AMG 安柏 FINANCIAL GROUP

AMG Market Commentary

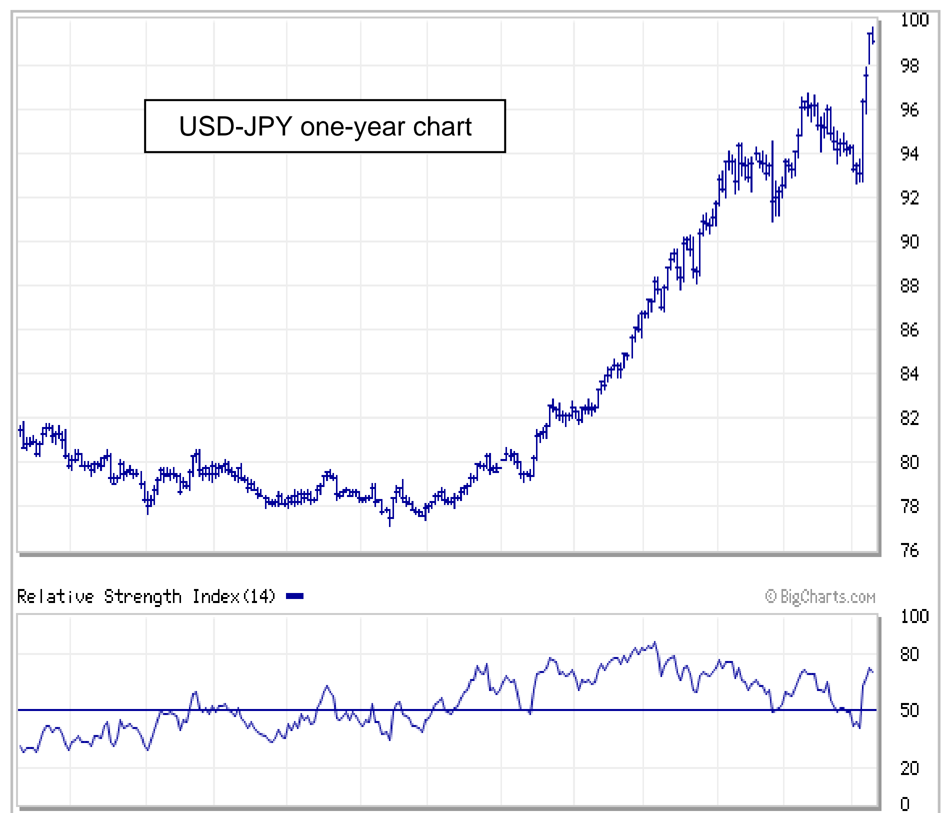
April 2013

BOJ's Big Gamble

There were lofty expectations and tremendous tension in the market prior to the inaugural policy meeting (held on April 4) chaired by new Bank of Japan governor Haruhiko Kuroda, given his well-publicized campaign to rid the Japanese economy of more than 15 years of deflation. The meeting concluded with the announcement of a new easing program that blew away even the most aggressive expectation.

Without further ado, we summarized below key steps to be adopted by BOJ's Policy Board:

- Increase the amount of Japanese government bond (JGB) purchases so that outstanding amount will increase at an annual pace of about ¥50 trillion
- Scrap self-imposed three-year limit on maturities of JGBs it can buy, a step long resisted for fear of being seen as funding runaway government spending
- Boost purchases of exchange-traded funds and real estate investment trusts so that outstanding amounts rise at an annual pace of ¥1 trillion and ¥30 billion respectively
- Aim to increase the monetary base target by ¥60 to ¥70 trillion annually
- Suspend "bank note rule," a self-imposed regulation over the amount of JGBs it can buy for liquidity-provision operations
- Merge its two existing debt buying programs—one for regular liquidity provision operations and the other for monetary easing

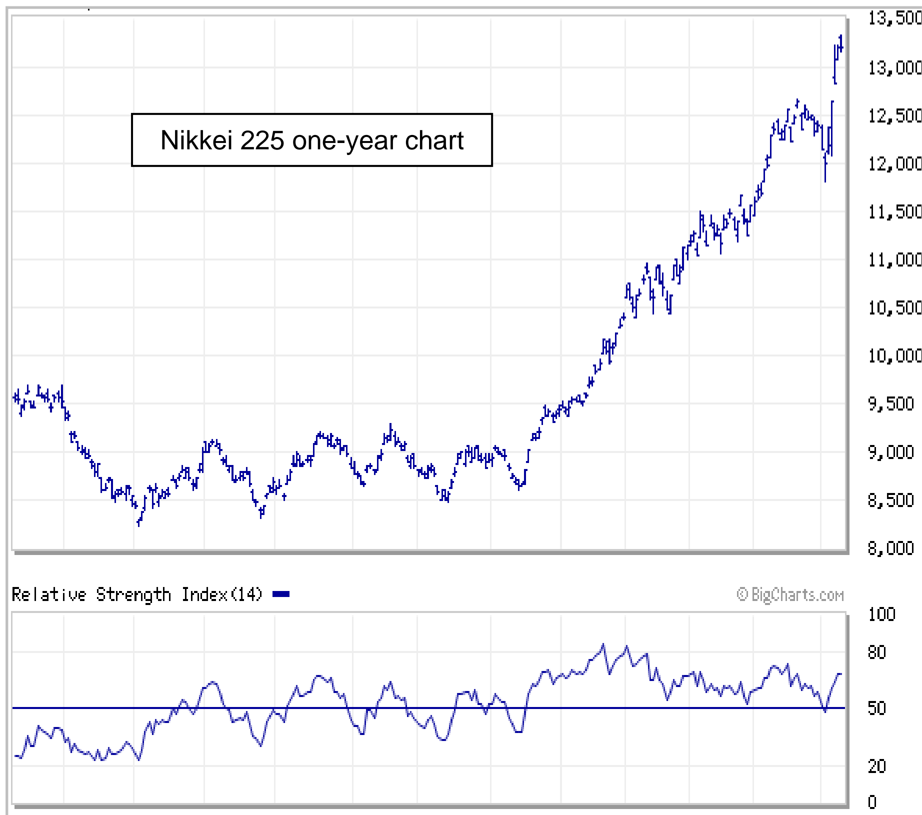


Financial markets swiftly reacted to the anouncement with the Japanese yen plunging towards the psychologically important 100-level versus the US dollar while the Nikkei 225 Index surging to the highest level in four years.

Those reactions seem to suggest investors are playing along and believing BOJ's new tactic will succeed in resusitating Japan's dormant economy. Yet some famous investors were quick to air their suspicious.

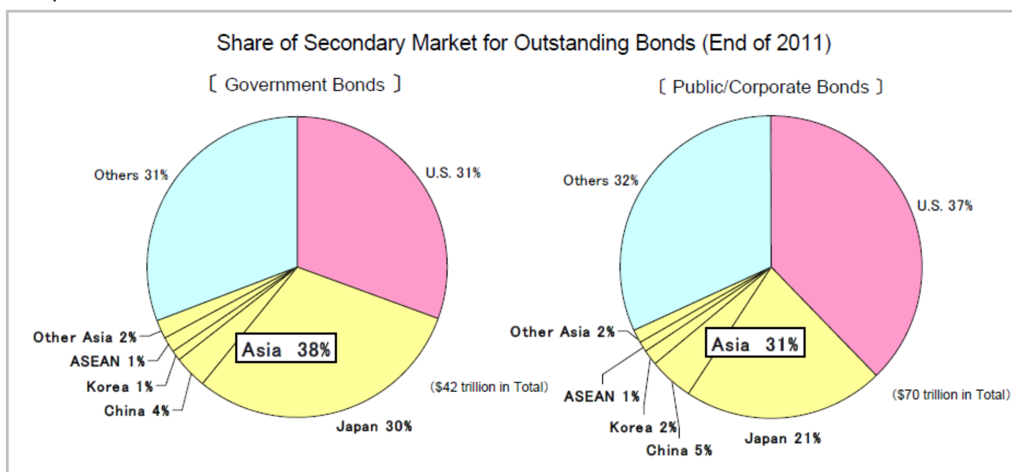
Legendary investor and retired hedge fund manager George Soros called the expanded stimulus “a sensation” and “a very daring undertaking [by the BOJ].” However, Soros added “What Japan is doing is actually quite dangerous because they're

doing it after 25 years of just simply accumulating deficits and not getting the economy going." Furthermore, Soros said "If the yen starts to fall, which it has done, and people in Japan realize that it's liable to continue and want to put their money abroad, then the fall may become like an avalanche."

