Japanese Financial Market Trends (FY2003–FY2012)

Securities Market Trends

Although market performance was strong overall from FY2003 through mid-FY2007, equity markets have languished for approximately five years since the Lehman Shock in 2008, which crippled the economy and led to yen appreciation.

However, equity markets showed a strong rally after the Liberal Democratic Party recaptured political power at the end of 2012.

As of the end of FY2012, the TOPIX stood at 1,034.71, an increase of 180.36 from a year earlier.

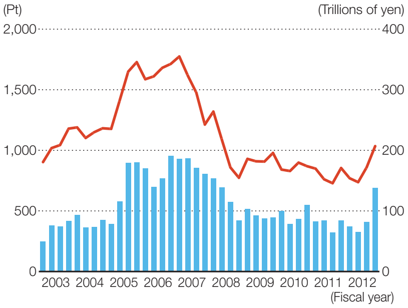
Annual trading value on the First Section of the Tokyo Stock Exchange had declined from a peak of ¥705 trillion set in FY2007 to ¥316 trillion in FY2011, but it rose ¥44 trillion year on year, to ¥360 trillion in FY2012.

Trading value by investor category (percentage of brokered trading value) shows that trading by financial institutions, business companies, and others declined. However, the share of trading value by foreign investors surged to 70.6% in the first quarter of FY2012. In the fourth quarter of FY2012, however, the share of trading by foreign investors decreased to 60.3%, while the individual investors' share had increased to 28.5%.

In bond markets, the yield on benchmark long-term Japanese government bonds (JGBs) (quarterly basis) has fallen sharply from the peak of 1.913% in the first quarter of FY2006. Due in part to ongoing deflation in Japan and declining interest rates around the world, as well as recent expectations for monetary easing by the Bank of Japan, this yield had declined to 0.56% as of the end of FY2012.

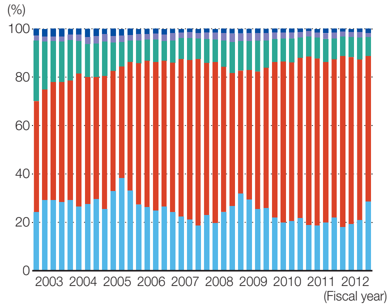
Trading in JGBs (excluding repurchases) had increasingly expanded through FY2011, to ¥3,616 trillion, but declined ¥196 trillion, to ¥3,420 trillion in FY2012.

TOPIX and Trading Value on the First Section of the Tokyo Stock Exchange



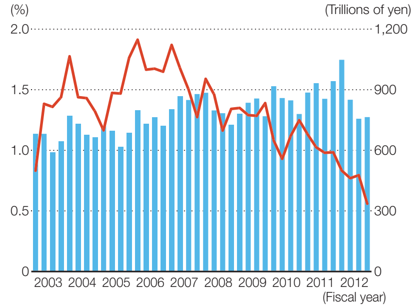
– TOPIX (left)
■ Trading Value on the First Section of the Tokyo Stock Exchange (Quarterly data: right)
Source: Tokyo Stock Exchange

Trading Value by Investor Category on the First Section of the Tokyo Stock Exchange



■ Individual investors ■ Foreign investors
■ Financial institutions ■ Investment trusts
■ Business companies, others
Source: Tokyo Stock Exchange

Yields and Trading Value for JGBs (excluding repurchases)



– Yield on benchmark long-term JGBs (left)
■ JGB trading value (excluding repurchases, Quarterly data: right)
Source: Japan Security Dealers Association

Corporate Finance Trends

Looking at the financing environment for listed companies, equity financing had shown robust growth through FY2006 owing to bullish stock market conditions.

In FY2007 and FY2008, however, activities were extremely limited, reflecting bearish market conditions. After the Lehman Shock, in FY2009, public offerings increased as capital raising activities by financial institutions rose, and in FY2010, initial public offerings (IPOs) increased due in part to the listing of a major life insurance company.

In FY2011, growth turned negative again. In FY2012, public offerings climbed ¥631.9 billion year on year, to ¥944.5 billion, reflecting the sales of government-owned shares in Japan Tobacco Inc., and IPOs jumped ¥607.6 billion, to ¥773.7 billion, owing mainly to the relisting of Japan Airlines Co., Ltd.

Turning to debt financing, bonds issued by electric power companies plummeted in FY2011 after the Great East Japan Earthquake, but bond issuance markets were favorable overall as interest rates on new issues remained low amid robust demand from investors.

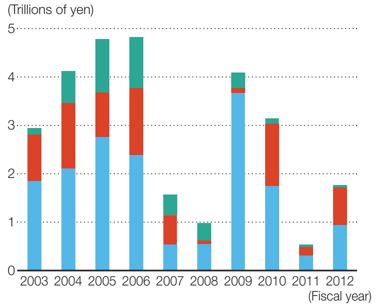
In FY2012, straight corporate bonds issued by listed companies rose ¥809.6 billion year on year, to ¥5,715.9 billion, whereas Samurai bonds decreased ¥851.8 billion, to ¥1,142.1 billion, and agency bonds fell ¥423.1 billion, to ¥5,312.2 billion.

