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February Trade Statistics

Export volume confirms entry into expansion phase

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Summary

- According to February trade statistics, export value grew for the third consecutive month at +11.3% y/y, while at the same time exceeding market consensus at +10.1%. In addition to the export price increasing the extent of its gains, export volume, which had suffered a decline in January due to the Lunar New Year celebrations in the Sinosphere, achieved growth for the first time in two months, thereby contributing to major gains in export value.
- Export value in seasonally adjusted terms grew for the seventh consecutive month at +6.1% m/m, while export volume grew for the first time in three months at +4.7% (seasonal adjustment by DIR). Looking at export volume by source of demand, exports to the US were up by +2.9% m/m, while exports to the EU were also up for the first time in three months by +9.5%. Exports to Asia grew for the first time in two months at +9.1%. As for export volume by product, non-ferrous metals and buses & trucks continued to grow, while ICs and two-wheelers suffered declines. Exports to Asia saw growth for most products, with export volume in the areas of paper and paper products, ICs, and auto parts doing especially well. It appears as if exports to China are back to normal with the New Year's vacation over.
- As for the future of exports, we see moderate growth continuing due to the underlying strength of overseas economies. However, we advise caution as regards risk factors associated with the possibility that the US trade policy could become more protectionist under the new Trump administration. If trade friction arises between Japan and the US, Japan's export-driven industries could be hard hit. For this reason we will be closely watching the US-Japan trade talks planned for April.

Trade Statistics

Chart 1

	2016							2017	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Export value (y/y %)	-7.4	-14.0	-9.6	-6.9	-10.3	-0.4	5.4	1.3	11.3
Market consensus (Bloomberg)									10.1
DIR estimate									14.0
Import value (y/y %)	-18.7	-24.6	-17.0	-16.1	-16.3	-8.7	-2.5	8.4	1.2
Export volume (y/y %)	3.1	-2.4	0.8	4.7	-1.4	7.4	8.4	-0.3	8.3
Export price (y/y %)	-10.1	-11.9	-10.3	-11.1	-9.0	-7.3	-2.7	1.6	2.8
Import volume (y/y %)	0.4	-4.0	3.8	-1.6	-2.5	3.6	3.6	6.3	-4.3
Import price (y/y %)	-19.0	-21.4	-20.1	-14.8	-14.1	-11.9	-5.9	1.9	5.7
Trade balance (¥100 mil)	6,865	5,045	-346	4,866	4,812	1,465	6,359	-10,876	8,134

Source: Ministry of Finance, Bloomberg; compiled by DIR.

Export volume confirms entry into expansion phase; trade balance back in black for first time in two months

According to February trade statistics, export value grew for the third consecutive month at +11.3% y/y, while at the same time exceeding market consensus at +10.1%. In addition to the export price increasing the extent of its gains (+1.6% in January to +2.8% in February), export volume, which had suffered a decline in January due to the Lunar New Year celebrations in the Sinosphere, achieved growth for the first time in two months (-0.3% in January to +8.3% in February), thereby contributing to major gains in export value. When averaged out, export volume is continuing in its expansion phase.

Meanwhile, import value grew for the second consecutive month at +1.2% y/y, a bit more toned down than export volume. One reason for this is thought to be declines in import volume of foodstuffs, as well as crude oil and other fossil fuels. Looking at import value in terms of price and volume factors, we see that import price was up by +5.7%, while volume suffered a decline of -4.3%. As a result, the trade balance was back in the black for the first time in two months at +813.4 bil yen.

The yen has moving in the direction of depreciating against the dollar since the middle of November 2016, with the Japan Customs rate hitting 113.40 yen/dlr in February. Looked at in y/y terms, the yen/dlr rate saw thirteen months straight of yen appreciation, with the rate at 117.36 yen/dlr as of February 2016. However, the yen began to depreciate since early spring 2016 moving more in the direction of a weak yen against a strong dollar since that time, and if the recent trend in the exchange rate continues, we believe the yen will move more to the weaker side in relation to the dollar in y/y terms. This will bring upward pressure on the import price.

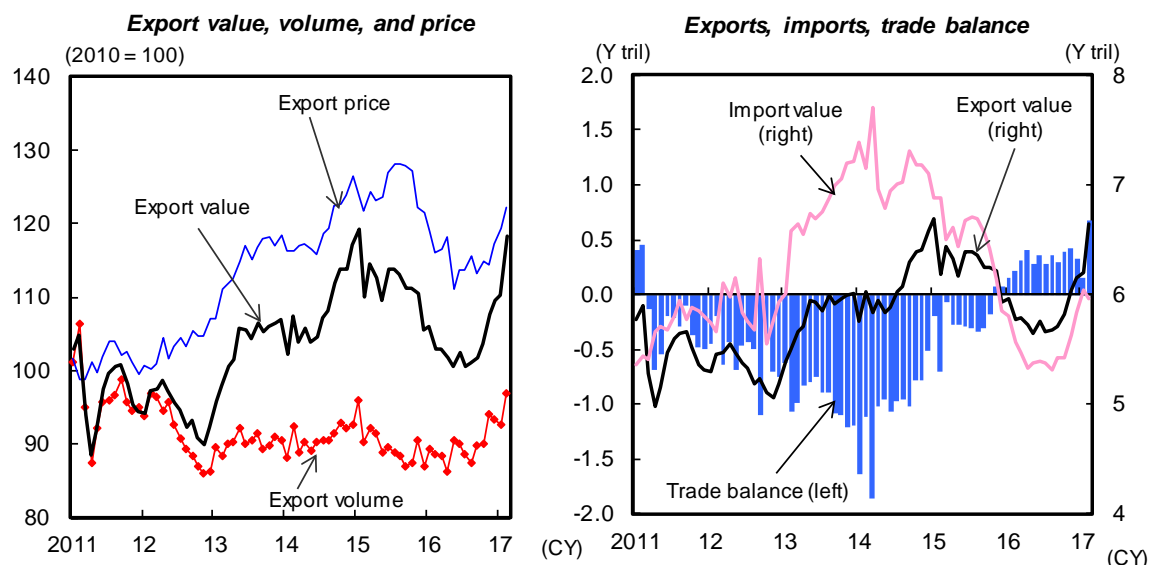
Export volume to US, EU, and Asia records m/m growth