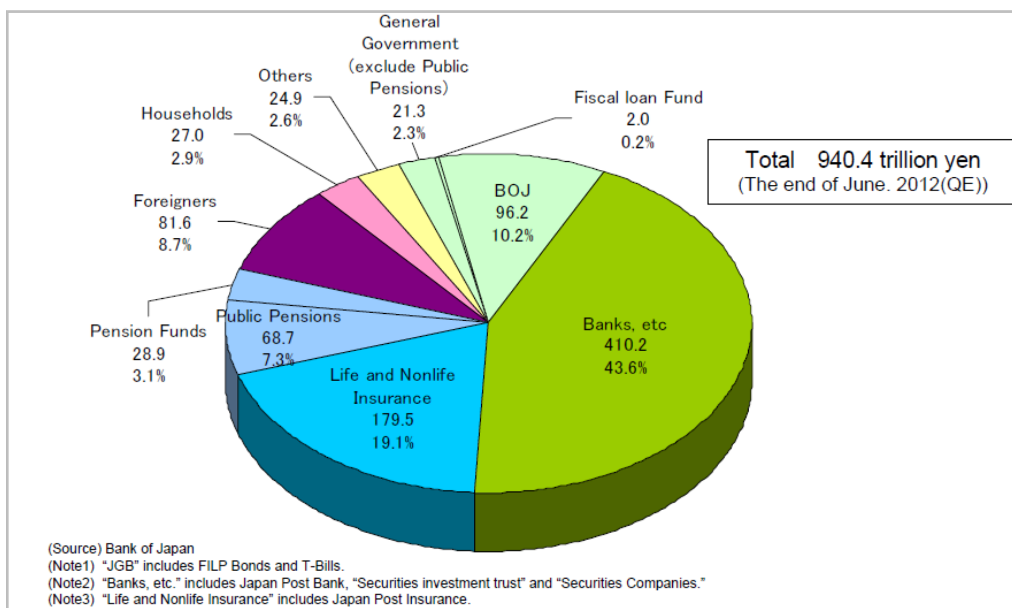


Bill Gross, co-Chief Investment Office of PIMCO, and manager of the world's largest bond fund also expressed doubt that BOJ may reach their inflation target. While short of saying it is undoable, Gross said "Much more depreciation of the yen has to take place in order to get even close to 2 percent [inflation]." In addition, Gross also mentioned there could be political resistance, saying "I'm not sure that other G-7 countries are willing to permit that. They've got to control it to some extent."

Before we move on to talk about our prognosis on the consequences of BOJ's big gamble, it may be helpful to provide some background on Japan's bond market.

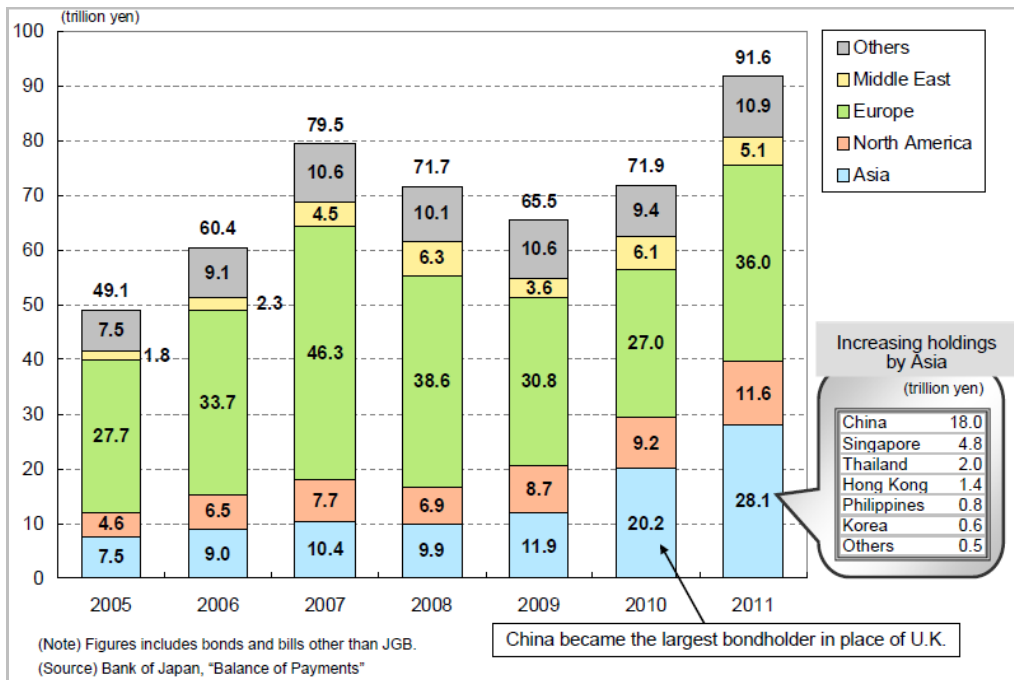


In terms of size of Japan's outstanding government bonds (JGB) and corporate bonds, it is only second behind that of the U.S.. As the chart to the right shows, as of end of 2011, the JGB market accounted for roughly 30% of the global government bond market. Meanwhile, Japanese corporate bonds made up about 21% of the global corporate bond market, which is a much bigger pie than government bond market, with US$70 trillion versus the latter's US$42 trillion.



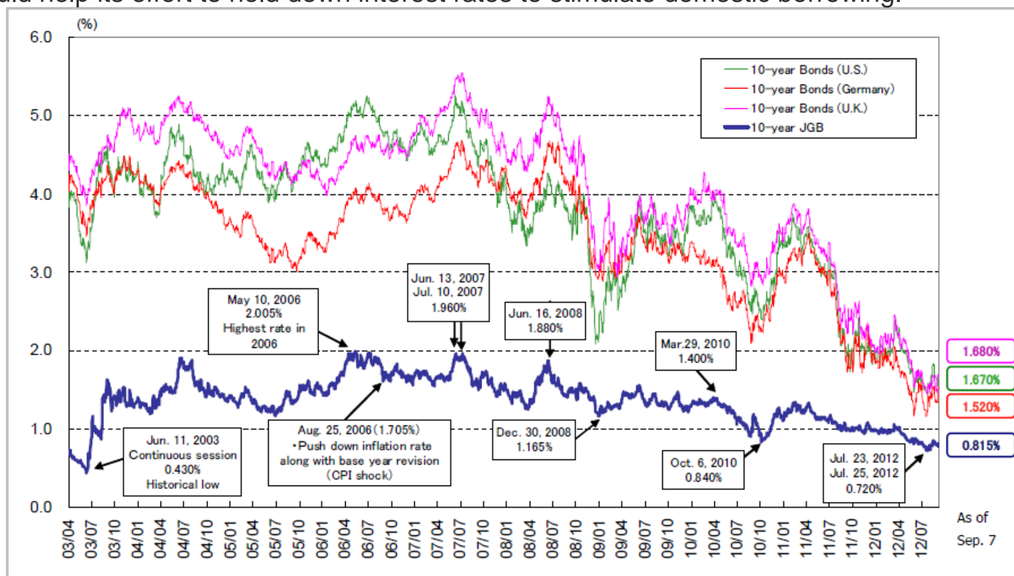
It's a well-known fact that overwhelming majority of JGBs are held by domestic investors. The right hand chart provides a detailed breakdown showing holders of JGB in percentage terms. At mid-2012, foreigners in aggregate held less than 9% of outstanding JGB, which means domestic

investors own over 91%. Also note that back then, BOJ held just above 10% of outstanding JGBs.



Among foreign investors of JGB, Europeans have been the most avid supporters over the years. However, since the financial tsunami of 2008, Asian investors have rapidly boosting their JGB holding. In particular, China became the largest bondholder as a single country since 2010, replacing U.K.

To BOJ, they certainly would like to see the trend continue. If Asian investors keep adding to their JGB holdings, this would help its effort to hold down interest rates to stimulate domestic borrowing.



But with JGB yield significantly lower that that of other sovereign bonds, especially considering the prospect of lower yen exchange rate in the horizon, why would foreign investors take the bite?

