

Outlook for 10Y JGBi Auction

Bidding at 10-12bp level

- ✓ Since previous auction in August, BEI of JBI24 has mostly remained in the 5-15bp range
- ✓ Impact of consumption tax hike on nationwide core-CPI growth rate may be smaller than expected
- ✓ From viewpoint of index ratio path, it is not a good timing to buy JGBis in an aggressive stance
- ✓ On the other hand, there are positive factors such as increase in purchases by BOJ and MOF etc.
- ✓ Bidding at 10-12bp level for minimum necessary amount

Strategic Memorandum DSTE340
FICC Research Dept.

Senior JGB Strategist
Keiko Onogi
+813 5555 8788
keiko.onogi@daiwa.co.jp
Daiwa Securities Co. Ltd.

Auction Details

Auction Date:	November 8, 2019
Issue Date:	November 11, 2019
Maturity Date:	March 10, 2029
Offering Amount:	About 400 billion yen
Auction Method:	Dutch auction on an inflation-not-adjusted price with the increment of 0.05 yen
Base CPI:	101.40 (Nat'l core-CPI in Dec. 2018)
Ref. CPI:	101.697 (as on Nov. 11)
Index ratio:	1.00293 (as on Nov. 11)

* New 10Y JGBis will be the second reopening of JBI24 carrying a 0.1% coupon.

** On Nov. 7, JBI24 traded at 104.35-104.45 yen (-0.05 - +0.05 yen v. previous day's close) and closed at 104.30 yen (-0.10 yen). JBI24 BEI closed at 12.8bp (-1.0bp).

Exp. Rating on Auction Results

1	2	3	4	5
Failed	Poor	Average	Good	Outstanding

BEI has mostly remained in the 5-15bp range

Since the previous JGBi auction on August 8, the break-even inflation rate (or BEI) of JBI24 has mostly remained in the 5-15bp range (Chart 1). Concerns about the global economy are persisting partly because of the existence of uncertain factors, such as Brexit and US-China trade frictions. While it is difficult to expect a rise in inflation expectations around the globe, the domestic BEI has been stably kept low.

Impact of consumption tax hike may be smaller than expected

In predicting the future developments, we are concerned about negative impact on JGBi investor sentiment from expected weakness in observed domestic inflation. The nationwide core-CPI growth rate has been consistently in positive territory for more than two years. However, the growth rate has declined to nearly 0% partly because positive contributions from energy prices have turned to contract. Although the consumption tax rate was hiked from 8% to 10% in October, we forecast that the

impact on the nationwide core-CPI growth rate will be smaller than expected, given the latest October CPI in the ward-area of Tokyo (Chart 5).

From viewpoint of index ratio path, it is not a good timing to buy JGBis in an aggressive stance

Here, we check the index ratio path based on our CPI forecasts. The ratio is likely to decline slightly from November toward December (on actual basis). After that, it is expected to rise toward January and then to remain largely flat (Chart 6). If we assume that the JGBi price will be unchanged after buying at tomorrow's auction, we are unable to expect high return from JGBis (Chart 10). Unless a surge in JGBi prices is expected, it would not be a good timing to buy JGBis in an aggressive stance.

Finding positive factors too

On the other hand, there are some positive factors, which may support this primary sale of new JGBis in comparison to the previous supply in August. From this November, the BOJ increases the offer amount of JGBis in its purchase operations from the previous 25bn yen to 30bn yen (up from 50bn yen to 60bn yen on monthly basis). In addition, from this quarter, the Ministry of Finance also intends to conduct JGBi buybacks every month (previously bimonthly basis). It is highly possible that the issuance amount in FY20 will be the same as that in FY19 at around 1.6tn yen. However, it is most likely that the MOF will make some changes (such as issuance frequency and schedule) to maintain and foster the JGBi market. We think an excessively pessimistic outlook is unnecessary for JGBis, given the followings: (1) purchases by the BOJ and MOF have slightly increased, (2) the MOF has strong commitment to JGBis, and (3) the BOJ is likely to maintain its accommodative monetary policy over the long term by sticking to the 2% price stability target.

