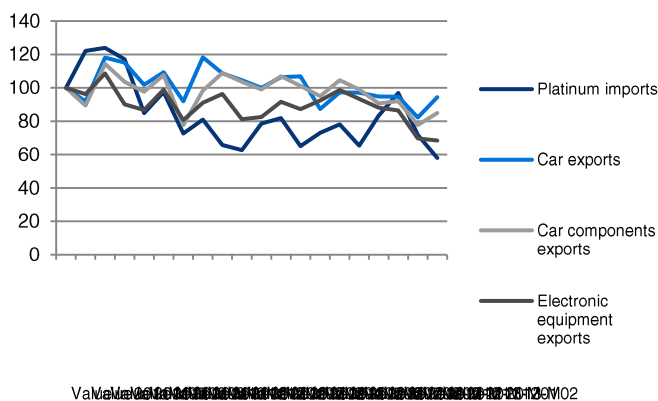


April 14th 2013

Japan's trade outlook does not support view that economy is bottoming out

Index of Japans Trade in July 2011: February 2013



Source: Delta Economics from
UN Comtrade, Trade Map and Country statistics.

Our data says:

The weakening of the Yen will not have a sustained impact on Japanese exports. Delta Economics' trade forecast suggests that export growth in Japan will be static during 2012 at around 0.2% (compared with a drop of 2.9% between 2011 and 2012). Monthly trade data suggest a mild improvement in exports in Q1 and slowing of imports, which emanate from above trend exports of cars and car components. Slowing imports suggest slowing demand over the longer term.

We therefore do not expect the rising trend in exports to continue through Q2 and Q3. The lower value of the Yen makes imports more expensive and Delta's Trade Outlook

Index (TOI) has deteriorated by 40 basis points since March caused largely by the collapse in the Bond market and the weakening currency as well as a deteriorating position in inward investment.

Key turning point:

Exports: The automotive and electronics sectors act as bellwethers for the Japanese economy and the trend in export growth over the next six months is mildly positive at 0.9% and 1.0% respectively. However, imports of platinum, a key component in automotive and electronic production, are expected to fall over the next 12 months by 1.5%. The drop in platinum imports has sharpened in Q1 and we see this as a key turning point leading to a decline in exports in two of the largest trade sectors for the Japanese economy. If platinum imports continue to decline over the next two months, exports of cars and electronic goods will also decline since trends in the sectors are closely correlated (see chart).

Industrial production: Industrial production figures (to be released on Monday) will show an improvement from their decline of 11% last month. We are expecting production to remain in negative territory for the year but to show signs of recovery. This will have a strengthening effect on the Yen over the next month.