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KEYSQUARE

Scott Bessent

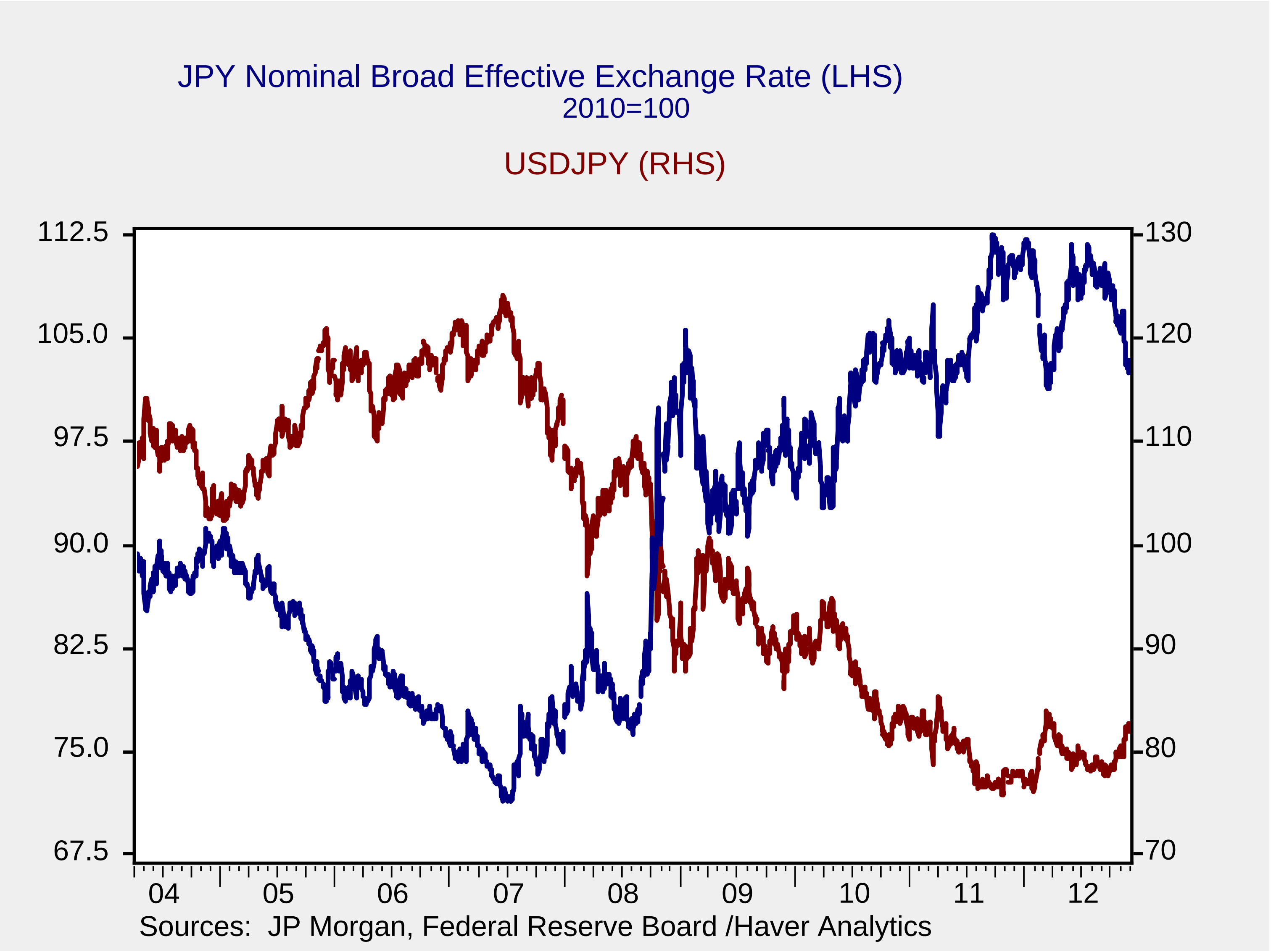
Chief Investment Officer

Grant's Spring Investment Conference

April 13, 2016

Part 1:

Setting the Stage for Abenomics



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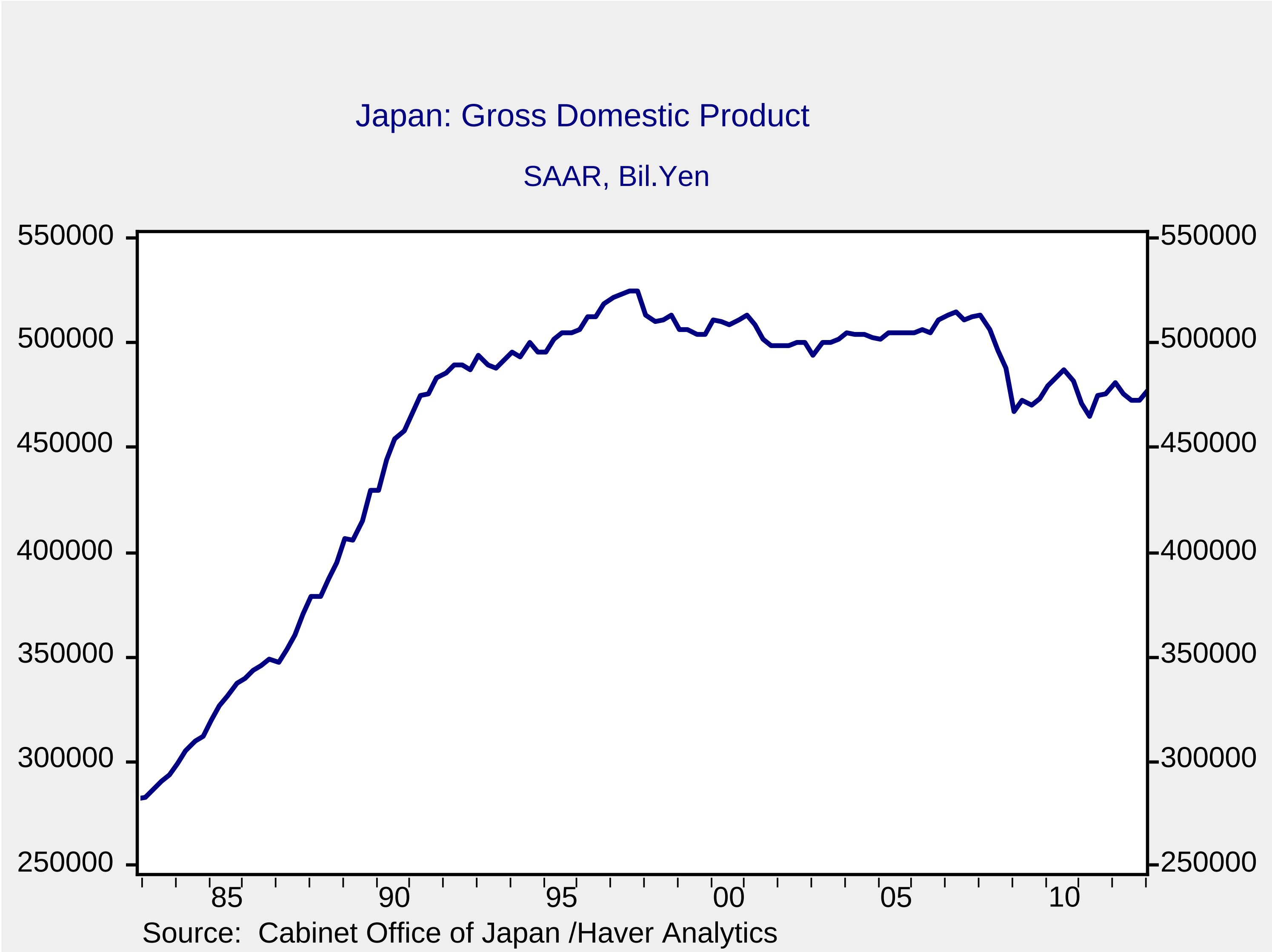

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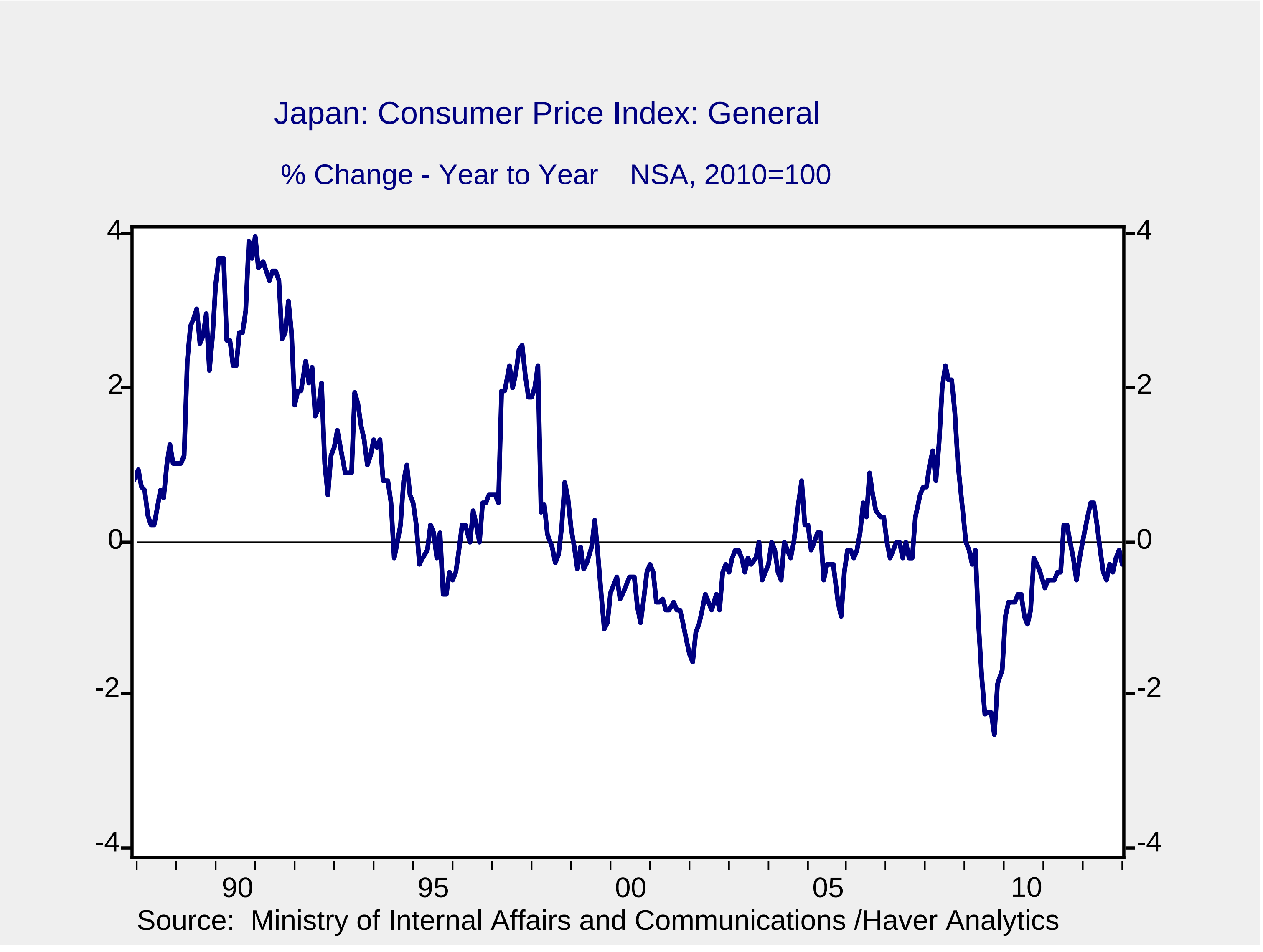

Japan: Consumer Price Index: General
% Change - Year to Year NSA, 2010=100
4
2
0
-2
-4
90
95
00
05
10
Source: Ministry of Internal Affairs and Communications /Haver Analytics

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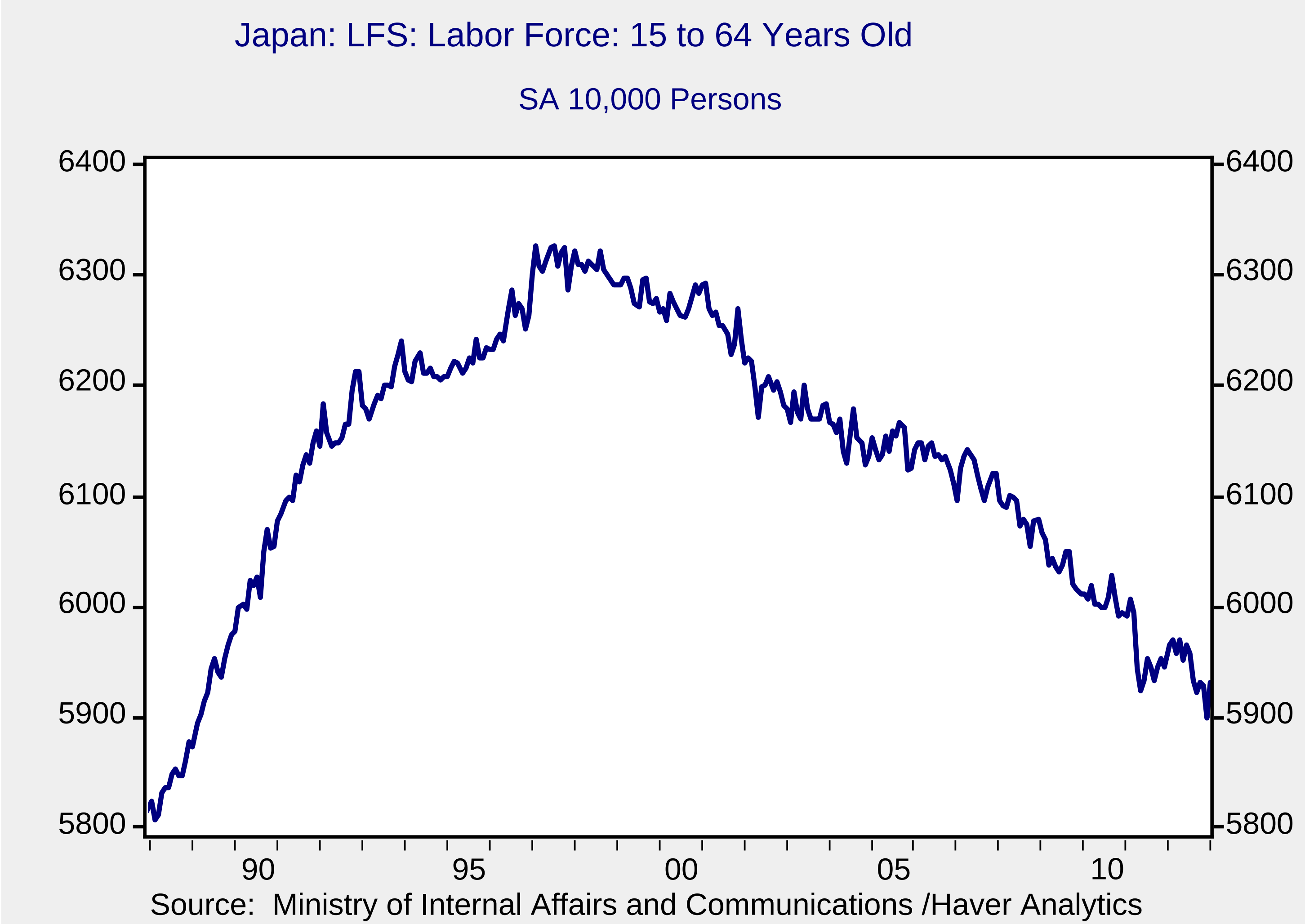

