6%/M/M and 2.5%/Y/Y, led by a 3.9%/M/M increase in prices of energy products and a rise of 2.3%/M/M in metals prices. Meanwhile, final prices for consumer goods rose 0.3%/M/M in March, leaving them down 0.3%/Y/Y following a drop of 1.1%/Y/Y in February.

### The week ahead in Japan and US

A focus at the start of the coming week will be on trade talks between US and Japanese officials in Washington DC. The data flow begins on Tuesday with the release of the Tertiary Industry Activity Index for February. A day later we will receive the merchandise trade balance for March and the final results of the IP report for February. The trade report will be of particular interest, with developments over the first two months of Q1 having raised the likelihood that net exports will make a much-needed positive contribution to GDP growth. But weak Chinese imports raise downside risks to Japan’s March exports figures. The Reuters Tankan for April follows on Thursday, while the national CPI report for March is due on Friday. The other diary entries to note are two reports from the BoJ – the semi-annual Financial System Report (FSR) on Wednesday and the quarterly Senior Loan Officer Survey released on Friday. In the last FSR the BoJ expressed somewhat greater concern about developments in its dashboard of financial stability indicators and these concerns are unlikely to have declined given rising downside risks to the economic outlook. In the bond market the MoF will auction 20-year JGBs on Tuesday and enhanced liquidity (maturities 5-15.5 years) and 1-year T-bills on Thursday.

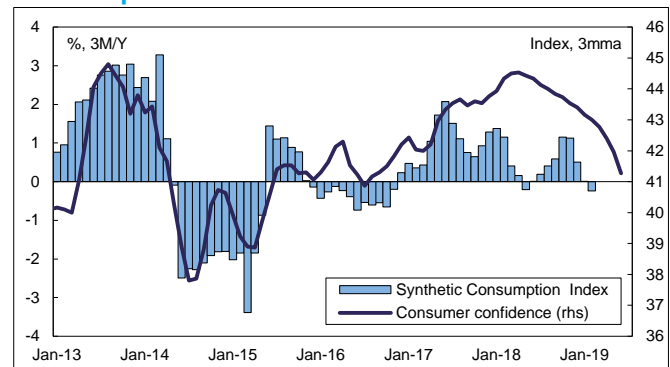
The US data flow begins with the NY Fed’s manufacturing survey for April on Monday, followed by the IP report for March and NAHB housing index for April on Tuesday. On Wednesday the trade report and wholesale inventory data for February will be released. Further light on Q1 GDP growth will be cast by Thursday’s retail sales data for March, while the preliminary PMI readings and Philadelphia Fed manufacturing survey for April are also released that day, as are the Conference Board’s leading index for March and the business inventory report for February. The data flow will conclude on Friday with the housing starts and building permit reports for March. The coming week will also bring a small number of speeches from FOMC members and the release of the Fed’s latest Beige Book, concluding the Fed’s communication ahead of the monetary policy meeting on 1 May. The US corporate earnings season also heats up, with 9% of the S&P500 companies due to report their results. In the bond market the US Treasury will auction 5-year TIPS on Thursday.

### Consumer confidence



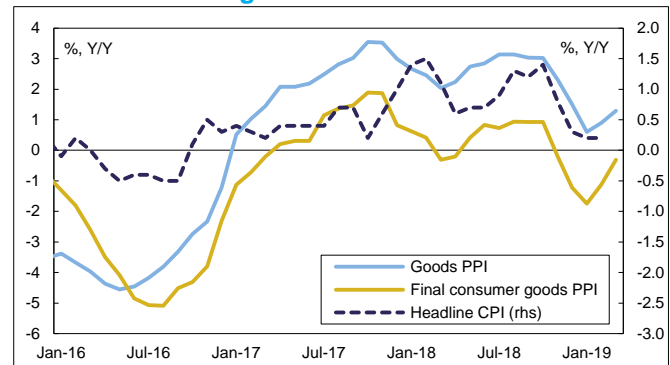
Source: Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Consumption and consumer confidence\*



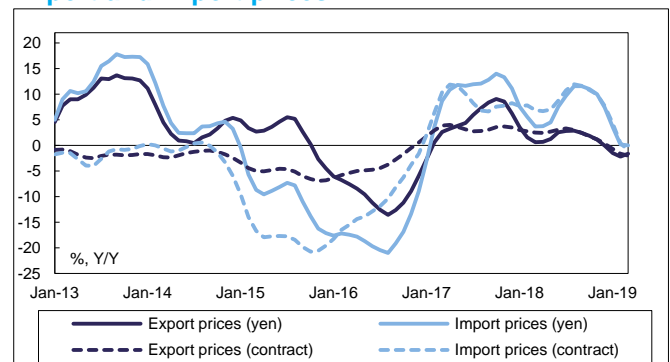
\*Confidence index has three-month lead. Source: Cabinet Office, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