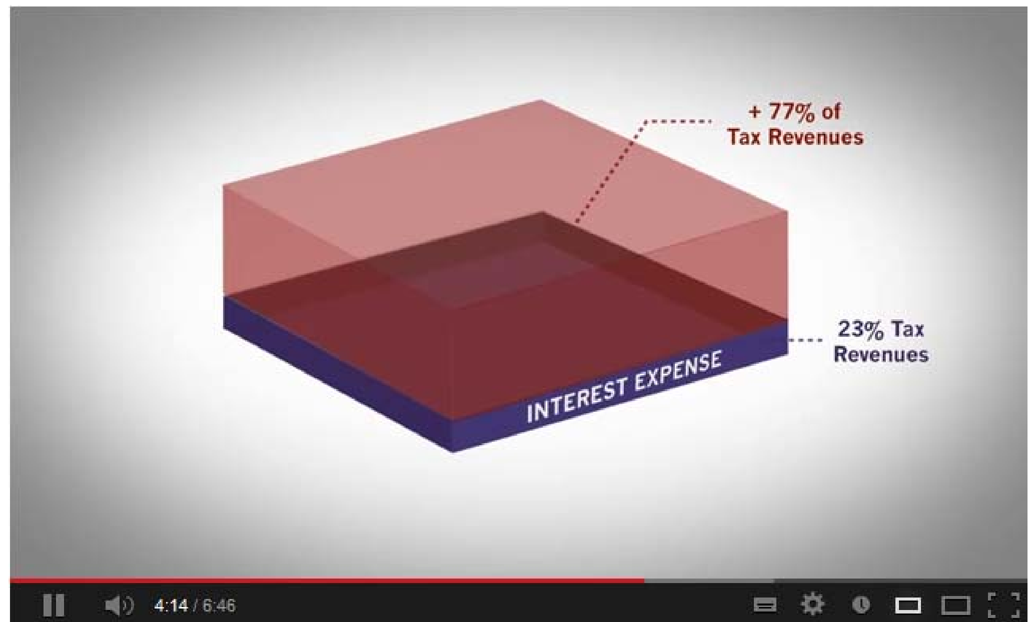
The chart to the right shows yields of 10-year government bonds issued by the U.S., Germany, U.K. and Japan in the past decade (up till Sept 7 of last year). While yields on all four types of bonds have trended downward in this period, yields on JGBs have been consistenly below the others by far. As they stand today, 10-year JGB is yielding 0.57% as of this writing while 10-year Gilt is yielding 1.77%, 10-year Bund at 1.30% and 10-year Treasury at 1.79%. Not to mention JGB offers the lowest yield of the bunch, a small drop in the JPY exchange rate would wipe out the measly yield of JGB. So once again, why would investors choose JGB over the alternatives? Without help from other investors, BOJ would need to do most of the heavy-lifting through its bond buying program. *[It is worth noting that PIMCO's Bill Gross has recently became more bullish on Treasurys, saying in an interview with Wall Street Journal that he was enthusiastic about longer-dated Treasurys as Japan's bond buying program is likely to send investors into higher-yielding debt.]*

Now, let's assume in the end BOJ succeeded in hitting the 2% inflation target, is that cause for celebration? Well, maybe not. You see, when inflation rises investors would demand higher bond yields to compensation for the erosion of purchasing power. This means when Japanese government sell JGB in the future, it needs to raise coupon payment in order to attract investors to part with their money -- and believe me they need to issue a lot more JGBs to help finance budget spending for a long time to come. Higher coupon payment on newly issued bonds in turn eats into budget outlay. Unless Japan's economy improves sufficient enough to boost the government coffer via higher tax revenue, the government needs to to issue even more JGBs due to higher outlay. It's a vicious cycle alright.

So how bad is Japan's fiscal position? Its government owe so much outstanding debts that as of end of 2012, about 23% of tax revenues went to pay out as coupon for JGBs. That left only 77% of tax revenues to pay for other outlays. In the event bond yields rise further, that means a higher proportion of tax revenues will be used for coupon payment, therefore reducing the portion for other expenditures. The government may choose to cut

spending or to raise taxes or both to cover the shortfall. However, given Japan's rapidly aging population *(please refer to last month's Market Commentary for Japan's age population pyramid chart)* and shrinking workforce, neither cutting spending nor raising taxes would be feasible or realistic.

And that is the dilemma we see in BOJ's big gamble -- they are damned if they fail, and they are damned if they succeed.



For readers who wish to further understand Japan's debt crisis, there is a nicely composed visual explanation by Addogram that we highly recommend for viewing. *(http://www.youtube.com/watch?feature=g-trend&v=Njp8bKpi-vg)*

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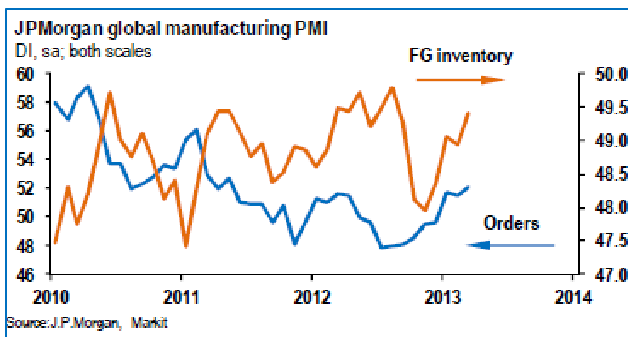
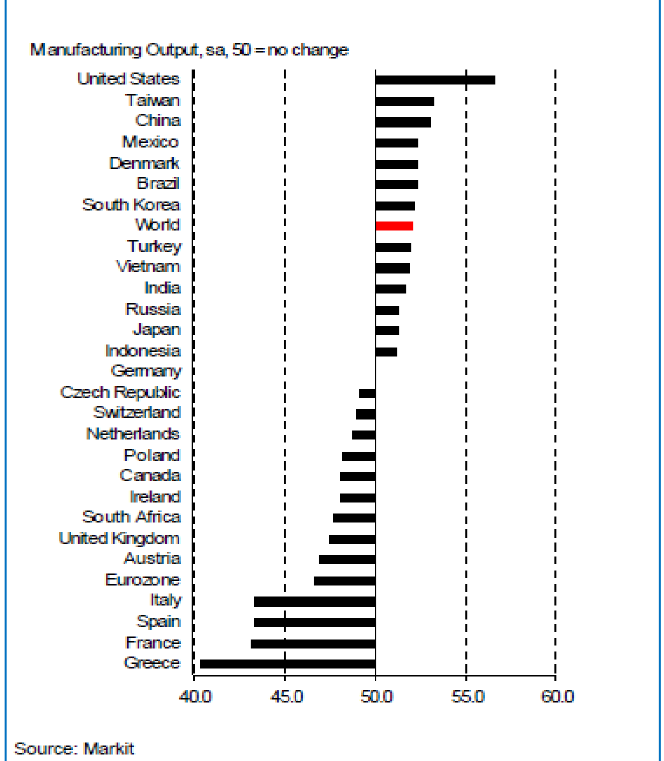
Market Review & Outlook



JPMorgan global manufacturing PMI summary

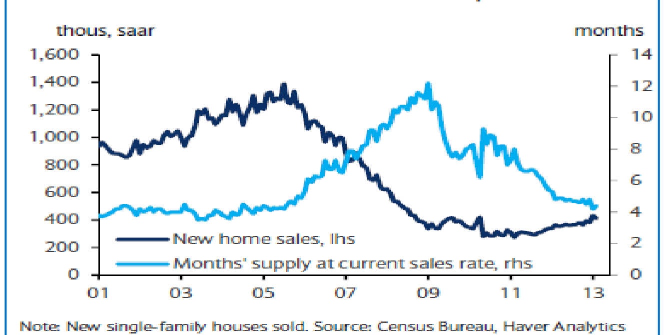
	Oct	Nov	Dec	Jan	Feb	Mar
Global PMI	48.8	49.6	50.0	51.5	50.9	**51.2**
Output	48.5	50.1	50.3	52.3	51.8	**52.1**
New orders	48.6	49.5	49.7	51.8	51.5	**52.1**
Export orders	46.9	48.8	48.7	49.4	49.5	**51.2**
Employment	49.3	49.6	50.3	50.7	50.4	**50.5**
Inventories	46.6	47.0	48.3	49.0	48.0	**48.4**
Delivery times	49.2	49.0	48.8	48.0	49.4	**49.1**
Input prices	54.2	55.5	55.1	55.3	54.4	**53.0**
memo:						
Fin goods inv	48.1	48.0	48.3	49.1	48.9	**49.4**
Orders/pur mats	1.04	1.05	1.03	1.06	1.07	**1.08**
Orders/fin goods	1.01	1.03	1.03	1.06	1.05	**1.05**

Source: J.P. Morgan, Markit. Note: PMI is weighted average of component series: 30% new orders, 25% output, 20% employment, 15% delivery times (factors negatively), 10% inventories.



U.S.: Neutral

Whether the rebounding housing market can keep going has been a hotly debated topic amongst investors. There are certain favorable factors supporting the argument the rebound has legs.



For instance, low inventories against a backdrop of gradually improving sales indicate homebuilders will need to increase construction starts in order to keep inventories from falling further. Despite the substantial

improvement in housing starts over the past year – the 917k in February represents a 27.7% increase above year-ago levels – the pace of new home sales has been enough to keep inventories, whether in terms of months of sales or actual number of new homes on the market, at recent lows.

In addition, existing home sales at 4.98mn units (saar) in February is the strongest pace of sales since October 2009 when government stimulus temporarily boosted housing activity. Inventories of existing homes are 1.5mn units below their recession peak and have now been below 2mn units for four consecutive months, the first such period in over a decade.