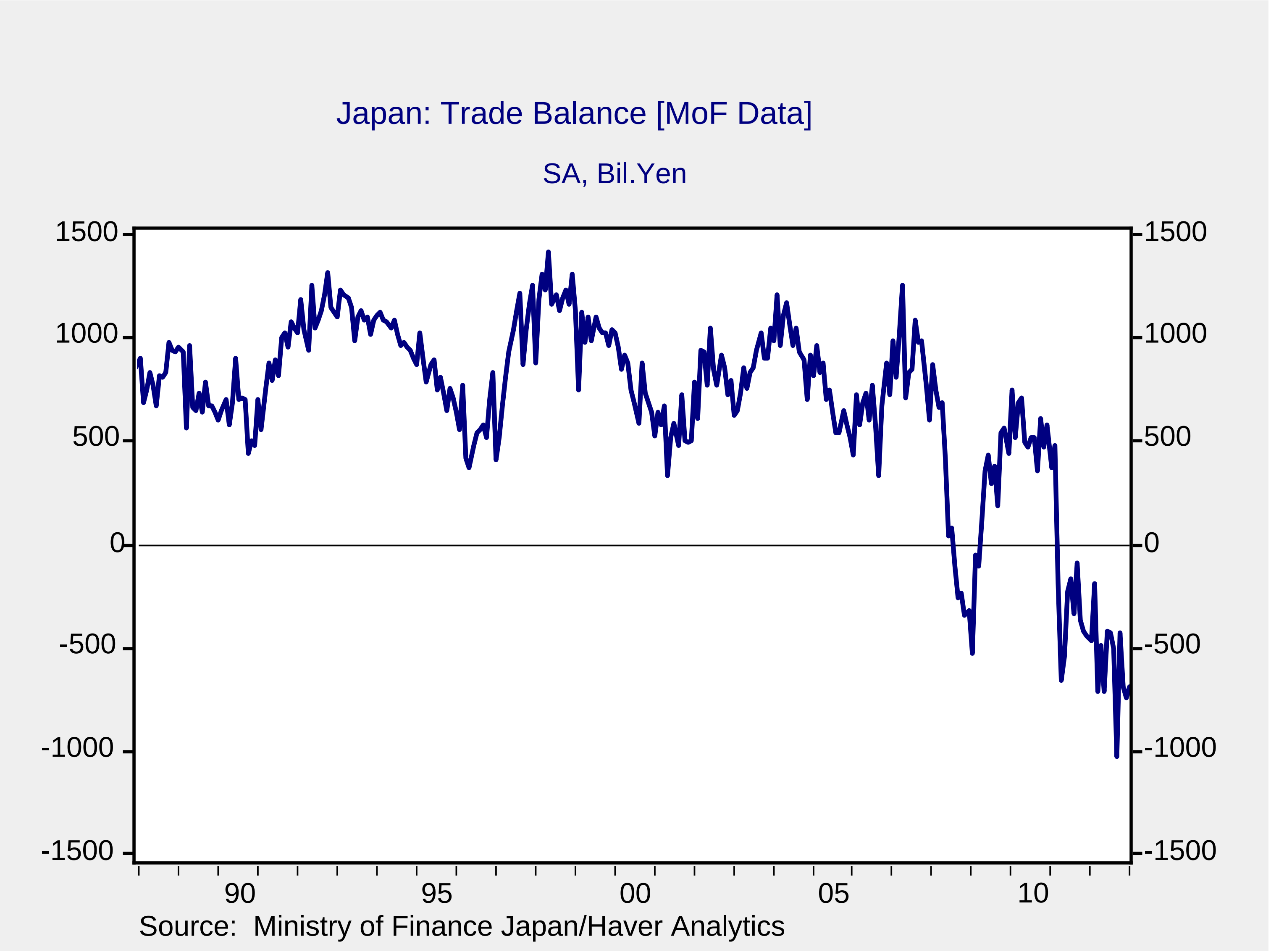

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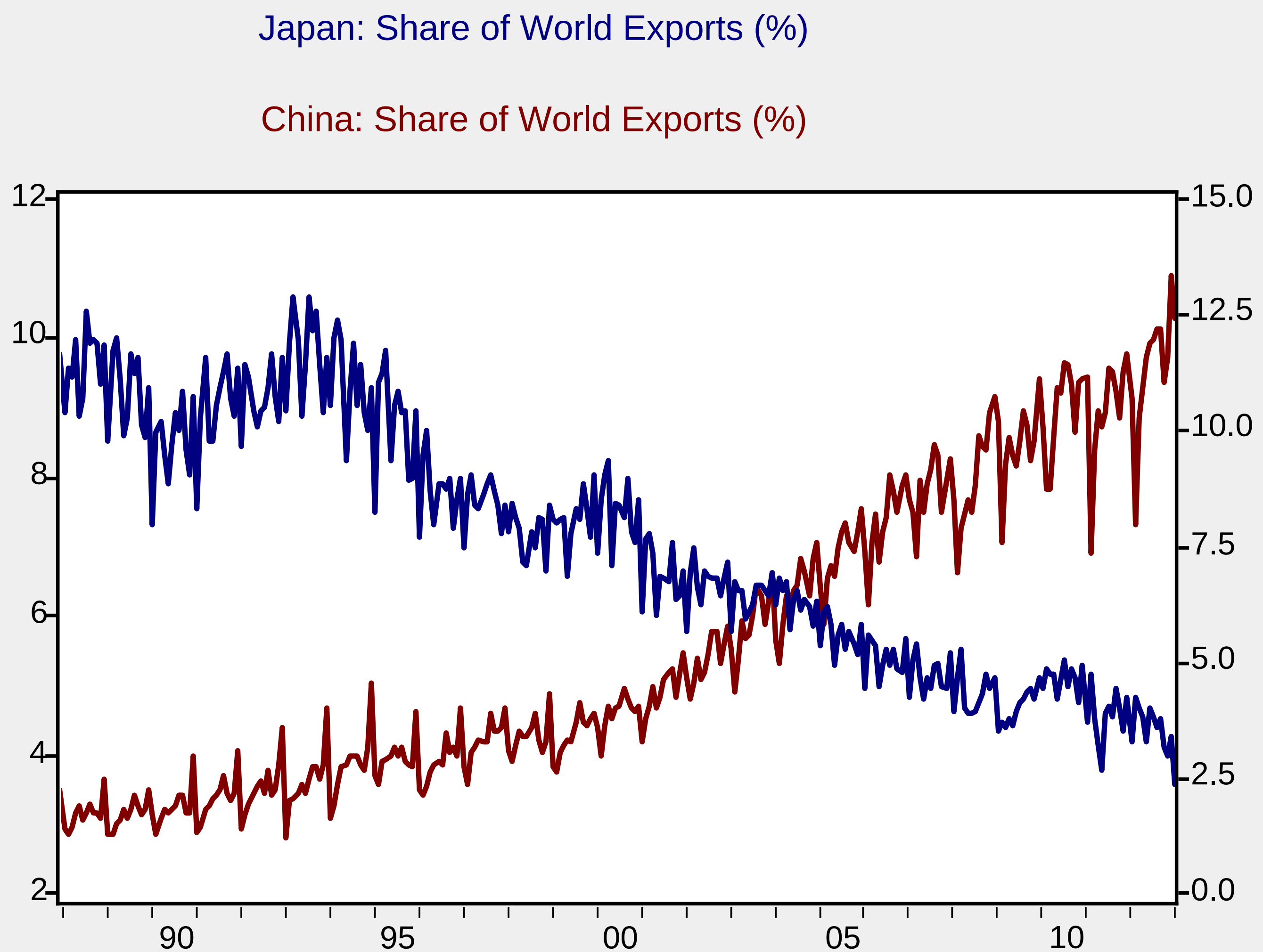
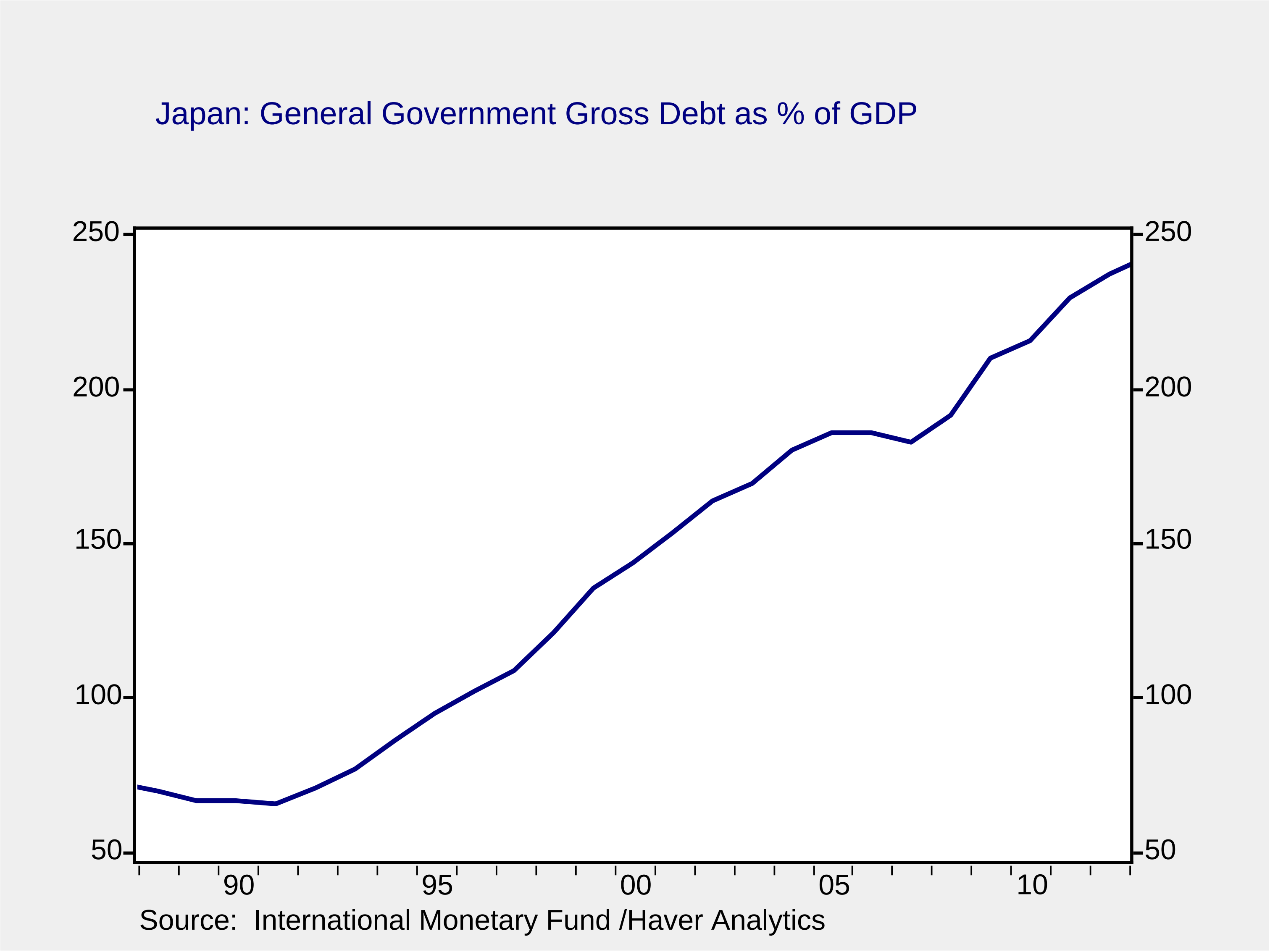
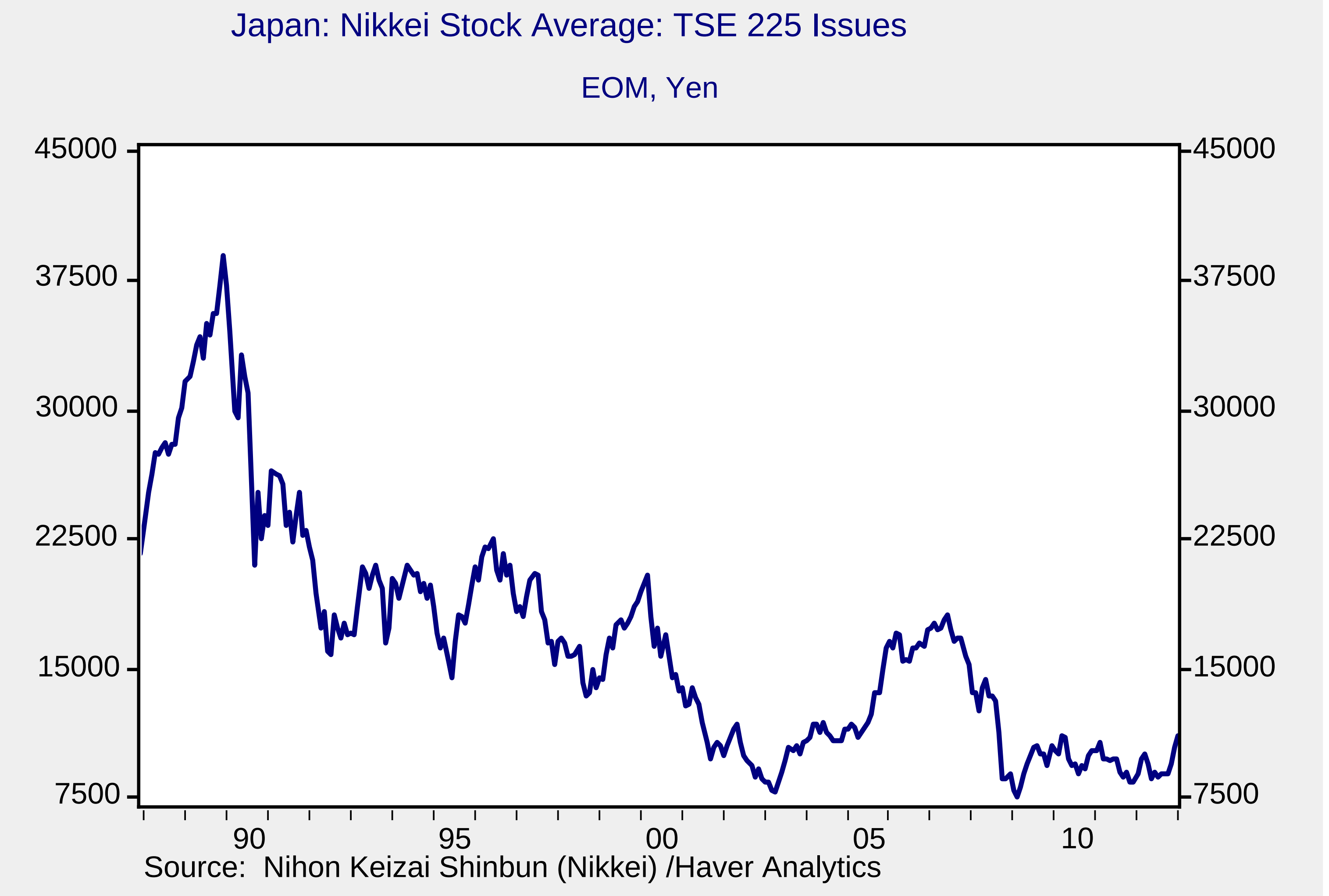


