

Japan: Tilting towards Asia

Japan is an oasis of calm in the world right now and is gradually strengthening relationships throughout Asia. But stronger ties with China may come at a price



Source: Shutterstock

Japan is one of the few calm spots but expect temporary growth drags

Compared to what is going on in the rest of the world, Japan looks positively tranquil:

- Relationships in the Asian region are being fostered
- Sustainable growth is being nurtured
- Economic reforms are being implemented
- Policy changes are slowly and almost imperceptibly being altered

This does not make for exciting reading, but maybe, it makes for a better long-term investment. Marring the tranquillity, earthquakes and typhoons have hit Japan in 3Q18, and this could cause a brief and minor downtick to GDP growth figures in the short-term, whilst nudging up inflation for a while. But these are distractions. The main story remains one of ongoing consumer resilience, supported by extremely low unemployment, and continued growth in wages

Inflation is low and will remain low

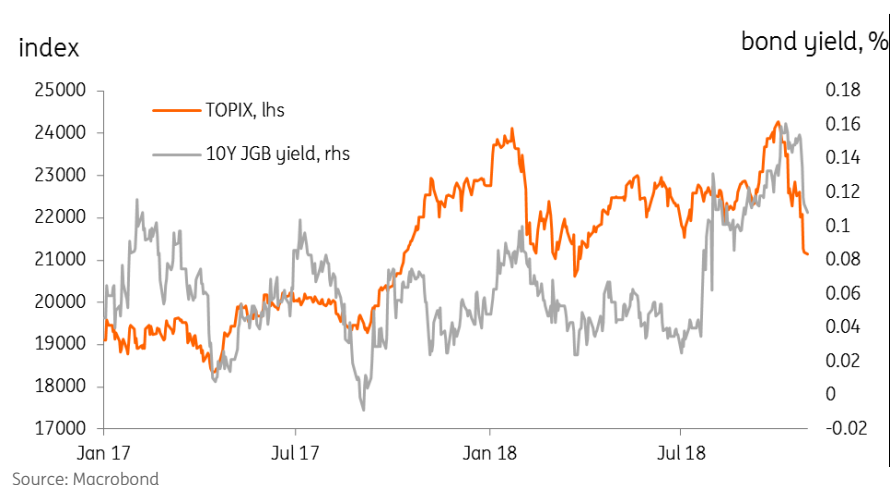
Inflation remains predominantly absent, with inflation rates excluding energy and typhoon-affected fresh foods at only 0.1% year-on-year. But the authorities are choosing to focus on the broader core measure, which excludes only fresh foods. Thanks to higher oil prices, this is a relatively robust-looking 1.2%. Though not for long. 1.2% is still way off the official 2.0% target. But it is sufficiently close for the Bank of Japan (BoJ) and government to suggest no pressing need to chase this further.

Risk aversion has impacted Japanese markets

BoJ policy, according to Governor Kuroda, will eventually be altered through changes to the 10-year Japanese Government Bond (JGB) target. With the target currently at 0.1%, the benchmark issue was recently trading at about 0.14%. A fairly rapid reversal has taken it back to 0.1% in recent weeks. No hint, therefore, that a change in the target yield value is being planned imminently.

Equity markets in Japan have not been immune to global forces. The Nikkei 225 is down more than 7% year-to-date in yen terms, with the broader TOPIX index down 12.4%. This compares with a fall of only 0.6% YTD in US dollar terms for the S&P 500. This might explain why the 10-year JGB yield has been brought back into line with the official target, instead of being allowed to drift higher.

Japan equities and 10Y yields



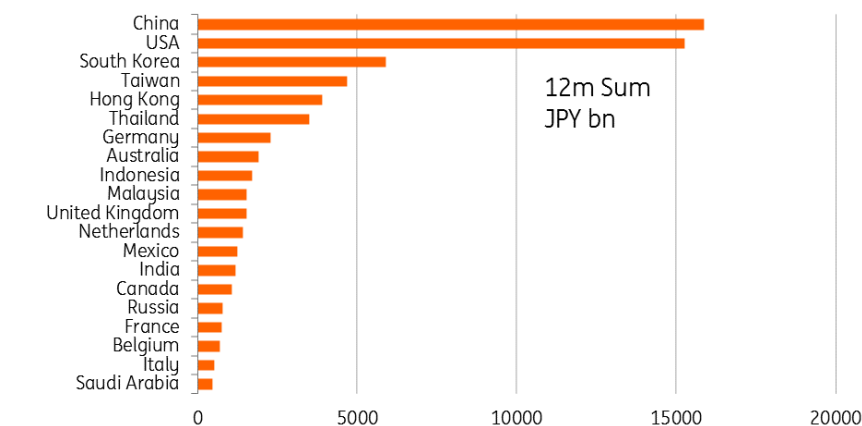
Japan looks to improve relations in region but is careful not to upset US

Japan's Prime Minister Shinzo Abe has used his re-election as head of the LDP to pursue a pattern of relationship building in the region. A state visit to Beijing should not be viewed as merely cosmetic. 500 business deals were signed on the trip, valued at about ¥260 billion, and including a \$30 billion currency swap arrangement with China. The trip also marked an end to Japanese foreign aid to China, but a commitment to partnership in infrastructure projects, including the Belt Road Initiative, which Japan has avoided until now.

The rapprochement with China is significant, as it signals a choice between good relations with

China at the potential expense of those with the US. Abe won't want to sour Japan's relations with the US, but he can't afford to take sides with the US against China, even if that may incite a reaction from President Trump.

Japanese export destinations



Source: Macrobond

Japan's tilt towards Asia looks set to continue

Rather than driven by emotion, Japan's actions come across as reassuringly pragmatic. In the last 12 months, Japan has exported more to China than the US, and China is Japan's number one unique export destination. As recently as six months ago, the US had the top spot.

The US now holds second place followed by South Korea, which absorbs almost a third as many Japanese exports as the US, followed by Taiwan, Hong Kong, and Thailand. It is only then that the rest of the G-7 becomes involved, as Germany enters the ranks, and then we are quickly back to the Asia Pacific region with Australia, Indonesia and Malaysia. In short, in the words of Barack Obama, it looks like Japan has tilted towards Asia.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist
+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM
+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com