Existing home inventories are 1.5mn below their peak

Source: NAR, Haver Analytics, Barclays Research

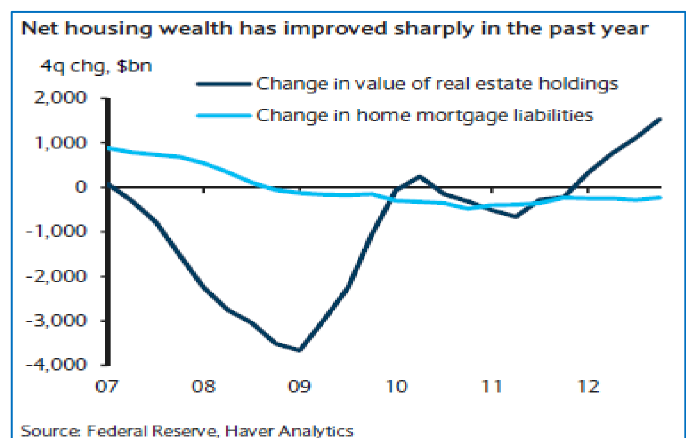
US EMPLOYMENT DATABANK

	2012						2013			Implication for Payroll Growth
Labour Market Indicators	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar(1)**	
Jobless Claims (Monthly Ave.)	366	371	376	367	406	359	353	356	337	Better
Jobless Claims (for week including the 12th)	388	368	385	392	451	362	335	342	334	Better
Challenger Job Cut Announcements (SA)	36.4	36.9	37.2	52.3	50.9	34.2	30.1	48.5	-	Worse
Help Wanted Online New Ads Index	1.99	2.05	1.93	1.98	2.01	1.98	2.10	2.00	-	Worse
ISM Manufacturing Employment Index	53.2	52.6	53.7	52.3	50.1	51.9	54.0	52.6	-	Worse
ISM Non-Manufacturing Employment Index	49.9	53.9	52.0	54.8	51.4	55.3	57.5	57.2	-	Worse
ADP Private Payroll Employment Survey	128	73	105	148	276	209	215	198	-	Worse
CE Estimated Change in Payrolls(2)	100	100	100	125	75	175	150	175	**200**	
Consensus Forecast	97	120	120	120	100	150	160	150	**190**	
Actual Change in Payrolls	153	165	138	160	247	219	119	236	-	
Other Employment Report Data										**Consen. Fore.**
Unemployment Rate	8.2	8.1	7.8	7.9	7.8	7.8	7.9	7.7	**7.7**	**7.7**
Change in Household Employment	-198	-86	810	354	-51	28	17	170	**200**	-
All Employees Hours Worked	34.4	34.4	34.5	34.3	34.4	34.5	34.4	34.5	**34.5**	**34.5**
All Employees Ave. Hourly Earnings (%m/m)	0.2	0.0	0.3	-0.1	0.4	0.3	0.1	0.1	**0.2**	**0.2**
All Employees Ave. Hourly Earnings (%y/y)	1.8	1.9	2.0	1.6	1.9	2.1	2.1	2.1	**2.1**	**2.1**

(1) Figures in blue are forecasts (2) Based on the CE econometric model of private payroll growth that includes effects from jobless claims, changes in temporary employment and the ISM employment indices.

There's little doubt that the $85bn in government spending cuts that were enacted at the start of March will have some impact on the labour market. After all, federal, state and local governments employ about 16% of all workers and one of the easiest ways to cut spending is to reduce headcounts, hours worked and/or pay. The danger is that this will exacerbate the trend that has seen government payrolls fallen by 700,000 since the middle of 2008.

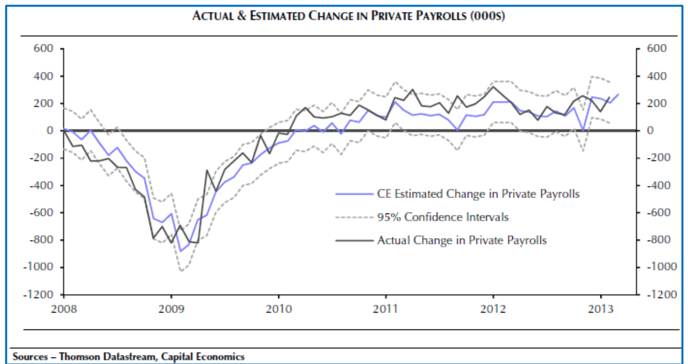
Net housing wealth has improved sharply in the past year



Source: Federal Reserve, Haver Analytics

But it will be hard to see any impact in the Employment Report. Rather than firing workers, most government agencies are asking employees to take unpaid leave for one or two days a week. As the payroll survey counts anyone who was paid in the reference period as employed, regardless of how long they worked, employees put on furloughs will still be included in the payroll total. They will also be counted as employed in the alternative household measure of employment.

The separate release on personal income published by the BEA will therefore be the best place to look for impact of the sequester. But even this will only show how spending cuts are affecting aggregate income and not how they are affecting employment or hours worked.

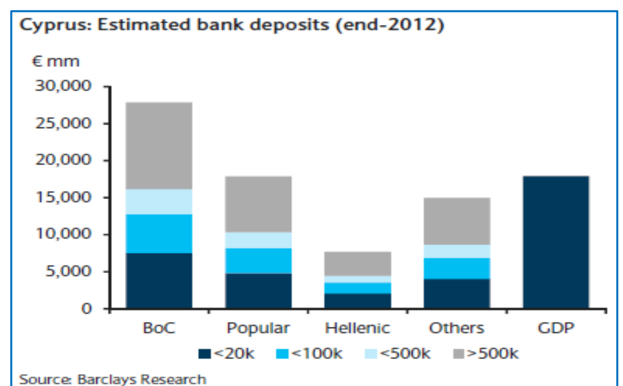


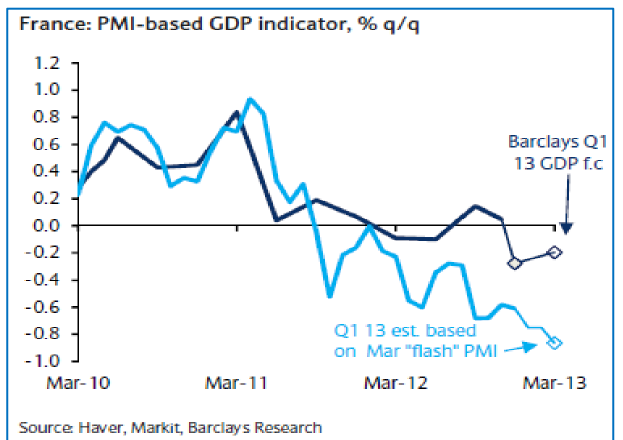
In any case, given that spending cuts started on 1st March and that most agencies need to give a month's notice before furloughs begin, it is too early for any effects to be felt. In fact, recent evidence suggests that labour market conditions have improved. Initial jobless claims have fallen, surveys on hiring remained strong and temporary employment risen.

Europe: Neutral

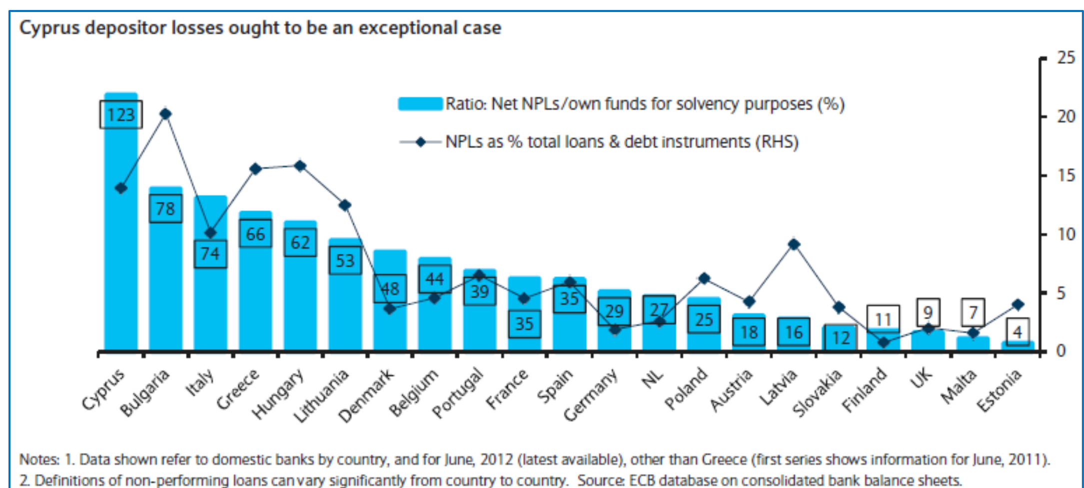
In hammering out the bailout plans for Greece and Cyprus, EU officials kept saying the two countries were unique cases. But from the European perspective, the list of broken taboos and assumptions continues to grow. Below are some of the taboos and who violated them.