Source: International Monetary Fund /Haver Analytics


Japan: General Government Gross Debt as % of GDP
250
200
150
100
50
90
95
00
05
10
Source: International Monetary Fund /Haver Analytics



Japan: Nikkei Stock Average: TSE 225 Issues
EOM, Yen
45000
37500
30000
22500
15000
7500
90
95
00
05
10
Source: Nihon Keizai Shinbun (Nikkei) /Haver Analytics

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"We have to have a strong economy to have a strong diplomacy; and with strong diplomacy and a strong foreign policy, we can in turn ensure peace and stability in the region."

- Shinzo Abe

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		Political Party	Took Office	Left Office	Days in Office
	Shinzo Abe	LDP	9/26/2006	9/26/2007	365
	Yasuo Fukuda	LDP	9/26/2007	9/24/2008	364
	Taro Aso	LDP	9/24/2008	9/16/2009	357
	Yukio Hatoyama	DPJ	9/16/2009	6/8/2010	265
	Naoto Kan	DPJ	6/8/2010	9/2/2011	451
	Yoshihiko Noda	DPJ	9/2/2011	12/26/2012	481

Part 2:
Successes of Abenomics

Bold Monetary Policy

BOJ to achieve 2% inflation target in 2 years
Remove deflationary mindset

- Quantitative and Qualitative Monetary Easing (QQE) by the BOJ
- Depreciating yen and raising equity prices
- Nurturing inflation expectations

Flexible Fiscal Policy

Create domestic demand to lead the economy out of deflation

- January 2013: Y10.3tn economic package, of which Y5tn in public works
- Additional economic packages in FY2013 (Y5.5tn) and FY2014 (Y3.5tn)

Growth Strategy

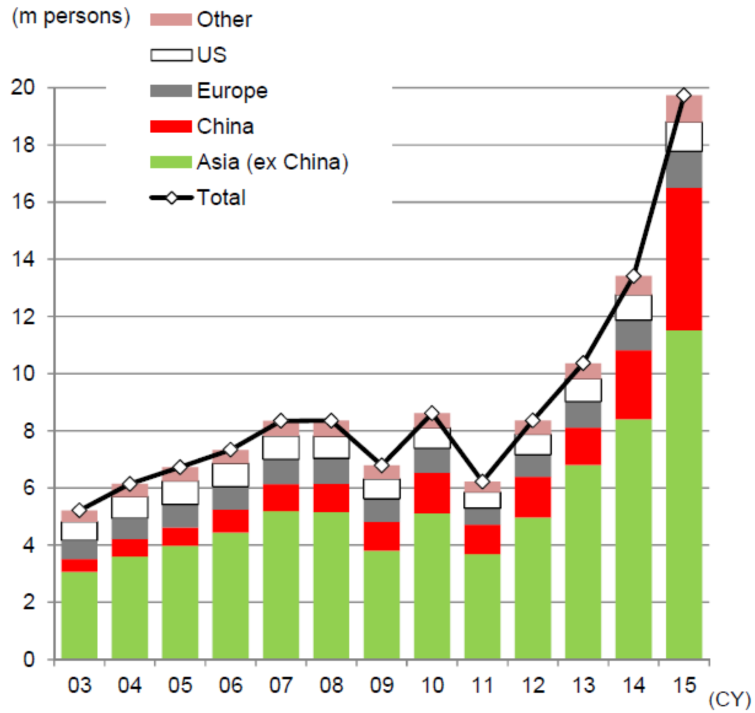
Boost long-term potential growth via structural reforms

- Strengthening corporate governance
- Implementing corporate tax reforms conducive to growth
- Promoting female labor participation by expanding childcare capacity
- Implementing reforms of public/semi-public funds (incl GPIF, etc)
- Promoting renewable energy

Source: Goldman Sachs

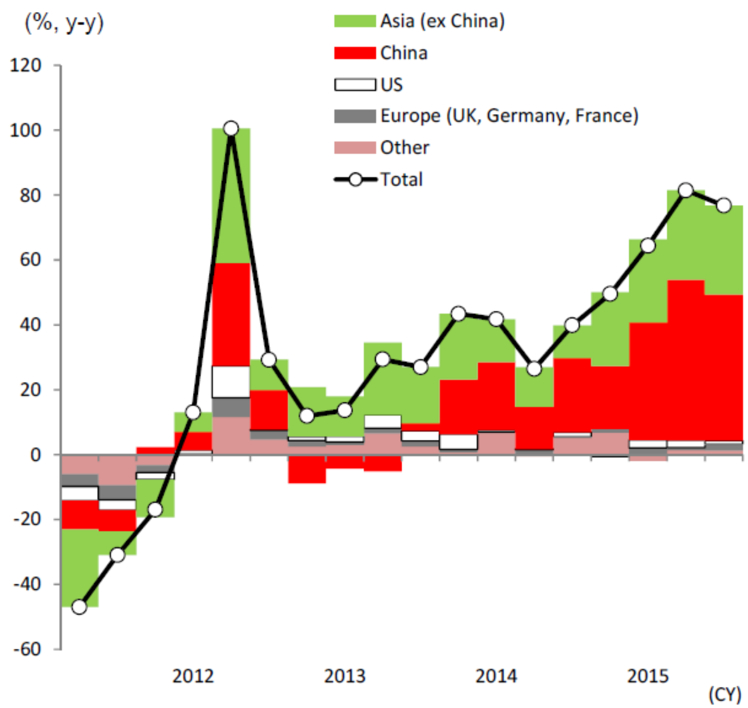
	9/3/2012	12/31/2015	Change
USDJPY	78.26	120.52	+54%
NKY 225	8,784	19,034	+117%
10Y JGB Yield	78.4 bps	26.5 bps	-51.9 bps
Itraxx Japan CDS	209.59 bps	74.35 bps	-135.24 bps
Headline CPI	-0.50%	0.20%	+0.7%
CPI ex Food & Energy	-0.61%	0.79%	+1.4%
Unemployment Rate	4.20%	3.30%	-0.9%