In M&A, activities had centered on IN-IN (deals between domestic companies) before 2005, but after 2006, Japanese companies stepped up their globalization measures, and this led to an increase in IN-OUT (a Japanese company acquires an overseas company) activities. IN-OUT continues to be higher than IN-IN in M&A.

In 2012, M&A increased ¥416.9 billion, to ¥11,305.6 billion. By market category, M&A for IN-IN declined ¥70.8 billion, to ¥3,383.1 billion, and IN-OUT climbed ¥965.7 billion, to ¥7,355.6 billion, in reflection of the strong yen and an outlook for weak domestic demand. OUT-IN (an overseas company acquires a Japanese company) fell ¥432.9 billion, to ¥566.7 billion.

Note: M&A figures are for calendar years.

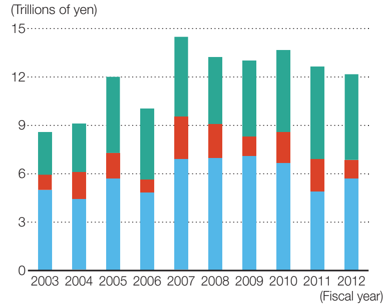
Value of Equity Finance



PO IPO CB

Source: Japan Securities Dealers Association's Equity Financing Conditions for All Listed Companies

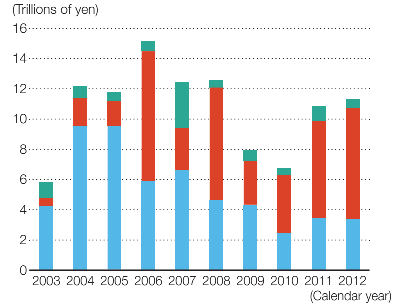
Value of Debt Finance



Straight corporate bonds Samurai bonds
Agency bonds

Source: Tokyo Stock Exchange's Monthly Statistics Report

Value of M&A



IN-IN IN-OUT OUT-IN

Source: RECOF Corporation

Household Financial Asset Trends

On a fiscal year basis, there remains a net inflow of open-type mutual funds (Net inflow = Sales - Repurchase - Redemption).

The net inflow of funds has declined considerably since FY2008, owing to the plunge in stock markets and sharp yen appreciation after the Lehman Shock, and has remained at a low level. In FY2012, the net inflow of funds was ¥2,878.3 billion.

The average interest rate on bank deposits has remained at an extremely low level. It started to rise when the Bank of Japan changed its monetary policy at the end of FY2005 and continued to increase through FY2007, but the Lehman Shock triggered a sharp decline to nearly zero.

As of the end of FY2012, the interest rate was 0.02% for an ordinary savings account, unchanged from the end of the previous fiscal year, and the deregulated interest rate on time deposits had declined 0.02 percentage point, to an average of 0.032%.

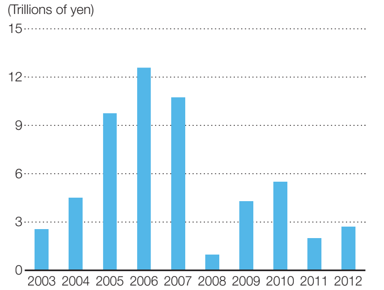
Household financial assets have not changed much overall, staying at around ¥1,500 trillion.

Breaking this figure down, the ratio of holdings in cash and equivalents remained at a high level, with relatively little holdings in risk assets, as usual.

The ratio of holdings in marketable securities, defined as the total of stocks, bonds, and investment trusts, was around 13% owing to weak share prices after the Lehman Shock, despite having closed in on 20% in FY2006 when share prices were up.

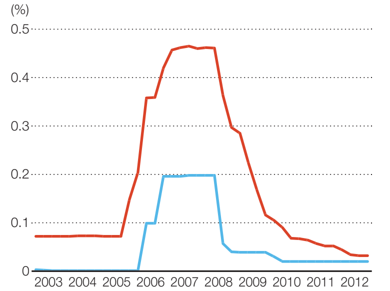
As of the end of FY2012, household financial assets amounted to ¥1,570 trillion, an increase of ¥53 trillion from the end of the previous fiscal year.

Net Inflow of Open-Type Mutual Funds



Source: Investment Trusts Association, Japan

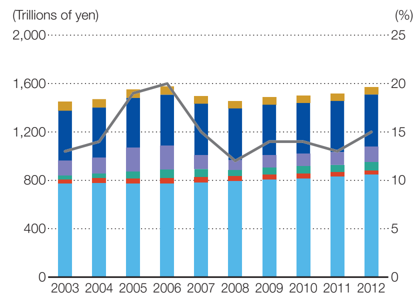
Interest Rate on Bank Deposits



Regular savings account
Unregulated interest rate on time deposits (Deposits of less than ¥3 million, four-year maturities)

Source: Bank of Japan

Household Financial Assets



Cash and deposits Bonds
Investment trusts Stocks and investments
Insurance and annuity reserves Other
Ratio of marketable securities (right)

Source: Bank of Japan