- EU sovereign debt cannot be restructured: broken by the Greek PSI.
- Senior bank debt-holders cannot be bailed in: broken several times with respect to banks in Denmark, Ireland and now two Cypriot banks.
- Depositors are sacrosanct: broken by Cyprus – deposits greater than the formal guarantee (EUR100k) in the two biggest banks, with EUR4.2bn of uninsured deposits in Laiki Bank set for a large haircut of unknown size, and Bank of Cyprus deposits set for a haircut of around 35% according to several news reports (e.g., Economist, Reuters).
- Depositors should not be punitively taxed: broken by the Cypriot government and implicitly endorsed by the EU, but vetoed by the Cypriot parliament.
- If capital controls are applied in the euro area, it is 'game over': broken by Cyprus – banks were shut for nearly two weeks; draconian controls of uncertain duration have been imposed.
- Discussion of a euro exit is 'off limits': already it is apparent that euro exit was discussed with respect to Greece during H1 12; this topic again re-emerged last weekend with respect to Cyprus.
- The EU can rely on the IMF to be sympathetic in providing financing without haircuts, even for countries with high public debt: from the Greek and now the Cypriot experience, the Fund is evidently evaluating new programmes more critically, particularly when debt/GDP ratios rise above 100%.





Risks surrounding short-term growth outlook for the euro area remain tilted to the downside. In March, the "flash" composite PMI index fell 1.3 points to 46.5, consistent with GDP growth declining -0.4%/-0.5% in Q1 this year. While it will be interesting to assess the potential effect inconclusive elections



may have have had on business confidence in Italy, preliminary March data suggest significant downside risk on GDP growth forecast for France.

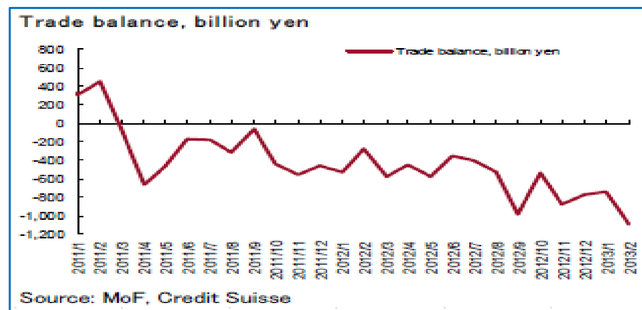
Japan: Positive

Figure 3: Slow pace of expansion in the total assets of the Bank of Japan

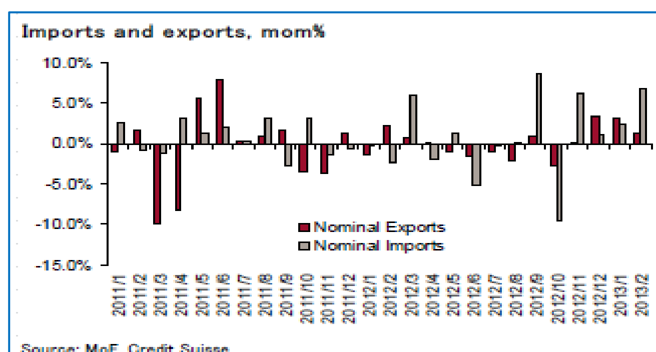
(JPY trn, end of month)	Government debt securities held by the BoJ (all types, [A])	Under Asset Purchase Program [B]	Other than APP [C]	Net addition (outright purchases minus redemption, hypothetical)	Total assets	Monetary base	Total securities held under APP (excl. loans)	APP total balance
Sep-10	76.7	0.0	76.7	1.00	120.3	98.5	0.0	0.0
Oct-10	77.7	0.0	77.7	1.00	121.4	98.8	0.0	22.4
Nov-10	77.1	0.3	76.8	0.99	127.0	100.7	0.3	23.5
Dec-10	76.7	1.2	75.5	1.00	128.7	101.2	1.4	26.3
Jan-11	76.9	1.4	75.5	1.00	128.0	101.2	1.6	27.2
Feb-11	76.9	1.7	75.2	1.00	130.1	102.7	2.1	29.3
Mar-11	77.3	2.3	75.0	1.00	142.4	114.5	2.9	31.8
Apr-11	78.6	2.4	76.2	0.99	134.6	119.4	3.7	33.3
May-11	79.9	3.0	76.9	0.98	135.1	115.7	5.0	34.6
Jun-11	80.2	3.4	76.8	0.97	129.6	114.3	6.0	36.5
Jul-11	81.1	3.8	77.3	0.96	134.5	113.3	6.6	37.0
Aug-11	86.8	4.3	82.5	0.96	141.5	114.7	7.4	38.6
Sep-11	84.4	4.3	80.1	0.90	137.7	114.5	7.5	38.8
Oct-11	81.2	4.5	76.7	0.92	133.0	114.9	7.9	40.0
Nov-11	91.5	5.1	86.4	0.95	143.2	120.3	9.1	41.1
Dec-11	90.2	5.6	84.6	0.85	143.0	114.6	10.0	42.0
Jan-12	82.5	5.9	76.7	0.86	136.9	116.2	10.2	43.0
Feb-12	84.6	6.9	77.6	0.94	144.2	114.9	11.3	44.6
Mar-12	87.2	9.8	77.5	0.92	139.5	115.2	14.3	48.9
Apr-12	90.4	11.3	79.1	0.89	141.2	118.8	15.9	50.3
May-12	93.1	12.9	80.2	0.86	142.8	118.9	17.9	51.3
Jun-12	94.3	16.1	78.1	0.83	143.6	121.0	21.6	54.0
Jul-12	97.7	18.6	79.1	0.82	145.5	122.7	24.1	55.1
Aug-12	102.6	22.2	80.4	0.78	150.0	122.2	27.7	58.3
Sep-12	102.9	25.5	77.4	0.73	149.9	124.5	31.0	61.8
Oct-12	107.6	28.4	79.1	0.73	153.7	126.6	34.4	63.4
Nov-12	111.6	31.1	80.5	0.68	156.4	126.3	37.6	64.6
Dec-12	113.7	33.6	80.0	0.64	158.4	128.1	40.2	67.1
Jan-13	118.6	37.5	81.1	0.62	159.8	128.8	44.1	67.4
Feb-13	121.9	39.8	82.2	0.56	163.5	132.8	46.4	70.0
[Target]								
Jun-13		53.5					60.5	85.5
Dec-13		78.5					76.0	101.0
Dec-14		88.5					86.0	111.0
Cumulative rise between Oct-2010 and Feb-2013				25.3				
Rise in government debt between Oct-2010 and Feb-2013 (actual, D)					44.3			
Rise in government debt between Oct-2010 and Feb-2013 (theoretical, E)					65.1			
Degree of honesty of the central bank (D/E, %)					68.0			

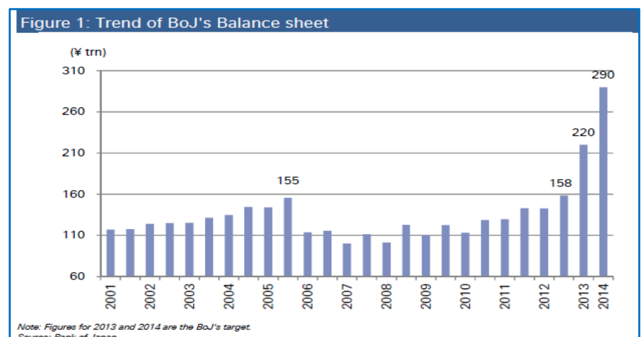
Net addition is calculated as JPY1.8trn - [A] of the previous month * (1/8) * (1/12).
Average duration of government debt held by the BoJ at four years is assumed.
Monetary base is seasonally adjusted monthly average outstanding.
Sources: BoJ, DB Global Markets Research

According to customs-cleared trade data for February, Japan recorded the largest ever trade deficit in seasonally adjusted terms at ¥1,086.6 billion (compared with ¥737.3 billion in January) as nominal imports surged +6.8% MoM (Jan: +2.4% MoM) amid JPY depreciation, while nominal exports increased just 1.3% MoM (Jan: +3.3% MoM). This could lead to a current account deficit for February unless income account surplus expands significantly (by more than 15% MoM).



Export volume continued to decrease -0.6% MoM in February (-0.2% in Jan), while import volume increased 4.0% MoM, indicating weak external demand remained in February and the continuing trend of industrial hollowing out. Deteriorating terms of trade due to depreciation of yen is another reason for the larger trade deficit. The pace of increase in import price index (+2.7% MoM) was faster than that of export price (+1.9% MoM)

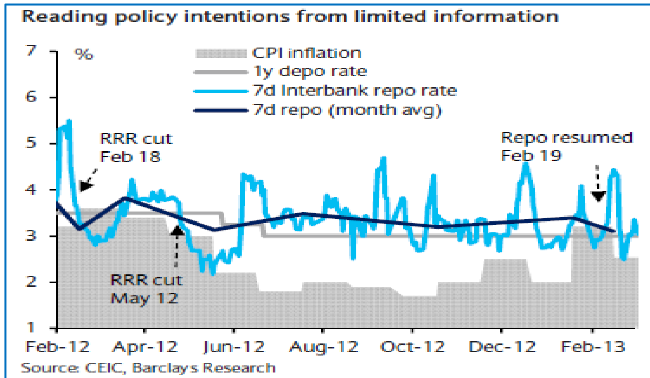




China: Neutral

PBoC resumed repo operations on 19 February, for the first time since June 2012. This should not have been a surprise, given the usual need to (actively) withdraw liquidity from the interbank market post the Chinese New Year. The need was acute this year given capital inflows and strong CNY demand at the start of 2013. At the same time, the action has spurred market expectations of more monetary tightening down the road.