Number of foreign visitors to Japan

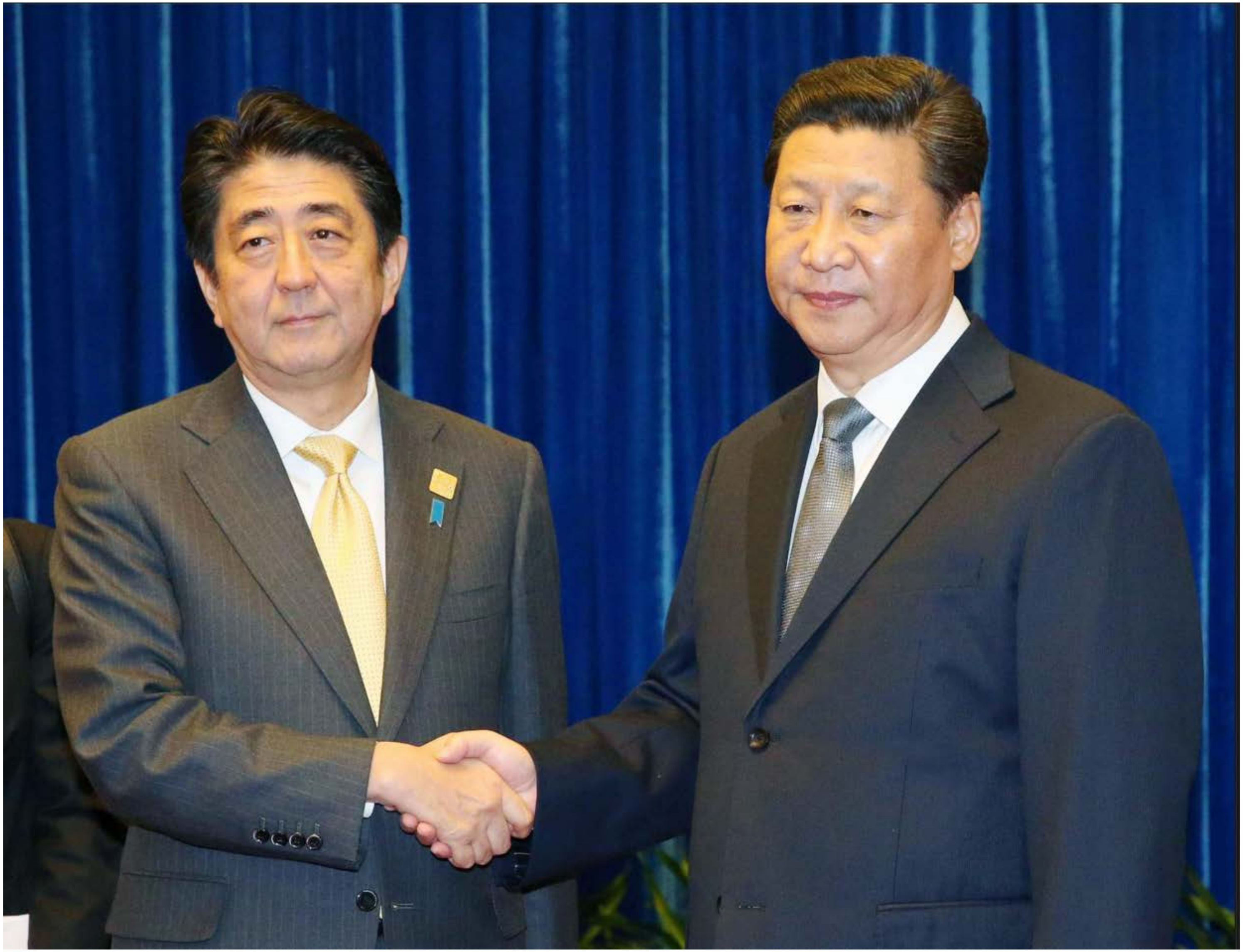


Source: Nomura, based on Japanese government statistics

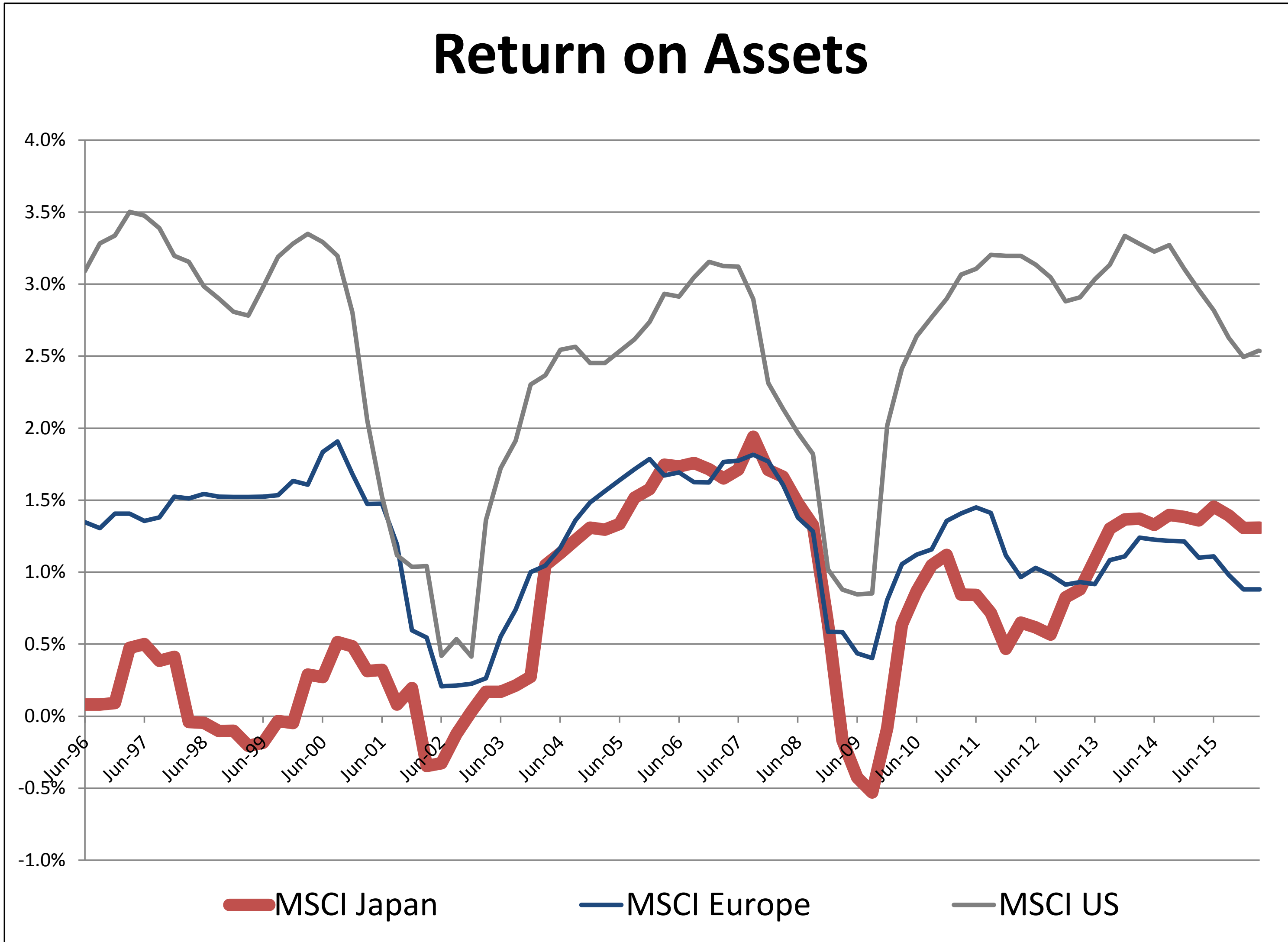
Foreign visitors' expenditure growth in Japan



Source: Nomura, based on Japanese government statistics



TOKYO 2020



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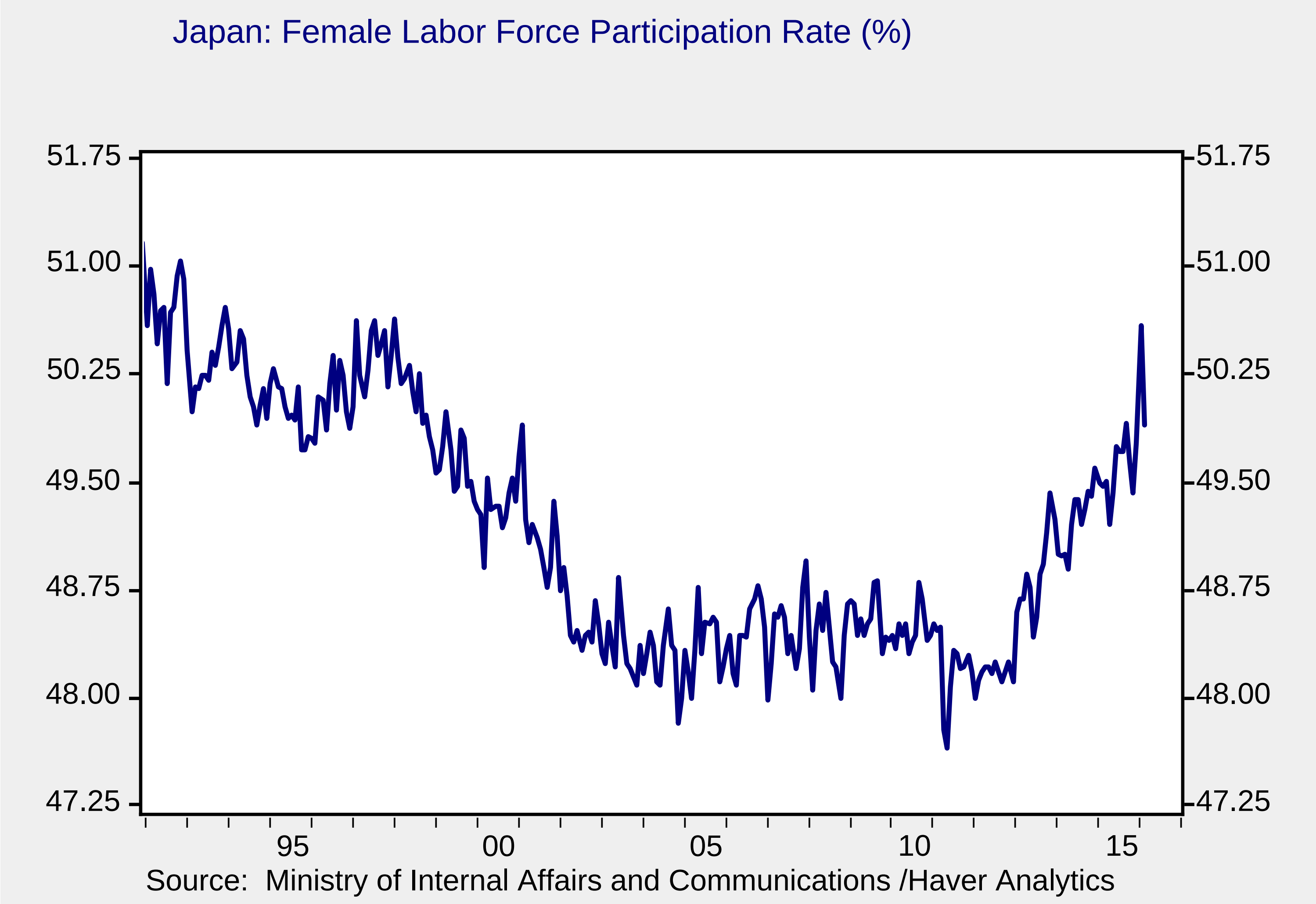
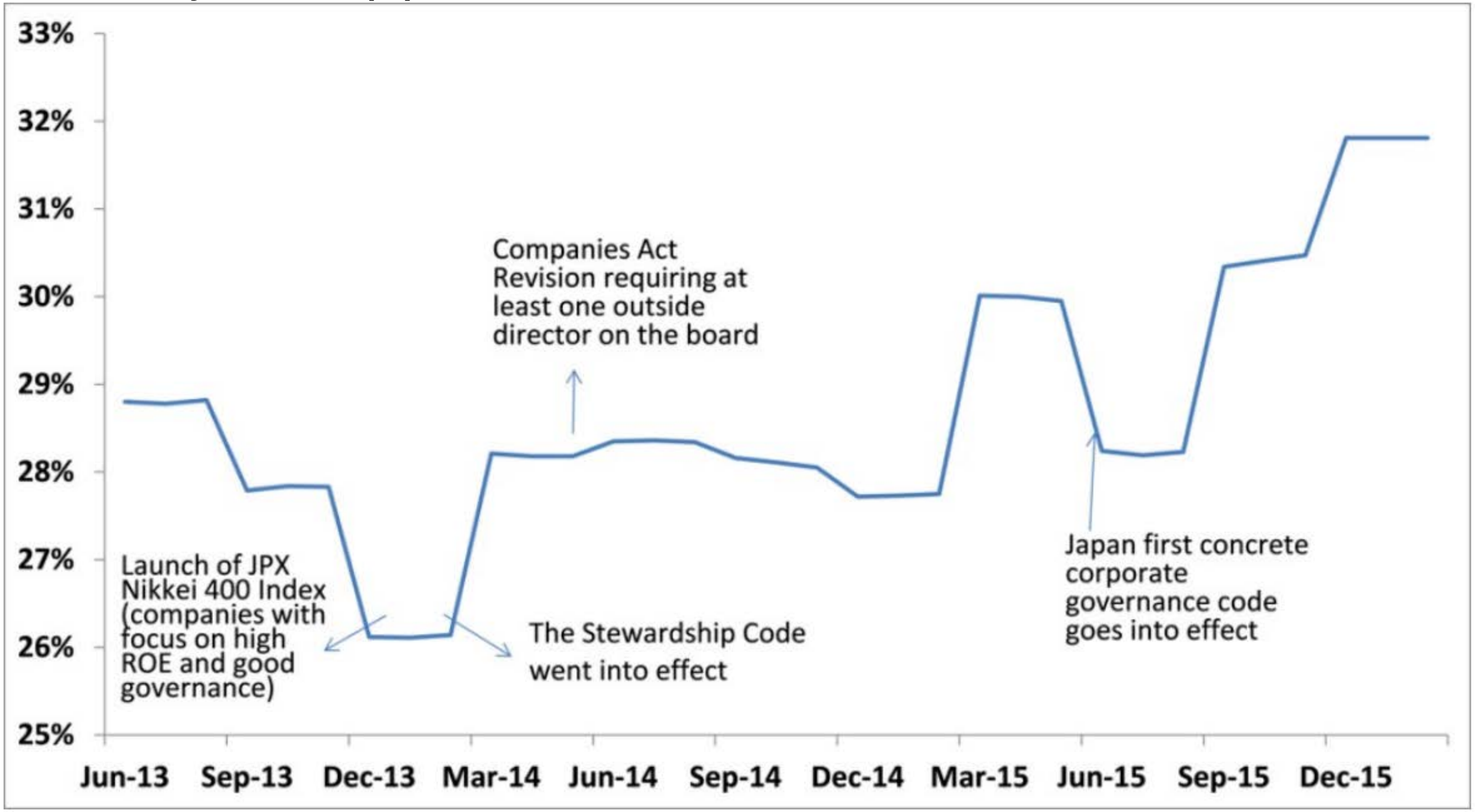
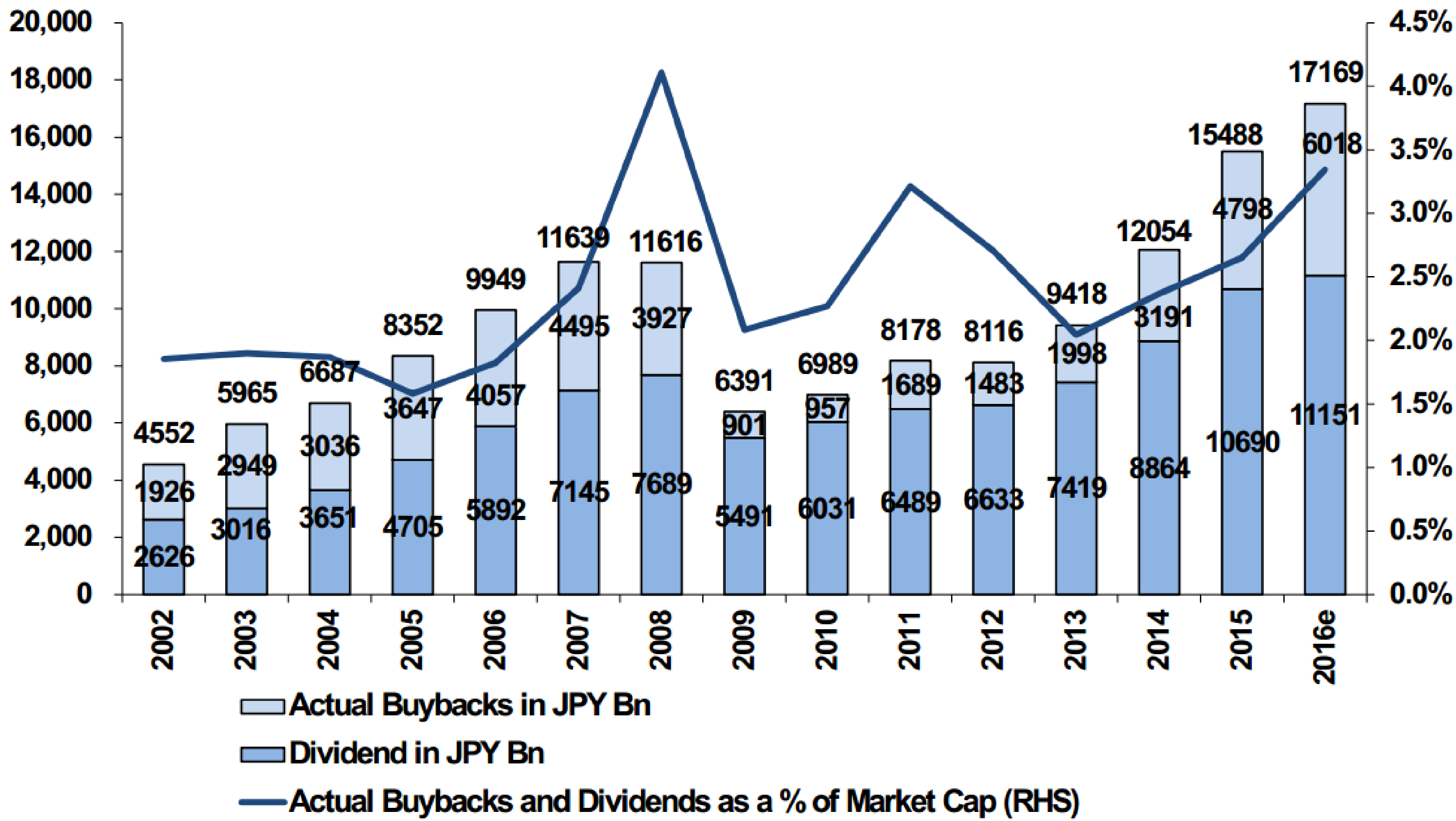