### Headline CPI and goods PPI



Source: BoJ, Thomson Reuters and Daiwa Capital Markets Europe Ltd

### Export and import prices



Source: BoJ, Thomson Reuters and Daiwa Capital Markets Europe Ltd

# Economic calendar

## Key data releases – April/May

08	09	10	11	12
ECONOMY WATCHERS SURVEY – CURRENT CONDITIONS DI FEB 47.5 MAR 44.8 FUTURE CONDITIONS DI FEB 48.9 MAR 48.6 CONSUMER CONFIDENCE FEB 41.5 MAR 40.5 CURRENT ACCOUNT BALANCE ¥TRN JAN 1.8 FEB 2.0  BOJ REGIONAL ECONOMIC REPORT (APR)	6M TB AUCTION 5Y JGB AUCTION	MACHINE ORDERS M/M% JAN -5.4 FEB 1.8 GOODS PPI Y/Y% FEB 0.9 MAR 1.3 BANK LENDING Y/Y% FEB 2.3 MAR 2.4	ENHANCING LIQUIDITY AUCTION  M3 MONEY SUPPLY Y/Y% FEB 2.1 MAR 2.1	3M TB AUCTION
15	16	17	18	19
	20Y JGB AUCTION (APPROX ¥0.9TRN)  TERTIARY ACTIVITY INDEX M/M% JAN 0.4 FEB -0.2	GOODS TRADE BALANCE ¥BN FEB 116 MAR -306 INDUSTRIAL PRODUCTION M/M% JAN -3.4 FEB F 1.4 CAPACITY UTILISATION M/M% JAN -4.7 FEB N/A OVERSEAS VISITORS* MN FEB 2.6 MAR N/A DEPARTMENT STORE SALES* Y/Y% FEB 0.4 MAR N/A  BOJ FINANCIAL SYSTEM REPORT	1Y TB AUCTION (APPROX ¥1.9TRN) ENHANCING LIQUIDITY AUCTION (APPROX ¥0.6TRN)  REUTERS TANKAN* - MANUFACTURING DI MAR 10 APR N/A NON-MANUFACTURING DI MAR 22 APR N/A	3M TB AUCTION (APPROX ¥4.3TRN)  NATIONAL CPI Y/Y% FEB MAR 0.2 0.2 EX FRESH FOOD 0.7 0.7 EX FRESH FOOD/ENERGY 0.4 0.4 BOJ SENIOR LOAN OFFICER OPINION SURVEY (APR)
22	23	24	25	26
	2Y JGB AUCTION  MANUFACTURING PMI (APR P)	ALL INDUSTRY ACTIVITY (FEB) SERVICES PPI (MAR)  BOJ POLICY BOARD MEETING (24-25 APRIL 2019)	BOJ POLICY BOARD ANNOUNCEMENT AND OUTLOOK REPORT	INDUSTRIAL PRODUCTION (MAR P) RETAIL SALES (MAR) UNEMPLOYMENT RATE (MAR) JOB-TO-APPLICANT RATIO (MAR) TOKYO CPI (APR)
29	30	01	02	03
NATIONAL HOLIDAY – SHOWA DAY	NATIONAL HOLIDAY	NATIONAL HOLIDAY	NATIONAL HOLIDAY	NATIONAL HOLIDAY – CONSTITUTION DAY

\*Approximate date of release. Source: BoJ, MoF, Bloomberg, Thomson Reuters and Daiwa Capital Markets Europe Ltd.

# Economic Research

## Key contacts

### London

Head of Research	<i>Grant Lewis</i>	+44 20 7597 8334
Head of Economic Research	<i>Chris Scicluna</i>	+44 20 7597 8326
Emerging Markets Economist	<i>Saori Sugeno</i>	+44 20 7597 8336
Economist	<i>Emily Nicol</i>	+44 20 7597 8331
Associate Economist	<i>Mantas Vanagas</i>	+44 20 7597 8318
Research Assistant	<i>Jodene Adjei</i>	+44 20 7597 8332

### New York

Chief Economist	<i>Mike Moran</i>	+1 212 612 6392
Junior Economist	<i>Lawrence Werther</i>	+1 212 612 6393

### Hong Kong

Economist	<i>Kevin Lai</i>	+852 2848 4926
Research Associate	<i>Christie Chien</i>	+852 2848 4482
Economic Assistant	<i>Olivia Xia</i>	+862 2773 8736

### London Translation

Head of Translation, Economic and Credit	<i>Mariko Humphris</i>	+44 20 7597 8327
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