Reading policy intentions from limited information



Source: CEIC, Barclays Research

From a cyclical perspective, the monetary policy stance had already returned to “neutral” by February, from “accommodative” or, as some had argued, “loose” since Q4 12.

China’s export data has been surprising the market consistently on the high side since September 2012. Trade is normally regarded as among the most reliable indicators in China and such upside surprises are typically interpreted as a sign of stronger-than-expected external demand. While external demand growth has indeed been better than expected six months ago, cross-checks with other data—especially that of China’s trading partners—suggest the official data may report too rosy a picture.

Some analysts are calling China’s statistics overly aggressive. Firstly, other key regional exporters have experienced slower growth. Korea’s exports data (excluding exports to China) has generally been very closely correlated with China’s exports since the financial crisis.

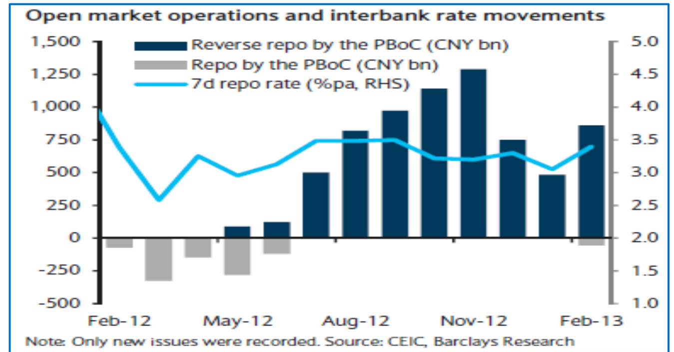
While China showed a fairly strong performance in recent quarters, Korean exports data were less encouraging.

Secondly, China’s export data shows exports to Hong Kong and ASEAN countries have been growing particularly strongly in recent quarters but imports data reported by these economies have been consistently weaker. As this group accounts for around 30% of China’s exports, it is no small issue.

While Hong Kong’s trade data is subject to a large number of potential reporting issues, these issues are mostly related to the classification of re-exports, and readjusting for re-exports does not make too much difference in recent quarters.

Furthermore, ASEAN countries’ data shows clear

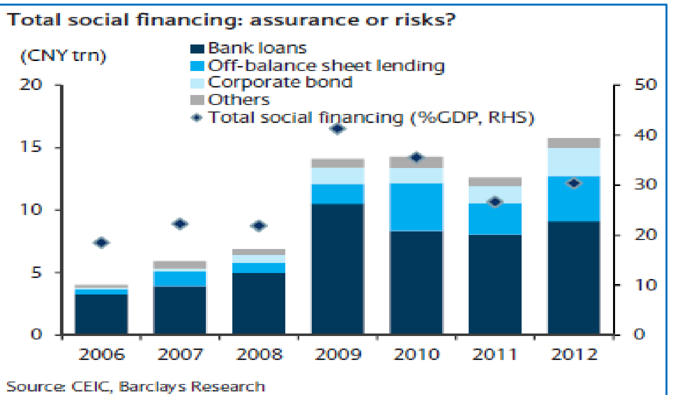
Open market operations and interbank rate movements



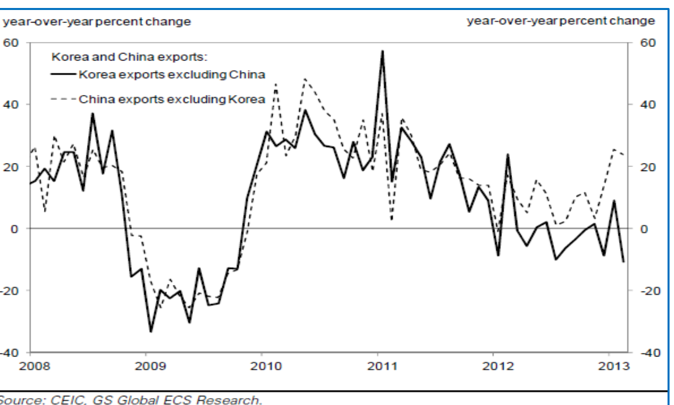
Note: Only new issues were recorded. Source: CEIC, Barclays Research

Such concerns were reinforced by the stronger-than-expected jump in CPI inflation to 3.2% in February, from 2% in January. On this data release, PBoC governor Zhou said in a press briefing that “price stability has always been a top policy priority” for the bank among its four objectives (the other three being stable growth, employment and balance of payments). He added that “while seasonality is evident, the above-consensus CPI inflation warrants vigilance”.

Total social financing: assurance or risks?

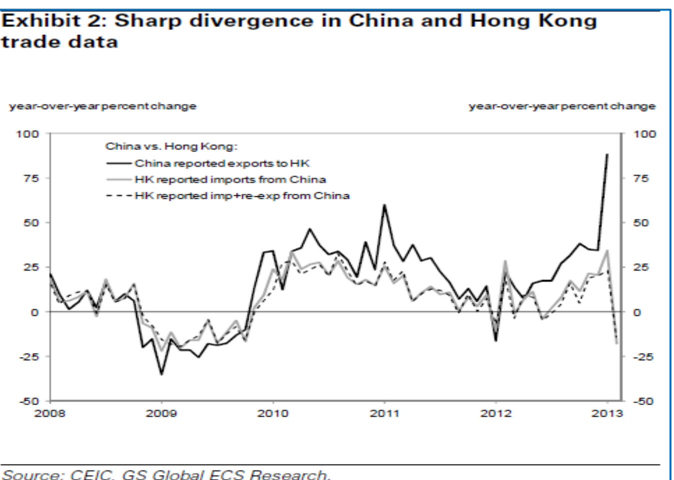


Source: CEIC, Barclays Research



Source: CEIC, GS Global ECS Research.

Exhibit 2: Sharp divergence in China and Hong Kong trade data

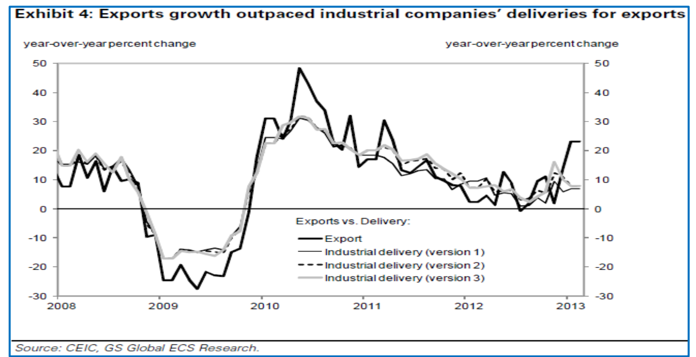


Source: CEIC, GS Global ECS Research.

discrepancy as well

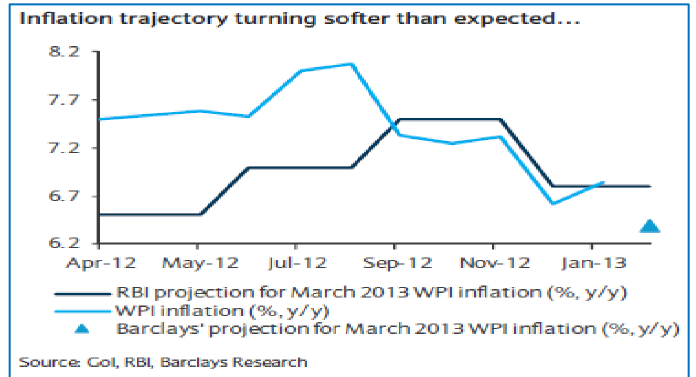
Finally, China's National Bureau of Statistics measures the amount of industrial goods delivered by industrial companies for exports. As China's exports are 90% industrial goods, this series tends to be closely correlated with exports growth.