Japan: Female Labor Force Participation Rate (%)
51.75
51.00
50.25
49.50
48.75
48.00
47.25
95
00
05
10
15
Source: Ministry of Internal Affairs and Communications /Haver Analytics

Dividend Payout Ratio (%)



Source: Morgan Stanley Research



e = Morgan Stanley Research estimates. Source: NEEDS, Bloomberg, Morgan Stanley Research

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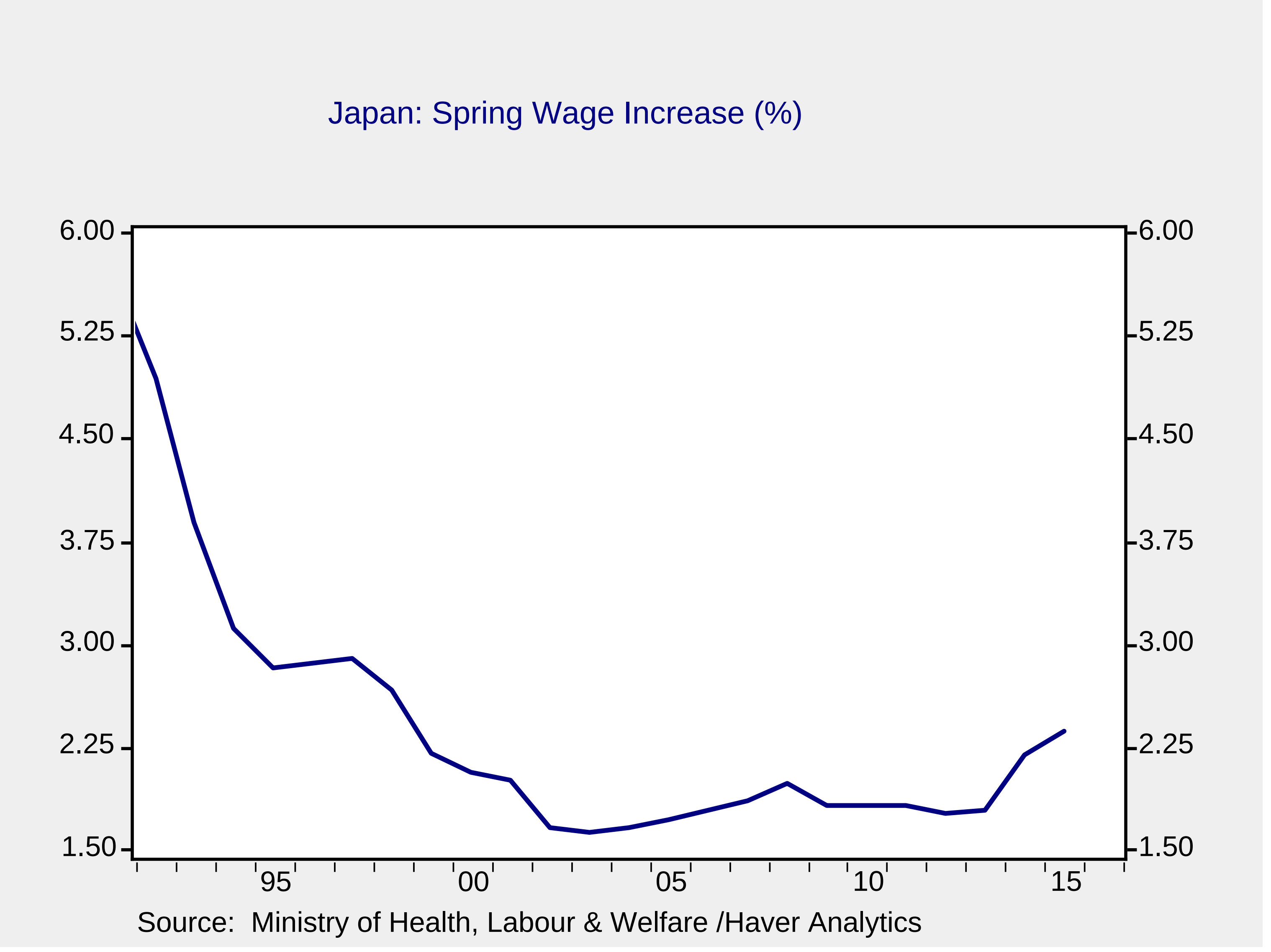
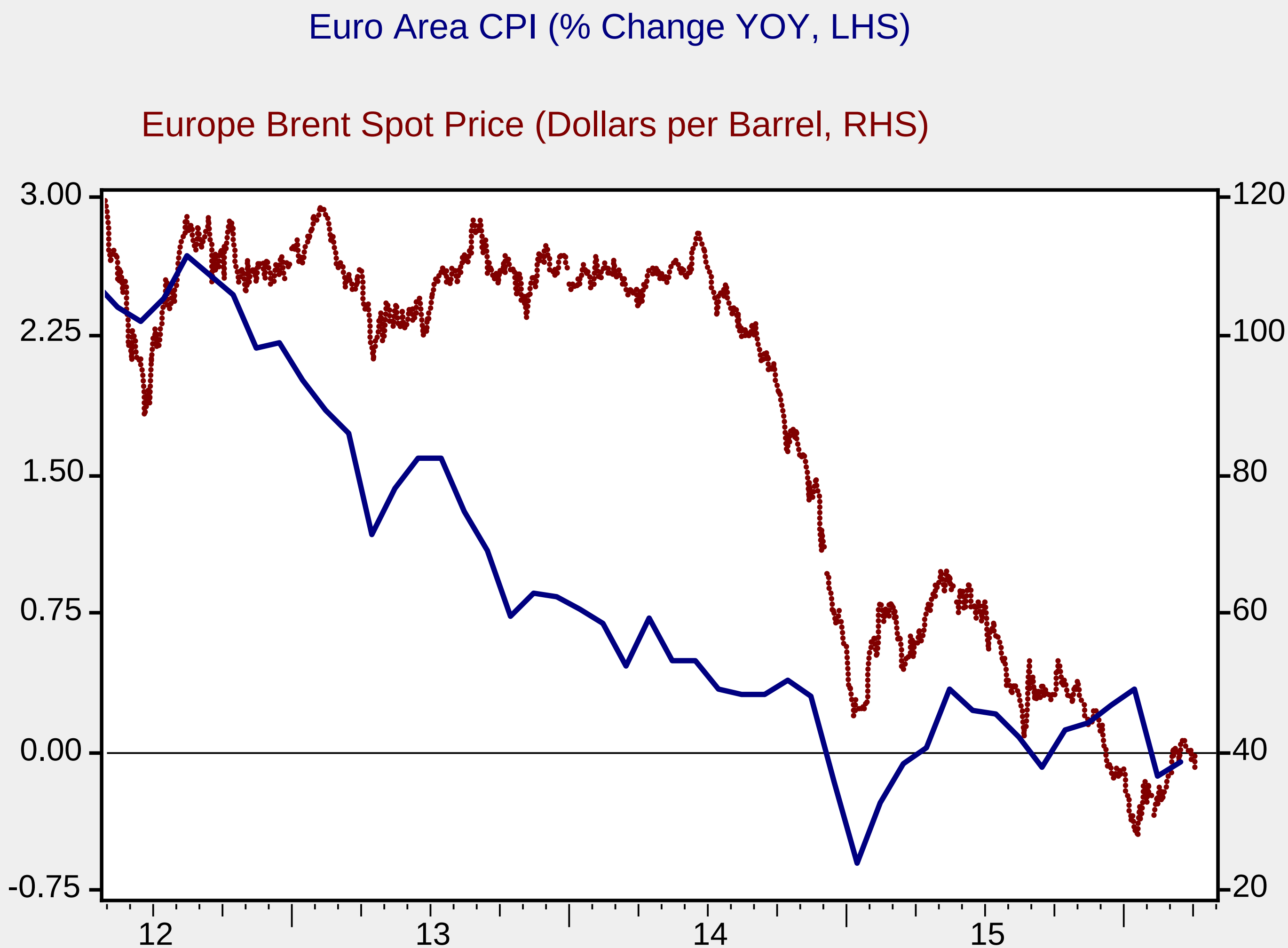
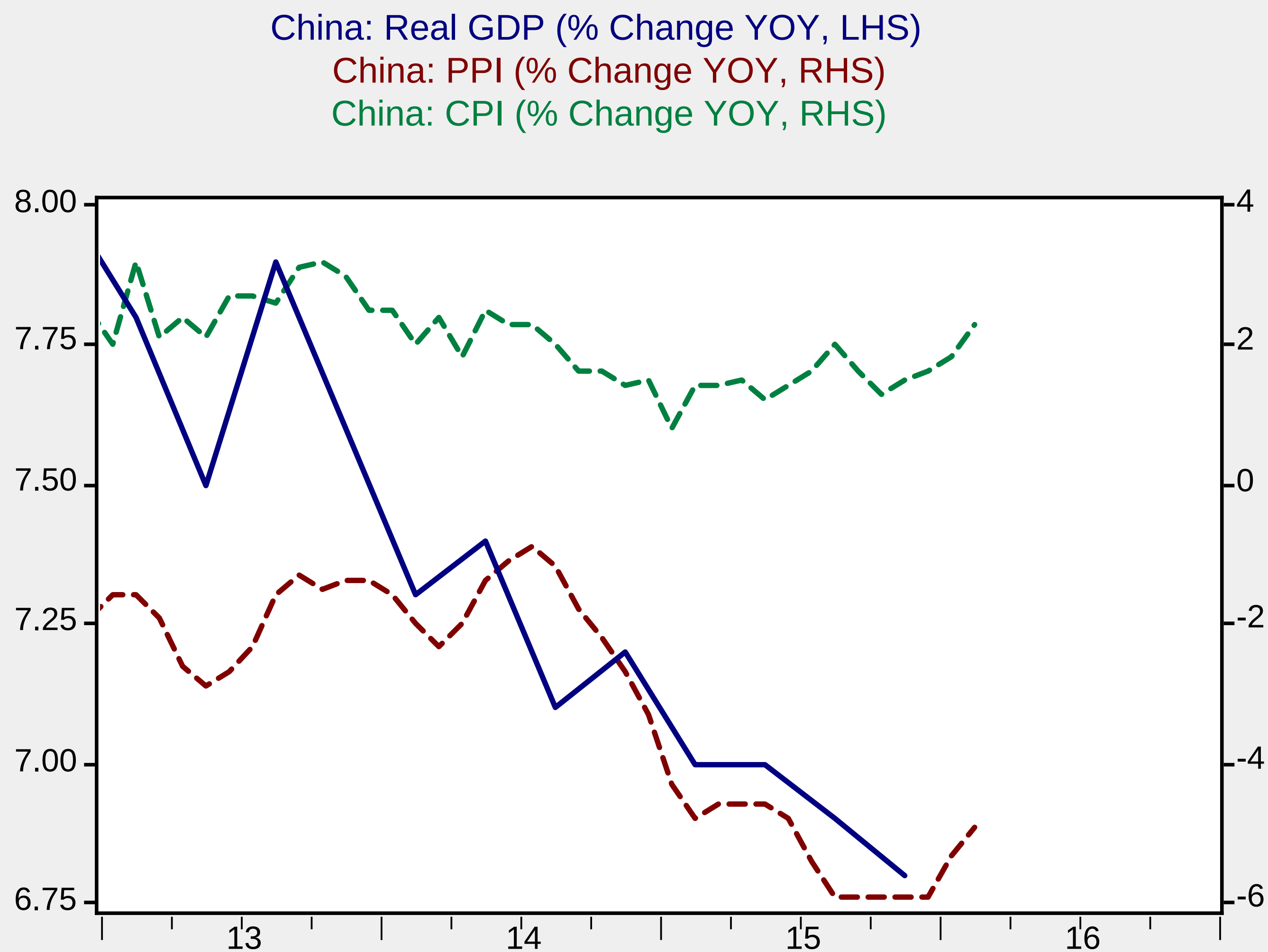

Japan: Spring Wage Increase (%)
6.00
5.25
4.50
3.75
3.00
2.25
1.50
95
00
05
10
15
Source: Ministry of Health, Labour & Welfare /Haver Analytics