Bidding at 10-12bp level for minimum necessary amount

Amid lingering concerns about the global economy, it is difficult to expect a big rise in inflation expectations, as witnessed by a slowdown in crude oil prices as well as the BEI in Europe and the US (charts 8-9). At the same time, however, we think that the BEI is unlikely to swing down from the recent range, given the recent stable trends. We would like to think about placing our bids at the 10-12bp BEI level to take minimum necessary amount of new JGBis.

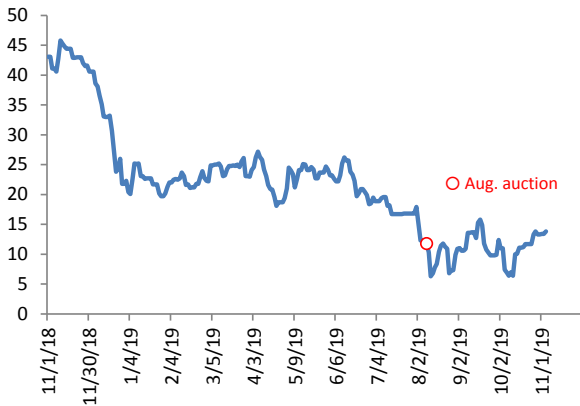
10Y JGBi Auction Results

Auction Date	Issue #	Coupon (%)	Maturity Date	Issue Size (billion yen)	B/C	Lowest Accepted Price/Issue Price (Yen) (Note 1)	Highest Accepted Yield (%)	Allotment (%)	BEI Before Auction (Note 2)	BEI on Auction Day (bp) (Note 2)	Change from p.d. (bp) (Note 2)	Market Expectation of Lowest Accepted Price (Yen) (Note 3)	Expected range	
11/8/19	24R	0.1	3/10/29	400*					13.8					
8/8/19	24R	0.1	3/10/29	414.3	3.84	104.25	-0.329	86.6906	12.3	11.8	-0.5	104.20	103.90-104.65	Avg
5/10/19	24	0.1	3/10/29	430.2	3.72	103.70	-0.266	94.4029	21.5	22.6	1.1	103.50	103.30-103.60	Good
2/15/19	23R	0.1	3/10/28	421.8	3.34	103.60	-0.287	16.3120	21.6	21.7	0.1	103.50	103.40-103.50	Good
11/6/18	23R	0.1	3/10/28	435.4	3.70	103.90	-0.305	43.0272	41.1	41.1	0.0	103.85	103.75-103.90	Avg
8/7/18	23R	0.1	3/10/28	418.4	3.12	104.05	-0.309	6.3636	48.0	41.0	-7.0	104.00	103.75-104.30	Avg
5/10/18	23	0.1	3/10/28	447.1	4.02	106.35	-0.513	32.0441	56.5	58.7	2.2	106.20	106.10-106.30	Good
2/6/18	22R	0.1	3/10/27	440.8	3.38	105.35	-0.464	5.0000	62.4	55.7	-6.7	106.25	106.00-106.30	Poor
10/5/17	22R	0.1	3/10/27	446.4	3.10	104.50	-0.361	55.6088	38.8	39.9	1.1	104.40	104.30-104.50	Good
8/3/17	22R	0.1	3/10/27	419.3	3.19	104.55	-0.358	69.4877	36.0	38.5	2.5	104.45	103.70-104.50	Good
4/11/17	22	0.1	3/10/27	453.9	3.64	105.00	-0.385	50.5643	44.0	46.7	2.7	104.80	104.65-105.00	Good
2/7/17	21R	0.1	3/10/26	412.2	2.61	105.10	0.439	25.7142	62.9	58.2	-4.7	105.30	105.00-105.50	Poor
10/6/16	21R	0.1	3/10/26	425.1	3.21	104.80	-0.391	40.0537	30.9	37.1	6.2	104.75	104.50-104.90	Good
8/4/16	21R	0.1	3/10/26	454.3	2.85	104.20	-0.324	72.0520	30.0	31.0	1.0	103.80	103.40-104.05	Good
4/12/16	21	0.1	3/10/26	435.6	2.84	104.90	-0.376	80.0000	35.0	36.7	1.7	104.70	104.30-105.40	Good