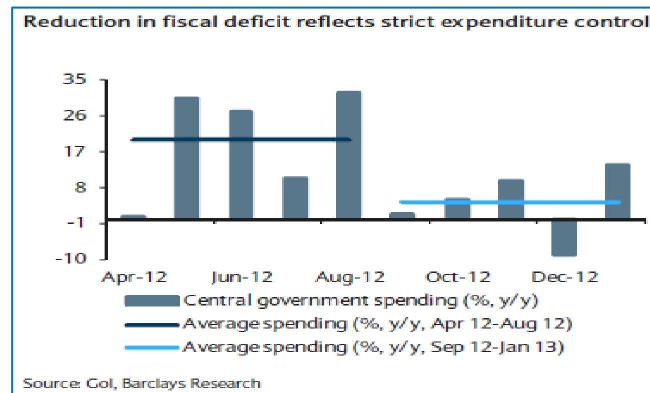
However, for this series, the announced level, year-over-year growth rate and year-to-date growth rate are frequently inconsistent with each other.



India: Neutral

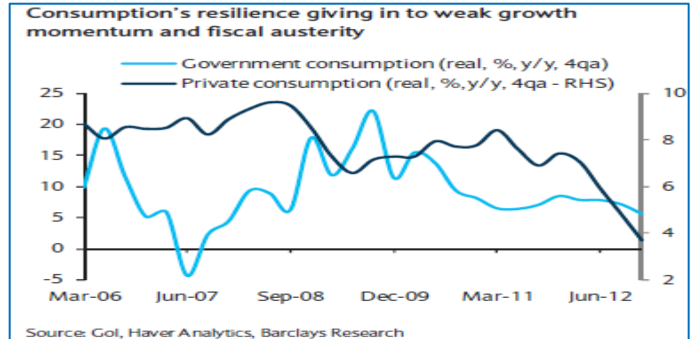
On 19 March, Reserve Bank of India (RBI) reduced the repo rate 25bp to 7.50% as expected, while leaving the cash reserve ratio (CRR) unchanged at 4.0%. Guidance for near term policy remains mixed, emphasising growth concerns and softer core inflation, but at the same time citing as meaningful risks, high retail inflation and persistent high inflation expectations, especially at the retail level.





On balance, RBI followed its usual strategy of staying cautious and trying to contain expectations of further reductions in policy interest rates while delivering easing.

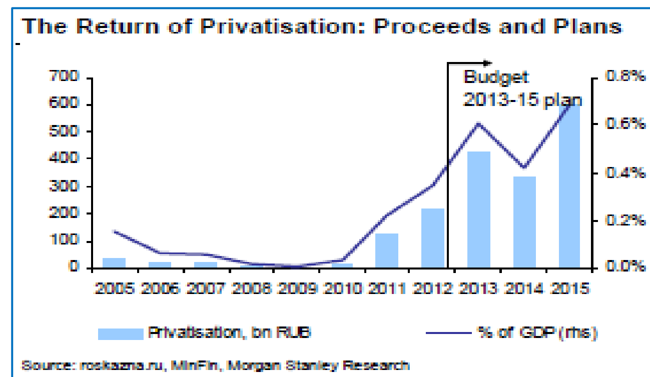
Although central bank's concerns about sticky retail inflation and inflation expectations are well-founded, the consensus is for upcoming macroeconomic data – likely softer inflation prints and continued weakness in growth – will prompt further monetary easing in coming months.

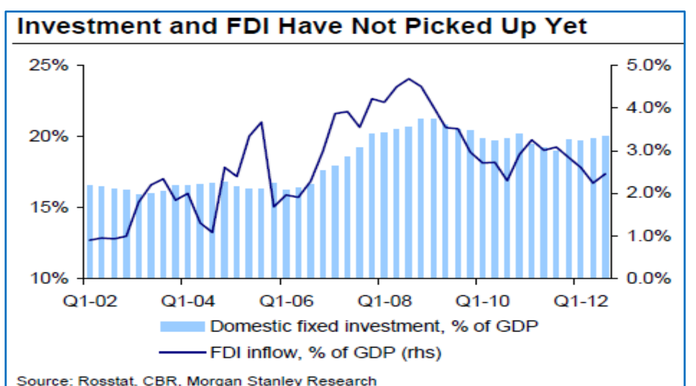


On the other hand, the central bank takes some comfort in the softening of headline and core inflation. Headline inflation fell to 6.8% in February after peaking at nearly 8% in Q3 12. Downside surprises in inflation prompted the RBI to reduce its March 2013 inflation projection to 6.8% in its monetary policy statement in January from 7.5% projected earlier.

Russia: Neutral

On March 4, 2012, Mr Putin was elected Russian president for a third time on the basis of a manifesto setting out an ambitious programme of economic reforms. Among other things, Putin promised a new macro policy framework, based on a balanced budget and inflation targeting, structural reforms to encourage competition and a higher level of investment, with the ultimate objective of securing better economic outcomes, including 25 million high-tech jobs and growth at the 5-6% level.





There is delivery on the new macro framework, thanks to the fiscal rule and the September rate hike. However, calls for rate cuts and softer interpretations of the fiscal rule from ministers suggest that some would like macro policy to support growth as well as maintaining price stability.

There is the proposed abolition of the compulsory funded pension, and the tariff cap, as adversely affecting investment and confidence. Elsewhere – privatisation, innovation, the investment climate, administrative reform, infrastructure and oil taxation also took place.

On outcomes, with slowing growth and limited spare capacity, it is possible that there should be growth within a 2-4% 'channel', dependent on policy implementation success.

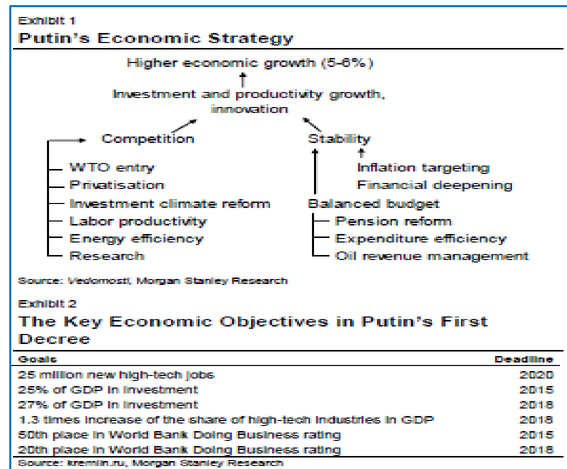


Exhibit 2

The Key Economic Objectives in Putin's First Decree

Goals	Deadline
25 million new high-tech jobs	2020
25% of GDP in investment	2015
27% of GDP in investment	2018
1.3 times increase of the share of high-tech industries in GDP	2018
50th place in World Bank Doing Business rating	2015
20th place in World Bank Doing Business rating	2018

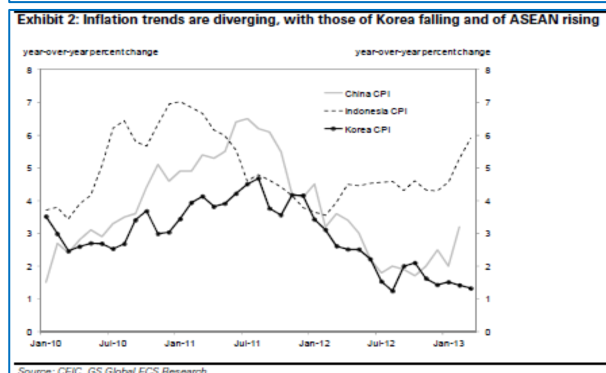
Source: kremlin.ru, Morgan Stanley Research

Asia Pacific: Mixed

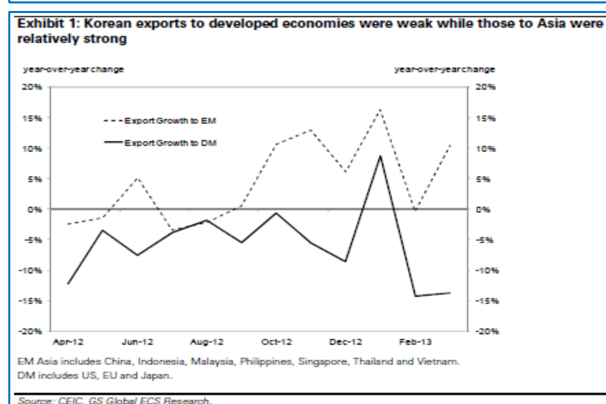
Malaysia has underperformed emerging markets, and EM has significantly underperformed developed markets for two years. This is in sharp contrast to other ASEAN neighbors. The case for Indonesia, Thailand and the Philippines is domestic consumption and investment growth.

The statistics in Malaysia are: Capex growth in 2012 was 20% YoY, up from a five year average of 7% YoY (funded by Savings-Investment gap of 11% of GDP). January Auto sales growth is 26% YoY. Consensus forecast is for 5.1% YoY GDP growth, similar to other ASEAN economies. With inflation modest, 2013 forecast of 2.3%, Malaysia's central bank will be on hold.

Local investors have sold a net US$1.8billion of equities in the past 13 months. This is despite net inflows into provident funds. EM funds by and large are underweighting Malaysia. In Korea, March inflation was benign and lower than expectations. This, together with weaker-than-expected industrial production in February, has reinforced the stimulus plan of the new government, which announced its intention for a supplementary budget on March 28.