Sources: European Central Bank, Financial Times /Haver Analytics



Source: China National Bureau of Statistics /Haver Analytics

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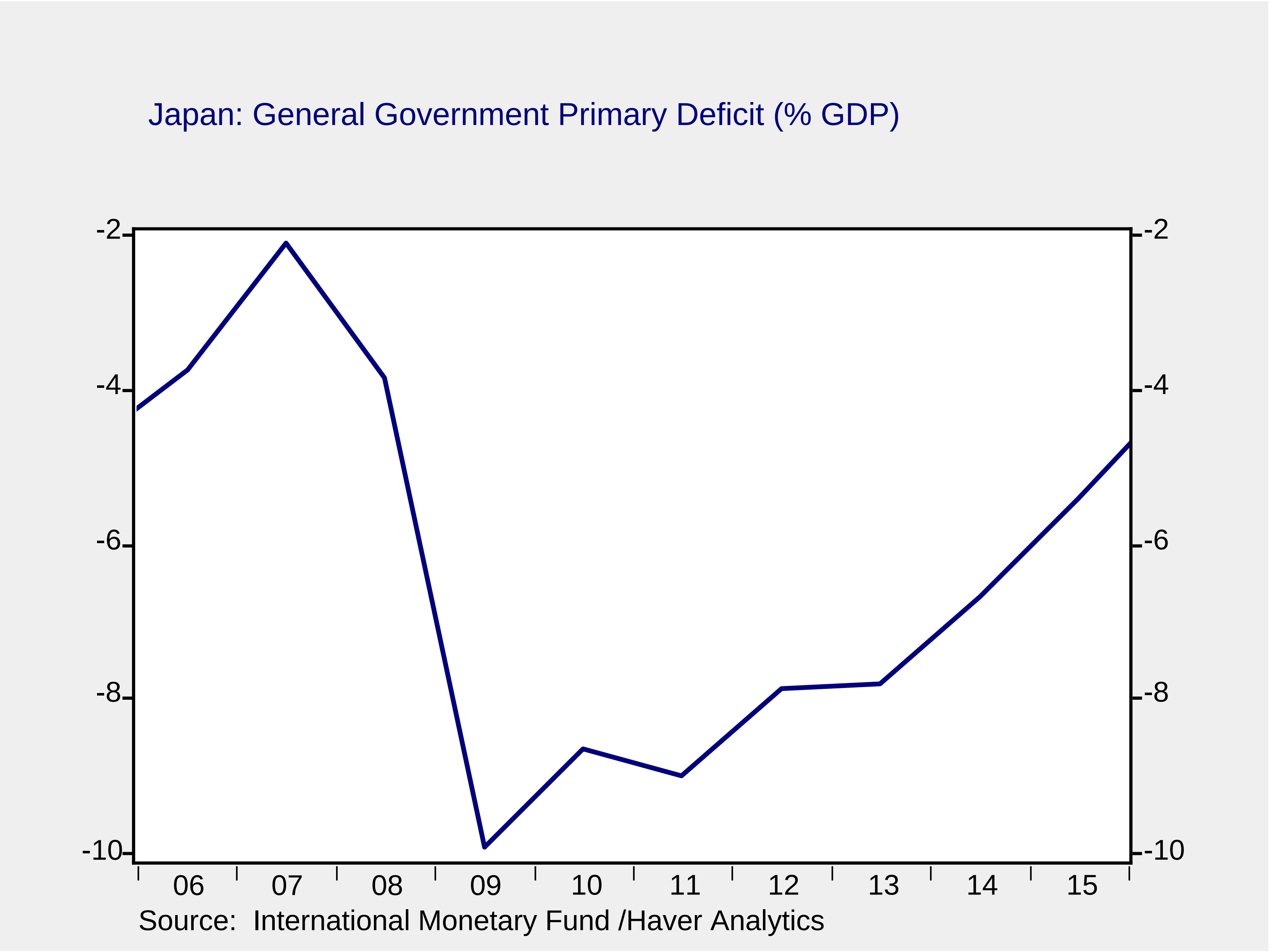

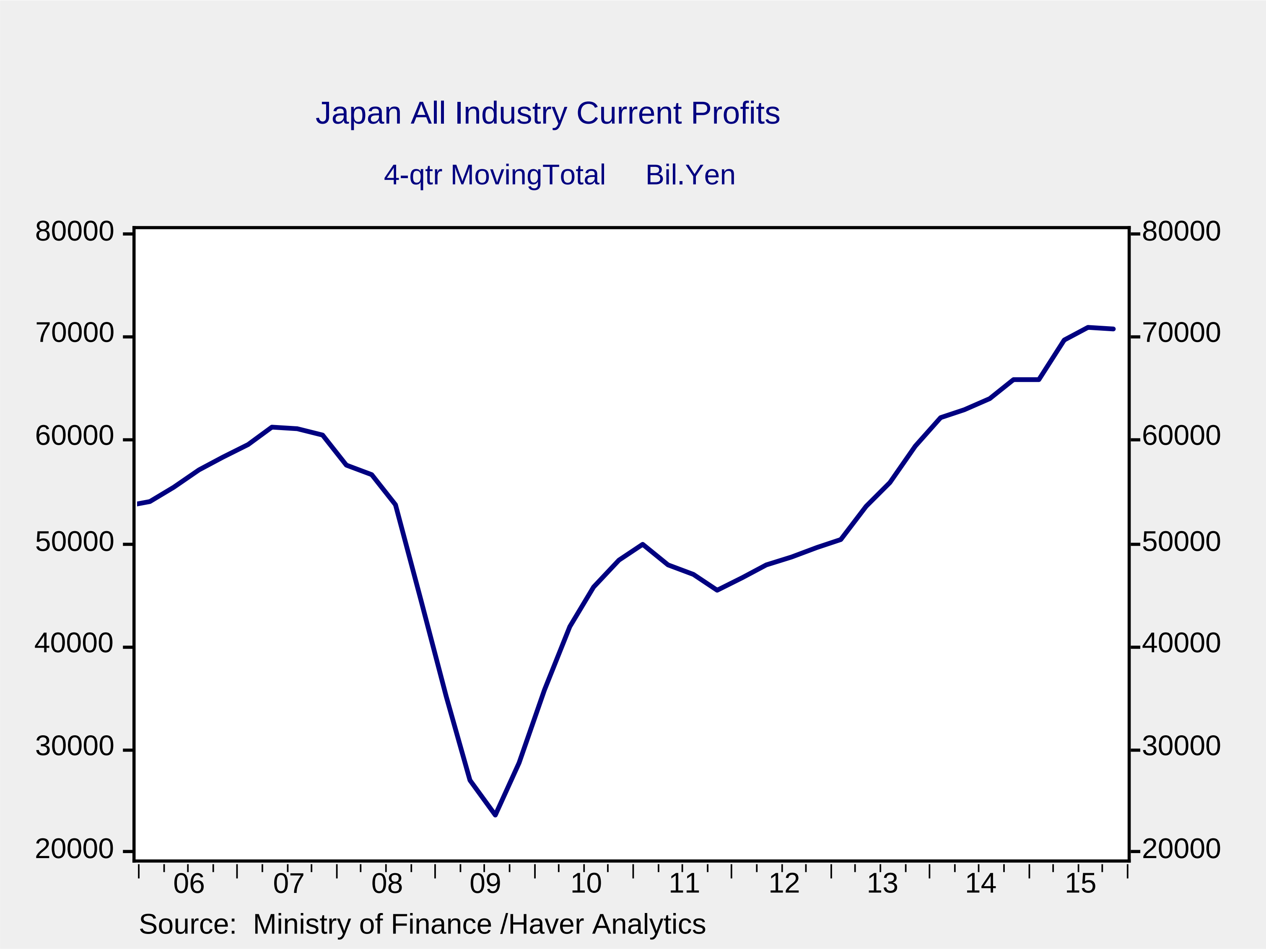

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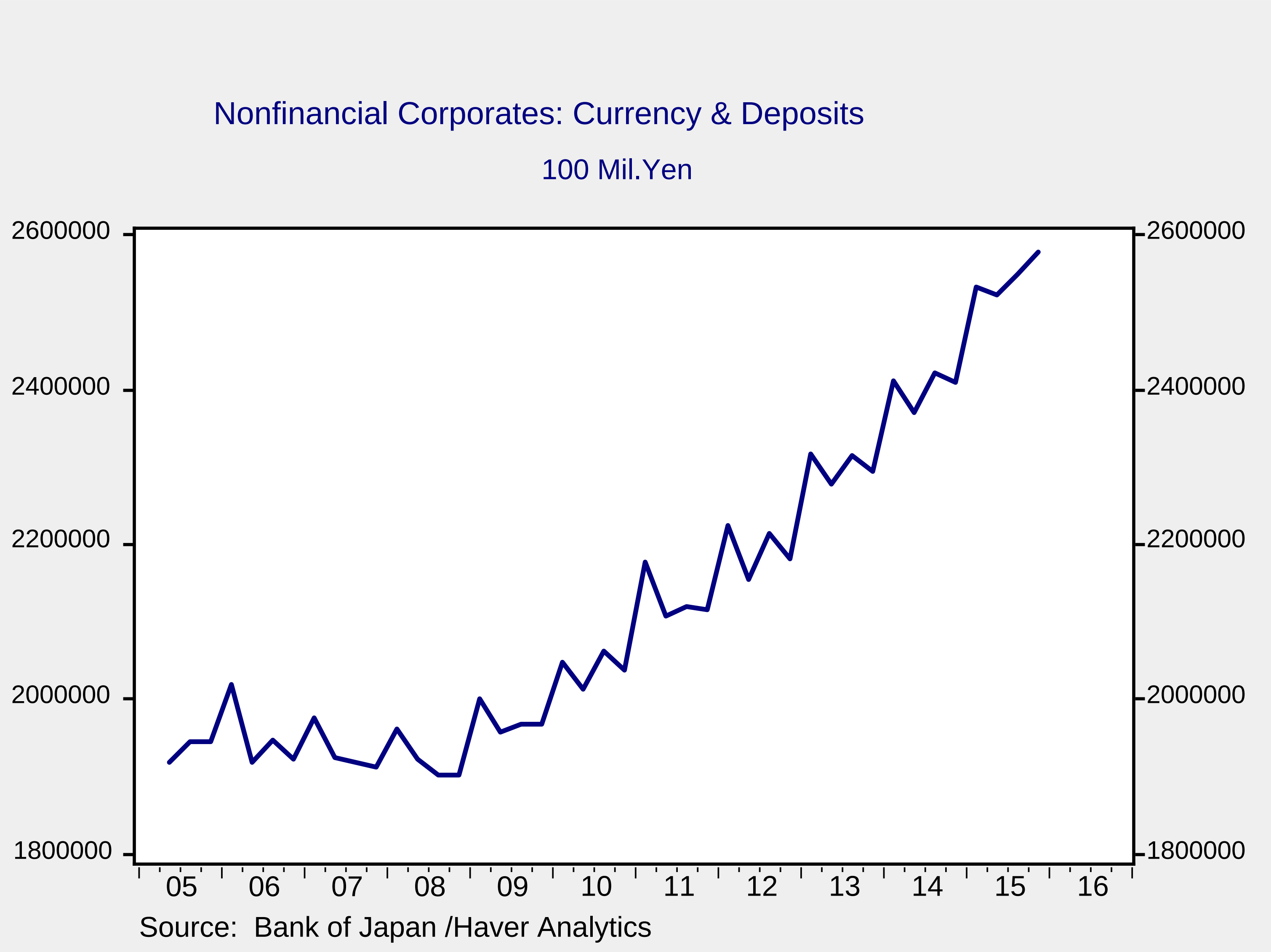
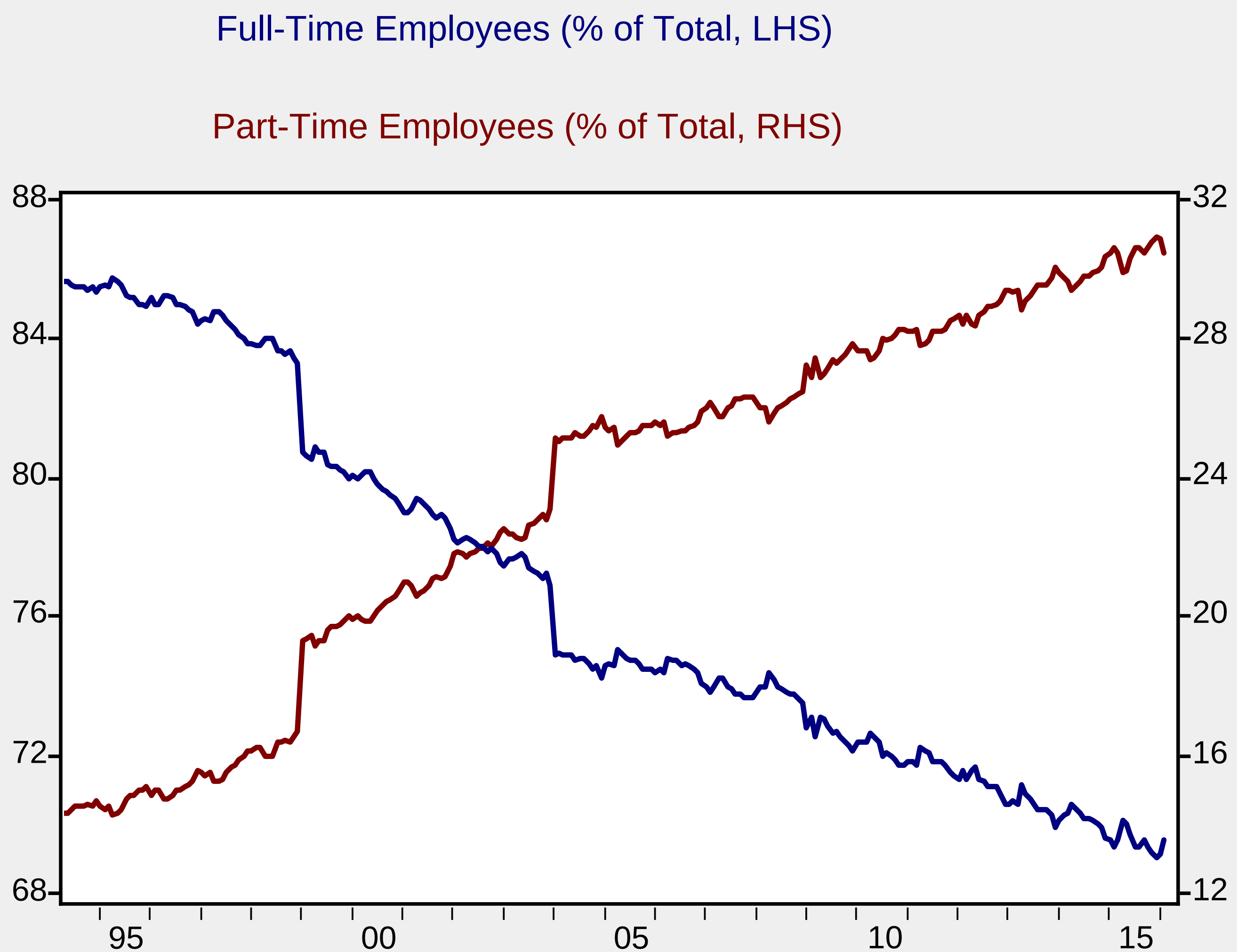
Part 3:

Conundrums



Nonfinancial Corporates: Currency & Deposits
100 Mil.Yen
2600000
2400000
2200000
2000000
1800000
05
06
07
08
09
10
11
12
13
14
15
16
Source: Bank of Japan /Haver Analytics



Source: Haver Analytics

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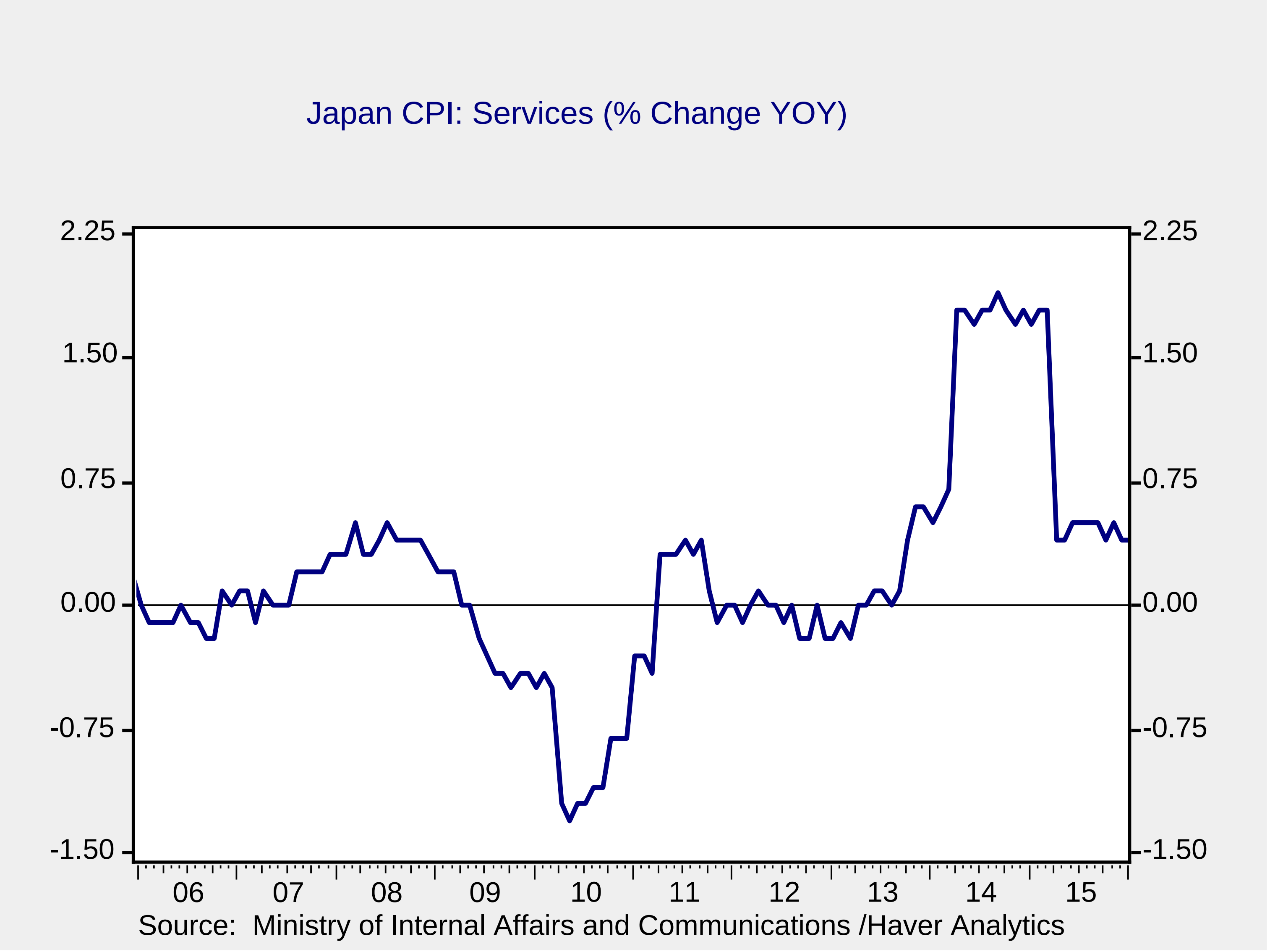
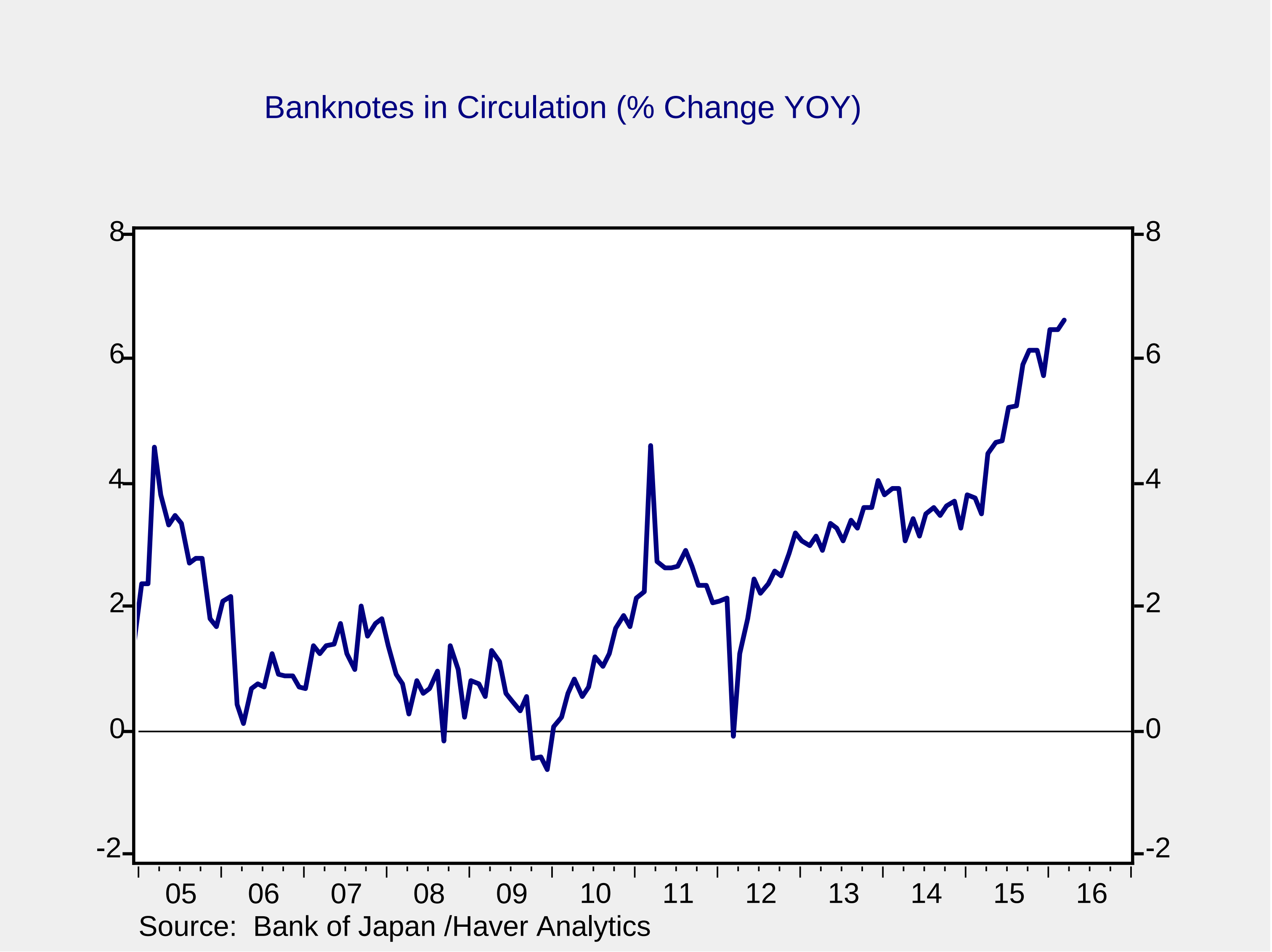
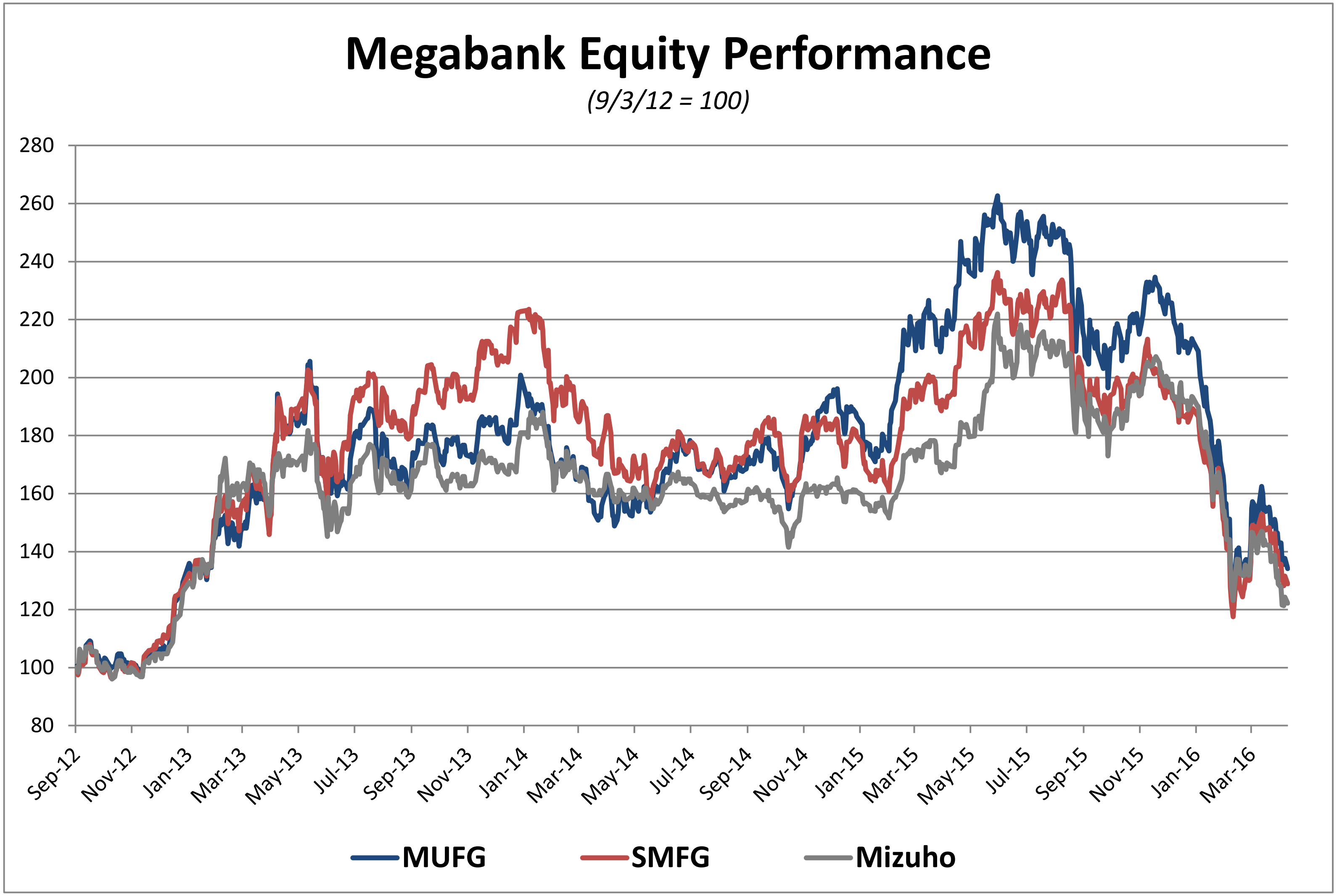

Japan CPI: Services (% Change YOY)
2.25
1.50
0.75
0.00
-0.75
-1.50
06
07
08
09
10
11
12
13
14
15
Source: Ministry of Internal Affairs and Communications /Haver Analytics


Banknotes in Circulation (% Change YOY)
8
6
4
2
0
-2
05
06
07
08
09
10
11
12
13
14
15
16
Source: Bank of Japan /Haver Analytics