* Planned by MoF (Note 1) Inflation adjusted price until August 2017 and inflation unadjusted price from October 2017 (Note2) Closing price; WI basis for new issues; as of Nov. 6 for the Nov. 2019 auction (Note 3) Bloomberg

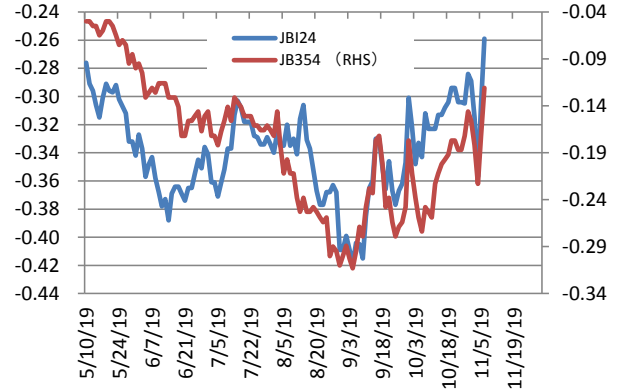
Source: Ministry of Finance, Daiwa Securities

Chart 1: BEI (bp)



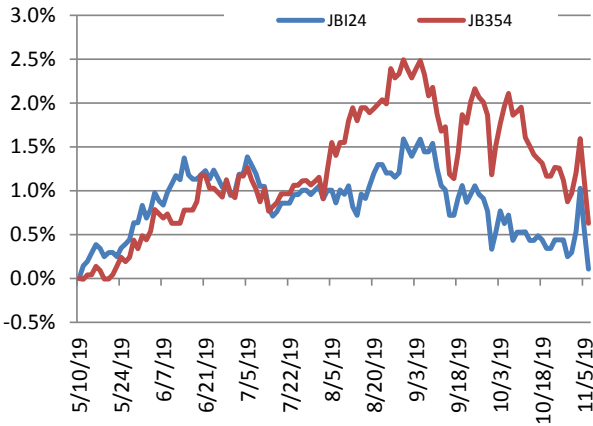
Note: On-the-run issues basis
Source: Daiwa Securities

Chart 2: JBI24 and JB354 Yields (%)



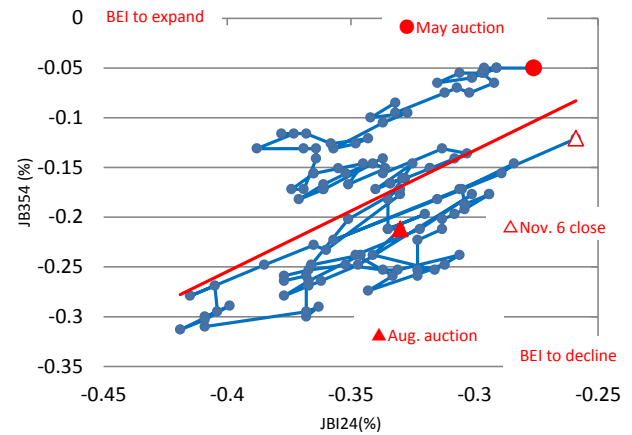
Source: Daiwa Securities

Chart 3: Realized Return of JBI24 and JB354



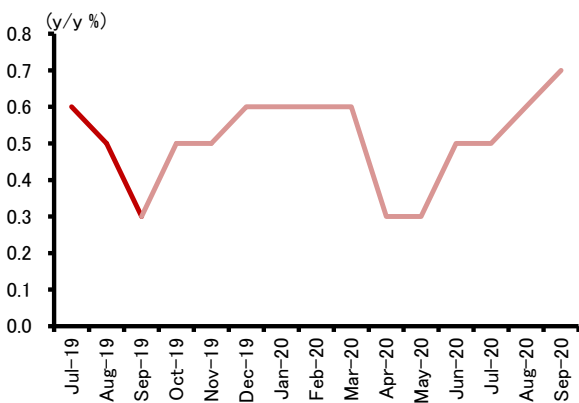
Note: HPR from May auction to each day
Source: Daiwa Securities