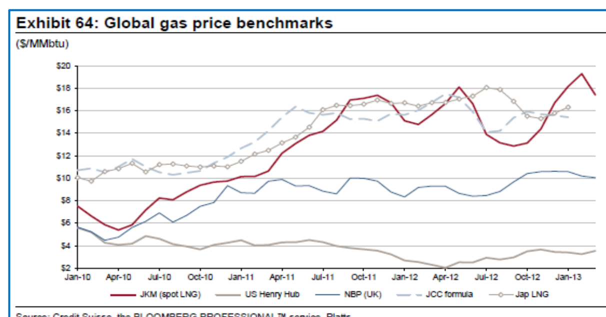
In contrast, ASEAN data show inflation picking up and suggest tightening policy biasness. Indonesia's March inflation came in 5.9% YoY versus previous month's 5.3% YoY, and is above Bloomberg consensus expectations. The general view is for an inflation rebound, underpinned by closing of output gap, higher minimum wages, electricity tariff rate hikes, and the weaker rupiah over the past year.



Indonesia's central bank may come up with tightening measures, possibly raising deposit facility rates and curbing credit growth. In Thailand, the central bank has kept the rate unchanged in line with expectations, but signalled a hawkish bias, noting rising domestic demand and potential inflationary pressures. We continue to think that rate normalization could begin later in the year, and expect 50 bp hikes in Q4 2013.

Commodities: Negative

Data for the first full year of post-Fukushima LNG market show that Asia's LNG demand grew 1.7 Bcf/d, or 7.7% YoY. Japan remains far-and-away the biggest consumer of LNG, averaging ~12 Bcf/d of imports during 2012. Its imports, the driver of global LNG growth, recovered from a YoY decline in November 2012 to monthly record levels for December and January. Unsurprisingly, spot JKM prices rose from 2012 lows of ~$13MMbtu in October to $19/MMbtu in February



2013, a nearly one-third increase.

For the year, Japan imported 11% (1.2 Bcf/d) more gas than in 2011, see Exhibit 65. The trend is expected to show little change this year. Although the new government has set out fairly aggressive objective to revive Japan's economic growth, Tokyo will likely be frustrated in its effort to re-start even a small fraction of the country's 54 nuclear power units. At the moment, there are only two nuclear plants running. A new regulatory regime is not due until this summer.

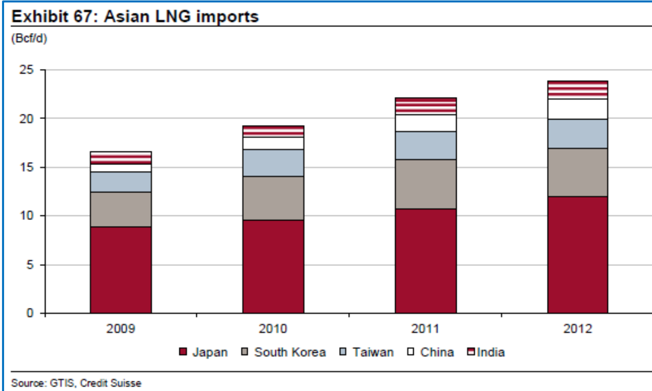


Exhibit 67: Asian LNG imports

Source: GTIS, Credit Suisse

From the exporter's side, relatively newcomers Qatar and Australia have begun to outpace stalwart Malaysia, while Indonesia's erstwhile prominence in Japan is long gone; see Exhibit 66. Newly signed long-term contracts mean that Qatar and Australia are not likely to be challenged in Japan anytime soon either.

Bonds: Mixed

A couple of observations are worthy to make note of regarding the past three month's issuance of inflation-linked bonds in Euroland by Germany, France and Italy.

Firstly, some historical context; following various negative factors that impacted the market at start of last year, and led to a significant reduction in supply, we have seen total issuance rebound strongly in the first three months of 2013. This is particularly noteworthy given that Italian government bonds dropped out of some of the most important benchmark indices through 2012. In fact, on a market value basis (notional × price × index ratio) this year, it has seen the largest first quarter issuance since Germany started issuing inflation-linked bonds in 2006.

The second aspect is that Germany has, for the first time, committed to issue inflation-linked bonds on a monthly basis, something that has become the norm for both France and Italy. This is important as it begins to loosen the ties between the level of breakevens and issuance; nevertheless, it is worth noting that the size issued is flexible and hence from this perspective issuance still remains intimately linked to the level of breakevens.

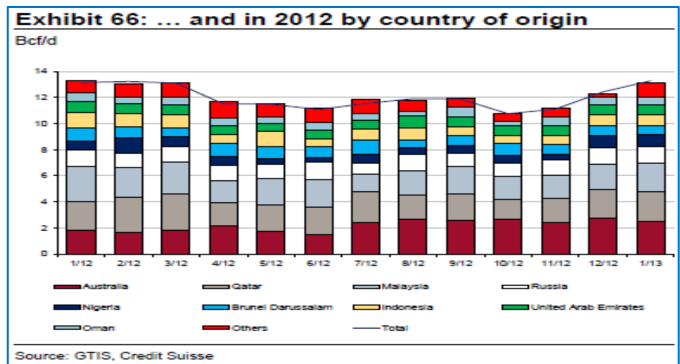


Exhibit 66: ... and in 2012 by country of origin

Source: GTIS, Credit Suisse

Although several utilities have gone to great lengths to ready themselves to meet new rules and regulations, all of them face tough local and prefecture level opposition to restarting. Nor are popular concerns eased by the ongoing stream of revelations about events surrounding the Fukushima disaster.

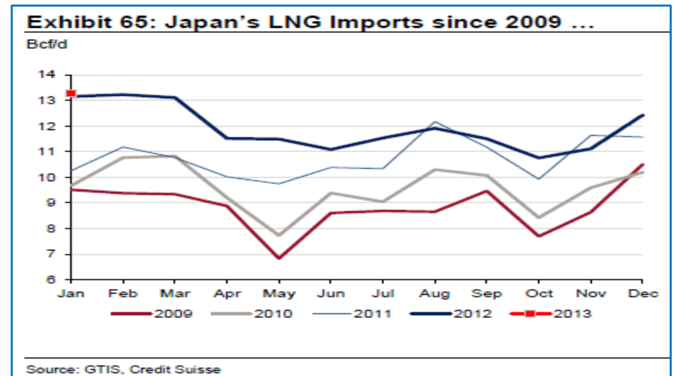


Exhibit 65: Japan's LNG Imports since 2009 ...

Source: GTIS, Credit Suisse

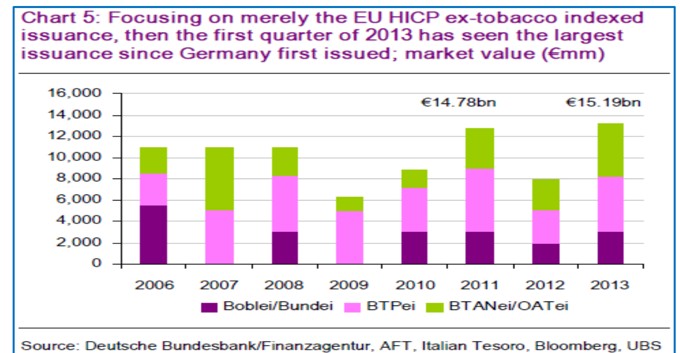


Chart 5: Focusing on merely the EU HICP ex-tobacco indexed issuance, then the first quarter of 2013 has seen the largest issuance since Germany first issued; market value (€mm)

Source: Deutsche Bundesbank/Finanzagentur, AFT, Italian Tesoro, Bloomberg, UBS

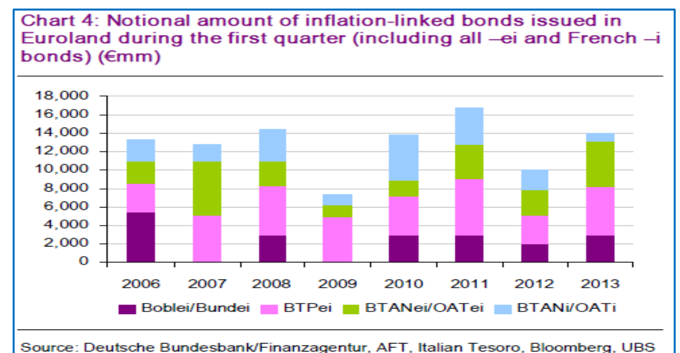


Chart 4: Notional amount of inflation-linked bonds issued in Euroland during the first quarter (including all –ei and French –i bonds) (€mm)

Source: Deutsche Bundesbank/Finanzagentur, AFT, Italian Tesoro, Bloomberg, UBS

* Unless otherwise stated, all figures and information are collected from WSJ, Bloomberg or Haver Analytics.

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