

Japanese Stocks Drop as Yen Nears Post World War II High: Nissan Declines

By Akiko Ikeda - Aug 18, 2011 2:01 AM CT

Japanese stocks fell to the lowest in five months as the yen approached a post-World War II high, hurting prospects for exporters' earnings, and after Morgan Stanley MUFG Securities Co. cut Japan's economic forecast.

Toyota Motor Corp., the world's largest carmaker, declined to the lowest since January 2009. Kyocera Corp., a maker of solar panels that gets 17% of its sales in the U.S., lost 2.3%. Minebea Co., a ball-bearing maker, tumbled 5.7% after Goldman Sachs Group Inc. cut its profit and share price estimates of Japanese electronic components makers.

The Nikkei 225 Stock Average fell 1.3% to 8,943.76 at the 3 p.m. close in Tokyo. The broader Topix index declined 1.2% to 767.31 with five stocks retreating for every two that rose. Both gauges dropped to the lowest since March 15.

"The yen's appreciation is weighing on Japanese stocks," said Naoteru Teraoka, general manager at Tokyo-based Chuo Mitsui Asset Management Co., which oversees about USD 28 billion. "The yen and the clouded overseas economic outlook are making people worried. Even though a panicking situation in the market has eased, nothing has been resolved yet."

The Topix has lost 8.8 % this month amid concern Europe's debt crisis will damage the banking system and damp demand in one of Japan's biggest export markets. Japanese stocks also fell after Standard & Poor's on Aug. 5 cut its rating on U.S. government debt.

Topix Valuation

Declines in Japanese shares this month reduced the average price of stocks in the Topix to 0.9 times book value, the lowest level since March 2009. A level below 1 means a company's assets are worth more than its market capitalization.

Morgan Stanley MUFG Securities cut Japan's 2012 economic growth forecast to 1.3% from 2.9% following "weakening prospects for the global economy," according to a report dated today.

Other report from Morgan Stanley showed the bank cut its forecast for global growth this year, citing an "insufficient" response to Europe's sovereign debt crisis, weakened confidence and the prospect of fiscal tightening. The bank estimates expansion of 3.9%, down from a previous forecast of 4.2%, according to an e-mailed report dated today. A prediction of 3.8% for next year is down from 4.5% previously.

Fed Criticism

Federal Reserve Chairman Ben S. Bernanke's pledge last week to keep interest rates near zero until mid-2013 was "inappropriate policy at an inappropriate time," Charles Plosser, president of the Fed Bank of Philadelphia, said yesterday in a radio interview on "Bloomberg Surveillance" with Tom Keene and Ken Prewitt. Dallas President Richard Fisher said the central bank shouldn't enact policy to protect stock investors. Both officials dissented from the Fed's Aug. 9 statement.

“People are trying to identify what measures will be taken while sentiment is worsening globally, so the market will lack direction,” said Mitsushige Akino, who oversees about \$600 million in Tokyo at Ichiyoshi Investment Management Co.

Falling Exports

In Japan, exports fell more than expected in July amid the global slowdown and strengthening currency. Overseas sales decreased 3.3% in July from a year earlier, the Finance Ministry said today in Tokyo. The median estimate of 24 economists surveyed by Bloomberg News was for a 2.6% decline, after a 1.6% decrease in June.

Toyota lost 1.7% to 2,807, the lowest since January 2009. Honda Motor Co., Japan’s third-largest carmaker, slumped 2.6% to JPY 2,486, a level not seen since July 2009. Kyocera slid 2.3% to JPY 7,130.

The yen appreciated to 76.45 JPY/USD today from 76.596 JPY/USD and touched 76.41 JPY/USD after the stock market closed yesterday in Tokyo, approaching its post-World War II high of 76.25 JPY/USD reached on March 17. A stronger yen hurts Japanese exporters because it cuts the value of overseas sales.

Minebea, TDK

Electronic components makers declined after Goldman Sachs Group cut its estimates of profits and share prices of companies including Minebea, TDK Corp. and Shinko Electric Industries Co. because of the yen’s appreciation and weakening demand. Goldman Sachs analyst Daiki Takayama said the companies have a high risk of cutting profit forecasts.

Minebea tumbled 5.7 % to JPY 313, a level not seen since February 2009. Takayama said operating profit will decline to JPY 16.5 billion (USD 215 million) this year, down 8.3% from his earlier estimate. The bank cut its 12-month share price target by 5.1 % to 370 yen.

TDK slumped 4.1% to JPY 3,320 yen. Shinko Electric lost 3.5% to JPY 526, its lowest since December 2008.

Questions

1. Morgan Stanley MUFG Securities Co. cut Japan’s economic forecast. What is the effect of a lower Japanese growth rate on the JPY/USD exchange rate?
2. Draw a graph to explain the effect of falling exports on the JPY/USD exchange rate.
3. Explain the effect of the Bernanke’s pledge on the JPY/USD exchange rate. Draw a graph.
4. The Switzerland and Japan are considered safe havens. How does the recent turmoil in the U.S. and in Europe affect the JPY/USD exchange rate?
5. This month, the Japanese stock market decreased by 8.8%, while the JPY appreciated by 0.16% against the USD. Calculate the return (in USD) for a U.S. investor of an investment in the Japanese stock market?