Chart 4: Correlation between JBI24 and JB354



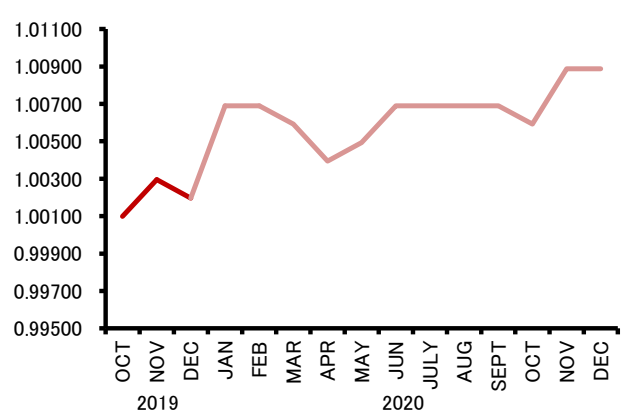
Source: Daiwa Securities

Chart 5: Nationwide Core-CPI Growth Outlook (y/y %)



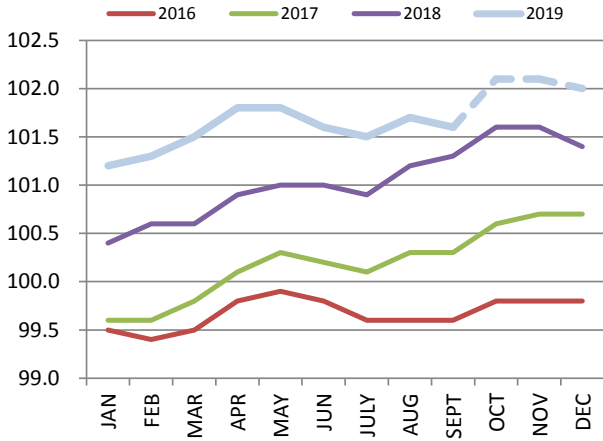
Note: Actual for July to Sep. 2019
Source: Daiwa Securities

Chart 6: JBI24 Index Ratio Forecast



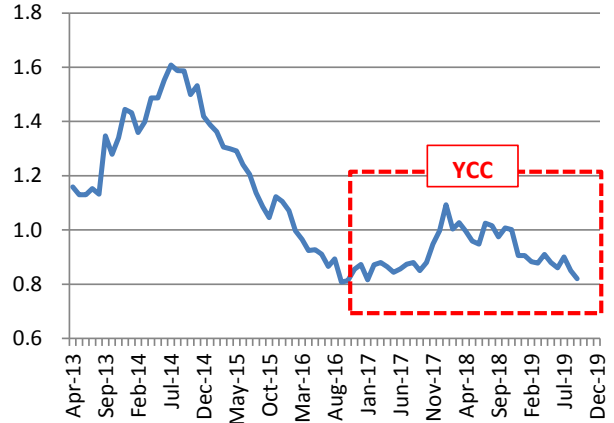
Note: Based on Chart 5, actual for May to Oct. to Dec. 2019
Source: Daiwa Securities

Chart 7: Seasonality of Nationwide Core-CPI



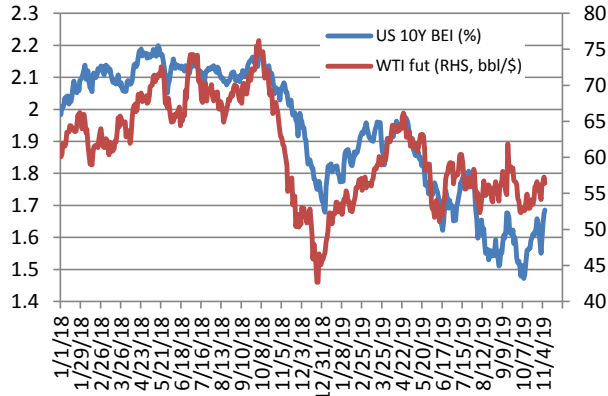
Note: Daiwa forecast for Oct. to Dec. 2019
Source: Ministry of Internal Affairs and Communications, Daiwa Securities

Chart 8: CPI Core Change Forecast: 10Y average (%)