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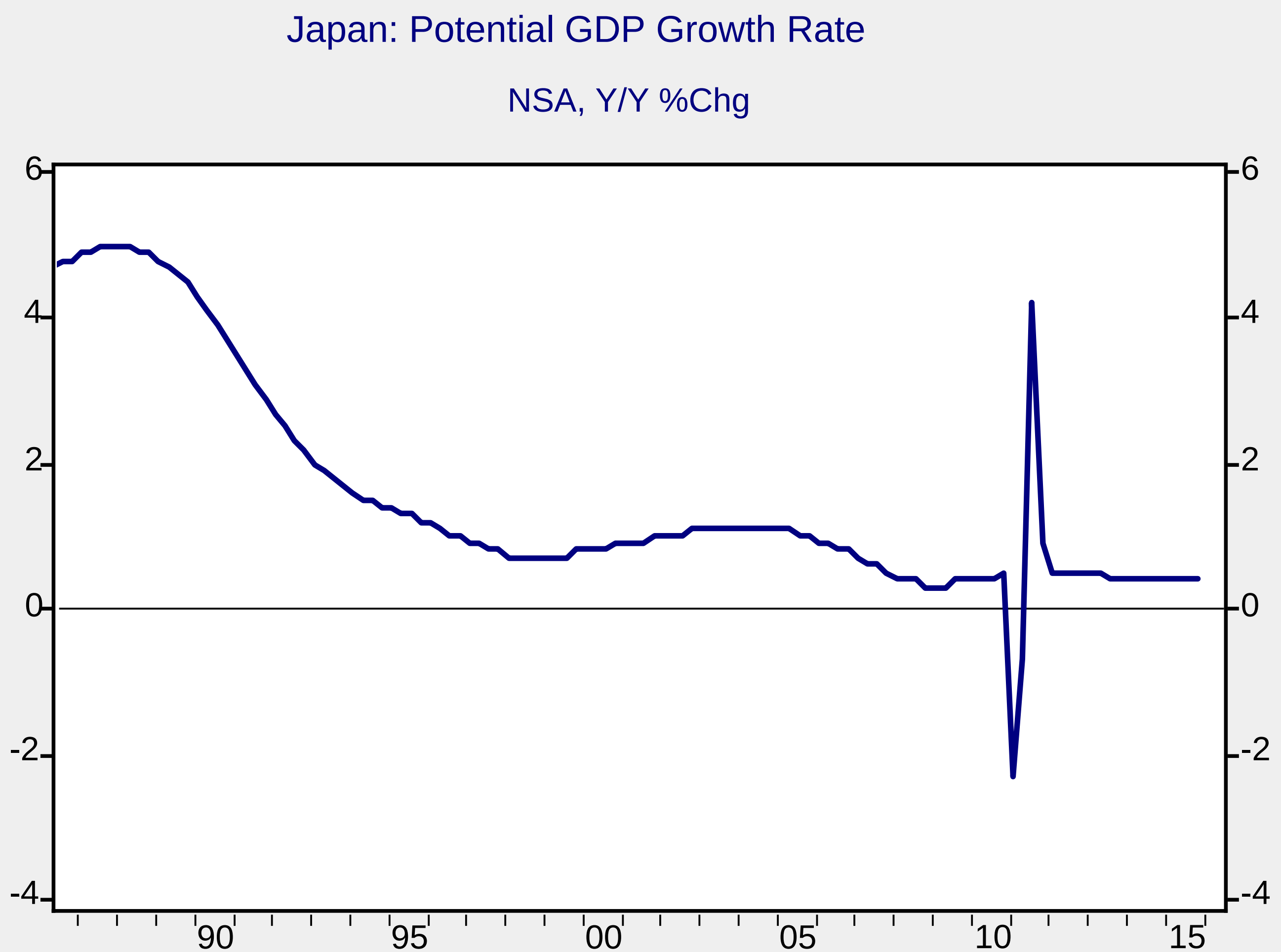
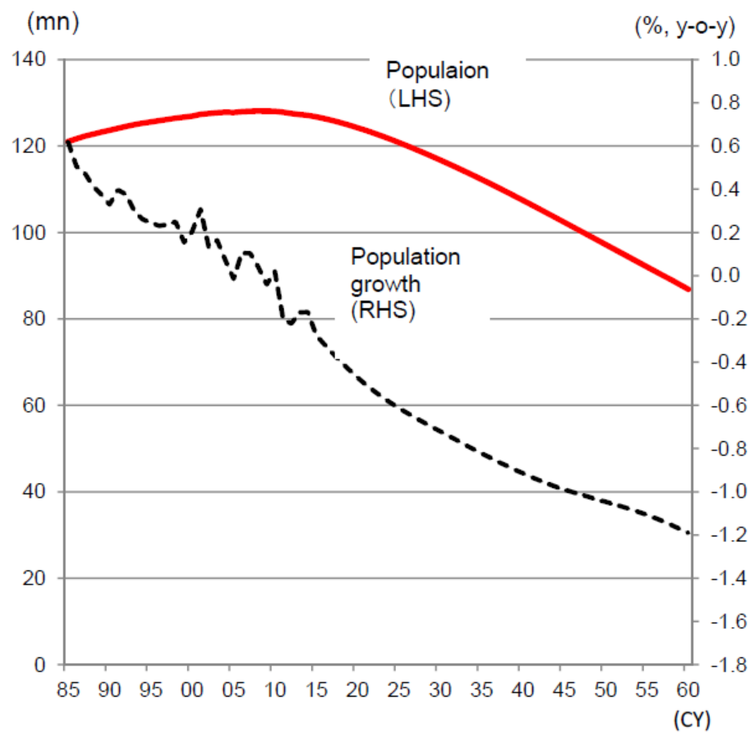
Part 4:
What Comes Next?



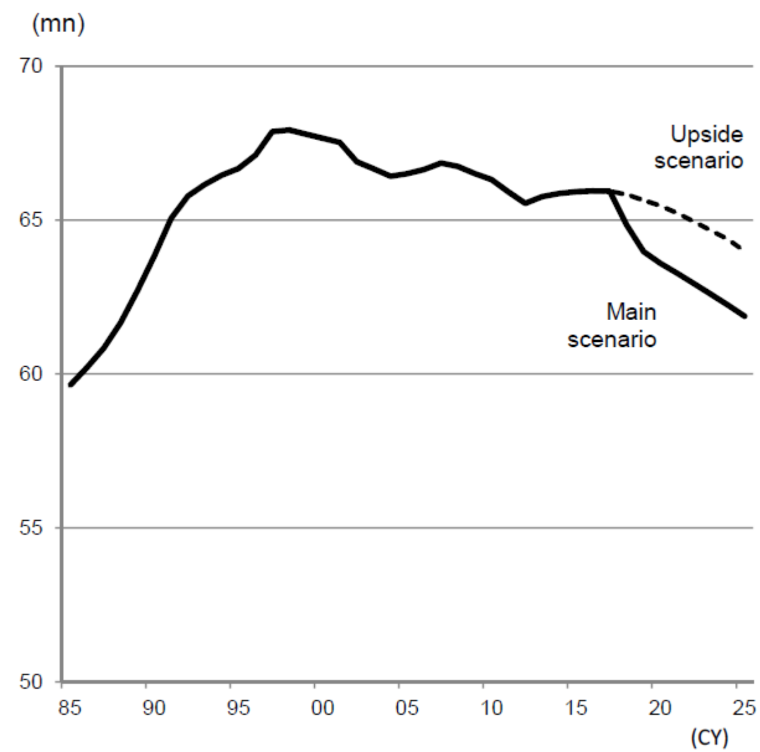
Source: Cabinet Office /Haver Analytics

Japan's population outlook



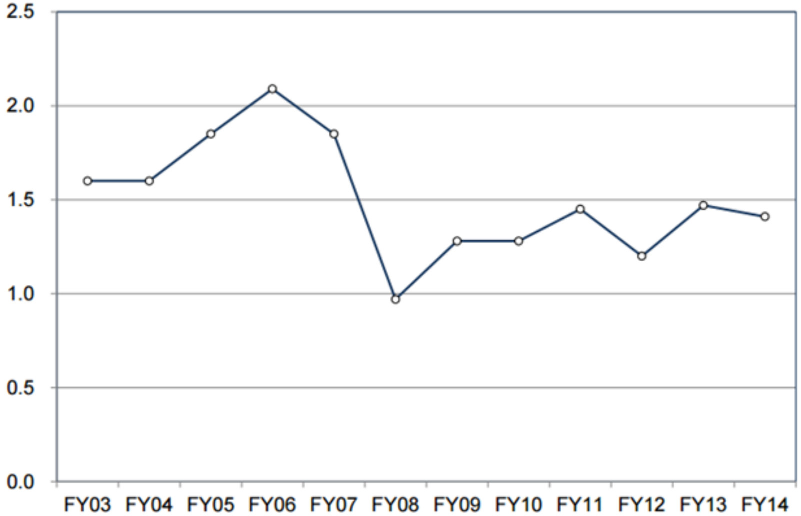
Note: Figures after 2015 are estimated by the government
Source: Nomura, based on government material

Japan's labor force outlook



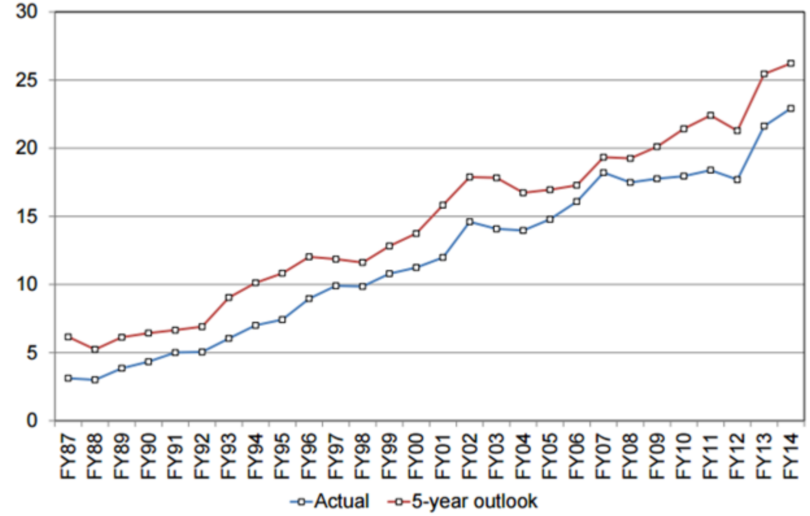
Note: Figures after 2015 are estimated by Nomura
Source: Nomura, MHLW

Corporate expectations for real GDP growth over the next five years (per annum, %)

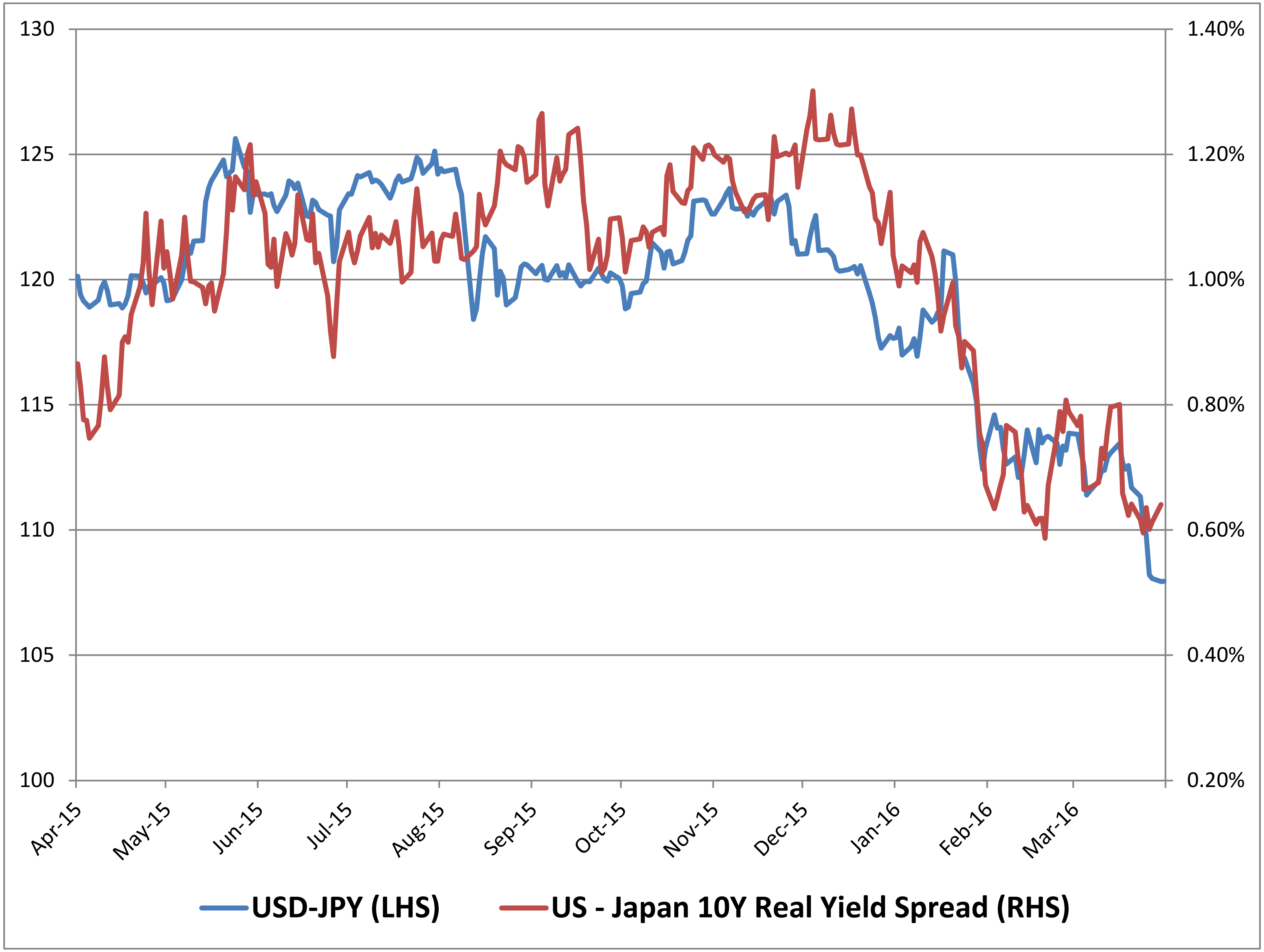


Note: Survey is conducted in January of each fiscal year (April-March).
Source: Cabinet Office, Citi Research.

Overseas production ratio at listed manufacturers: Actual and five-year outlook (%)



Note: Survey is conducted in January of each fiscal year (April-March).
Source: Cabinet Office, Citi Research.


130
125
120
115
110
105
100
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
USD-JPY (LHS)
US - Japan 10Y Real Yield Spread (RHS)

- Current Yen Appreciation
- Upper House Elections
- Cancel Sales Tax Increase?