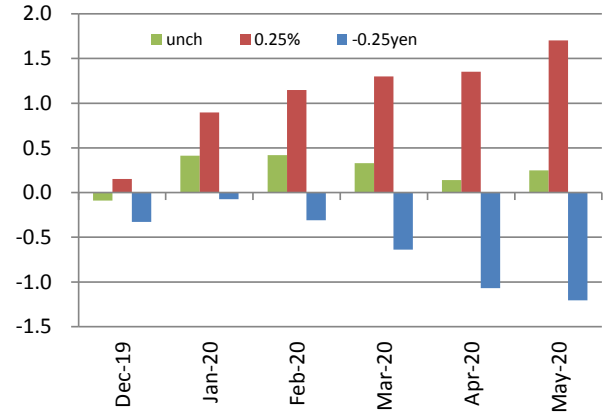
Source: QUICK

Chart 9: U.S. 10Y BEI and WTI Future Price



Source: Bloomberg

Chart 10: JBI24 HPR Analysis (%)



Note: From the issuance day (Nov. 11) to the 10th of each month; factoring in index ratio in Chart 6; price at the end of period is assumed to be (1) unchanged, (2) increased by 0.25 yen each month and (3) decreased by 0.25 yen each month from the issuance day
Source: Daiwa Securities

Table 1: Results of BOJ Purchase and MOF Buyback

	Previous Day's Close (Yen)	Pro-rata Price Spread (Yen)	Average Successful Price Spread (Yen)	Allotment on Pro-rata (%)	B/C	Close Price (Yen)
5/15/19	103.95	0.050	0.014	7.5	4.34	104.05
5/21/19	103.90	-0.010	-0.042	55.6	4.46	103.95
6/10/19	104.40	0.130	0.105	100.0	4.68	104.55
6/17/19	104.85	-0.110	-0.110	100.0000	5.61	104.65
6/26/19	104.60	-0.160	-0.210	100.0	6.29	104.50
7/5/19	104.55	-0.180	-0.180	100.0	5.12	104.65
7/22/19	104.10	-0.010	-0.054	53.3	4.36	104.10
8/2/19	104.15	0.080	0.055	64.8	5.05	104.25
8/14/19	104.05	-0.140	-0.180	37.5000	4.54	103.95
8/26/19	104.55	0.000	-0.119	43.5	5.38	104.55
9/6/19	104.90	-0.070	-0.129	100.0	3.48	104.90
9/26/19	104.60	-0.110	-0.114	64.7	5.79	104.50
10/4/19	104.30	-0.080	-0.148	10.6	7.45	104.15
10/16/19	103.95	-0.110	-0.134	74.2268	4.90	103.95
10/28/19	103.85	0.050	-0.060	26.7	4.05	103.85
11/1/19	103.95	0.350	0.288	87.5	4.39	104.35

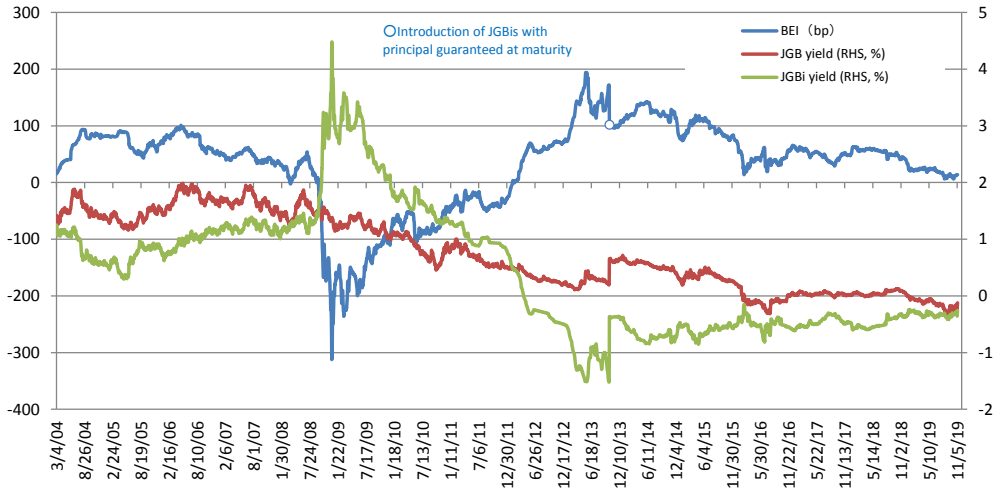
Note: Previous Day's Close and Close Price are based on JBI24; Buyback by the Ministry of Finance for June 17, August 14 and October 16
Source: Bank of Japan, Ministry of Finance, Daiwa Securities

Table 2: Market Outstanding of JBIs (Yen billions)

	Issue Size	MoF Buyback	BoJ Outright Purchase	Market Outstanding
JBI17	646.7	26.7	258.2	361.8
JBI18	821.7	26.3	218.8	576.6
JBI19	1,091.8	17.6	164.4	909.8
JBI20	2,139.4	85.7	372.6	1,681.1
JBI21	1,727.2	107.7	381.9	1,237.6
JBI22	1,760.4	127.3	659.7	973.4
JBI23	1,722.7	61.6	169.8	1,491.3
JBI24	844.5	8.8	76.8	758.9
TOTAL	10,754.4	461.7	2,302.2	7,990.5
%	100.0%	4.3%	21.4%	74.3%

(As of Oct. 31, 2019 on BOJ start basis)
Source: Bank of Japan, Ministry of Finance, Daiwa Securities

Appendix 1: BEI (March 2004 to present)



Note: on-the-run issue basis
Source: Daiwa Securities.

Appendix 2: Image of Bidding Price at Auction and BEI

(Unit: bp)

		Nominal Yield (% JB354)									
		-0.141	-0.136	-0.131	-0.126	-0.121	-0.116	-0.111	-0.106	-0.101	-0.096
Bidding Price (Yen)	104.00	18.1	18.6	19.1	19.6	20.1	20.6	21.1	21.6	22.1	22.6
	103.95	17.6	18.1	18.6	19.1	19.6	20.1	20.6	21.1	21.6	22.1
	103.90	17.1	17.6	18.1	18.6	19.1	19.6	20.1	20.6	21.1	21.6
	103.85	16.6	17.1	17.6	18.1	18.6	19.1	19.6	20.1	20.6	21.1
	103.80	16.0	16.5	17.0	17.5	18.0	18.5	19.0	19.5	20.0	20.5
	103.75	15.5	16.0	16.5	17.0	17.5	18.0	18.5	19.0	19.5	20.0
	103.70	15.0	15.5	16.0	16.5	17.0	17.5	18.0	18.5	19.0	19.5
	103.65	14.5	15.0	15.5	16.0	16.5	17.0	17.5	18.0	18.5	19.0
	103.60	14.0	14.5	15.0	15.5	16.0	16.5	17.0	17.5	18.0	18.5
	103.55	13.5	14.0	14.5	15.0	15.5	16.0	16.5	17.0	17.5	18.0
	103.50	12.9	13.4	13.9	14.4	14.9	15.4	15.9	16.4	16.9	17.4
	103.45	12.4	12.9	13.4	13.9	14.4	14.9	15.4	15.9	16.4	16.9
	103.40	11.9	12.4	12.9	13.4	13.9	14.4	14.9	15.4	15.9	16.4
	103.35	11.4	11.9	12.4	12.9	13.4	13.9	14.4	14.9	15.4	15.9
	103.30	10.9	11.4	11.9	12.4	12.9	13.4	13.9	14.4	14.9	15.4
	103.25	10.3	10.8	11.3	11.8	12.3	12.8	13.3	13.8	14.3	14.8
	103.20	9.8	10.3	10.8	11.3	11.8	12.3	12.8	13.3	13.8	14.3
	103.15	9.3	9.8	10.3	10.8	11.3	11.8	12.3	12.8	13.3	13.8
	103.10	8.8	9.3	9.8	10.3	10.8	11.3	11.8	12.3	12.8	13.3
	103.05	8.2	8.7	9.2	9.7	10.2	10.7	11.2	11.7	12.2	12.7
103.00	7.7	8.2	8.7	9.2	9.7	10.2	10.7	11.2	11.7	12.2	
102.95	7.2	7.7	8.2	8.7	9.2	9.7	10.2	10.7	11.2	11.7	
102.90	6.7	7.2	7.7	8.2	8.7	9.2	9.7	10.2	10.7	11.2	
102.85	6.2	6.7	7.2	7.7	8.2	8.7	9.2	9.7	10.2	10.7	
102.80	5.6	6.1	6.6	7.1	7.6	8.1	8.6	9.1	9.6	10.1	

Note: Based on the settlement day of Nov. 11
Source: Daiwa Securities

Explanatory Document of Unregistered Credit Ratings

In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:

- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

In addition to the above, Registered Credit Rating Agencies are subject to the supervision of the Financial Services Agency ("FSA"), and as such may be ordered to produce reports, be subject to on-site inspection, and be ordered to improve business operations, whereas unregistered Credit Rating Agencies are free from such regulations and supervision.

■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")

The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (<http://www.standardandpoors.co.jp/unregistered>) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of March 7th, 2017, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

[Moody's]

The Name of the Credit Rating Agencies Group, etc

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moody.com/pages/default_ja.aspx))

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings are Moody's Investors Service's ("MIS") current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. MIS defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information, is given or made by MIS in any form or manner whatsoever.

Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of April 16th, 2018, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Moody's Japan K.K. (https://www.moody.com/pages/default_ja.aspx)

[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")

The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Outline of Rating Policies" in the section of "Regulatory Affairs" on the website of Fitch Ratings Japan Limited (<https://www.fitchratings.co.jp/web/>)

Assumptions, Significance and Limitations of Credit Ratings

Ratings assigned by Fitch are opinions based on established criteria and methodologies. Ratings are not facts, and therefore cannot be described as being "accurate" or "inaccurate". Credit ratings do not directly address any risk other than credit risk. Credit ratings do not comment on the adequacy of market price or market liquidity for rated instruments. Ratings are relative measures of risk; as a result, the assignment of ratings in the same category to entities and obligations may not fully reflect small differences in the degrees of risk. Credit ratings, as opinions on relative ranking of vulnerability to default, do not imply or convey a specific statistical probability of default.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The assignment of a rating to any issuer or any security should not be viewed as a guarantee of the accuracy, completeness, or timeliness of the information relied on in connection with the rating or the results obtained from the use of such information. If any such information should turn out to contain misrepresentations or to be otherwise misleading, the rating associated with that information may not be appropriate. Despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

For the details of assumption, purpose and restriction of credit ratings, please refer to "Definitions of ratings and other forms of opinion" on the website of Fitch Rating Japan Limited.

This information is based on information Daiwa Securities Co. Ltd. has received from sources it believes to be reliable as of May 13th, 2016, but it does not guarantee accuracy or completeness of this information. For details, please refer to the website of Fitch Rating Japan Limited (<https://www.fitchratings.co.jp/web/>)

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Conflicts of Interest: Daiwa Securities Co. Ltd. may currently provide or may intend to provide investment banking services or other services to the company referred to in this report. In such cases, said services could give rise to conflicts of interest for Daiwa Securities Co. Ltd.

Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

Other Disclosures Concerning Individual Issues:

- 1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies. As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.
- 2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Nippon Healthcare Investment Corporation (3308), Japan Rental Housing Investments (8986).
- 3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.
- 4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.
- 5) Daiwa Securities Group and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group is to acquire up to 5.01% of Credit Saison's total common shares outstanding (as of 31 Jul 2019), while Credit Saison is to purchase up to ¥2bn worth of Daiwa Securities Group's common stock.
- 6) NEC (6701): NOTICE REGARDING U.S. PERSONS: This report is not intended for distribution to or use by any person in the United States. Securities issued by NEC Corporation have been suspended from registration in the U.S. and are subject to an order of the U.S. Securities and Exchange Commission dated June 17, 2008, pursuant to Section 12(j) of the Securities Exchange Act of 1934. This document is not a recommendation or inducement of any purchase or sale of such securities by any person or entity located in the U.S. Daiwa Securities Co. Ltd. disclaims any responsibility to any such person with respect to the content of this document. Any U.S. person receiving a copy of this report should disregard it.

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association