Export value in seasonally adjusted terms grew for the seventh consecutive month at +6.1% m/m, while export volume achieved growth for the first time in three months at +4.7% (seasonal adjustment by DIR).

Looking at export volume by source of demand, exports to the US were up by +2.9% m/m, while exports to the EU were also up for the first time in three months by +9.5%. Exports to Asia grew for the first time in two months at +9.1%. As for export volume by product, exports of non-ferrous metals and buses & trucks to the US continued to grow, while ICs and two-wheelers suffered declines. Exports of audio equipment and two-wheelers to the EU continued their growth trend, while auto parts maintained a modest growth trend due to a gradual comeback for the EU economy. Exports to Asia saw growth for most products, with export volume in the areas of paper and paper products, ICs, and auto parts doing especially well. It appears as if exports to China are back to normal with the Lunar New Year's vacation over.

Export Value, Volume, Price and Trade Balance

Chart 2



Source: Ministry of Finance; compiled by DIR.

Note: Export volume and export price seasonally adjusted by DIR.

Import price takes a breather in February after maintaining modest growth trend

Looking at import value in seasonally adjusted terms, we see a decline for the first time in six months at -1.6% y/y. Import value appears to have been taking a breather in February after a period of maintaining modest growth.

Meanwhile, looking at import price and import volume on a seasonally adjusted basis (seasonal adjustment by DIR), we see growth in import price for the fourth consecutive month at +5.9% m/m, while import volume suffered a decline for the second consecutive month at -6.8%.

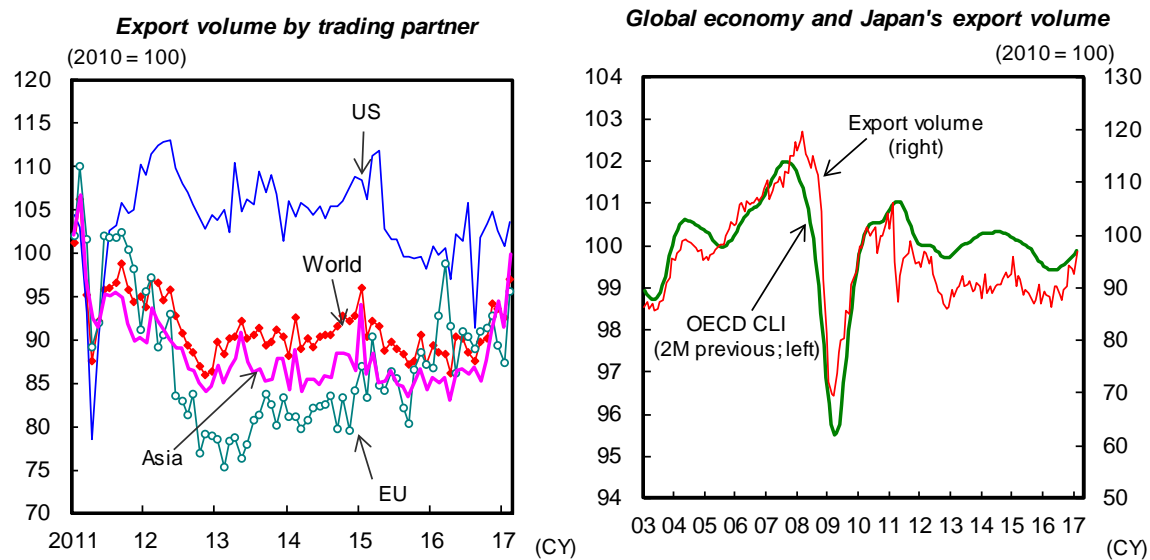
Moderate growth trend seen continuing in future, but caution recommended due to Trump risk

As for the future of exports, we see moderate growth continuing due to the underlying strength of overseas economies. Exports of consumer goods and other products to the US are expected to maintain underlying strength backed by improvements in the US employment environment. Business performance of major US corporations have been in full recovery since the latter part of last year, and this should be a factor in encouraging growth in exports to the US. Meanwhile, the effects of quantitative easing by the ECB are expected to help the EU economy to maintain a favorable condition. Exports to the EU are expected to continue in a recovery trend in the future, focusing on consumer goods. As for the Asian economy, exports of capital goods continue to be viewed with caution, but demand for consumer goods is expected to recover.

However, we advise caution as regards risk factors associated with the possibility that the US trade policy could become protectionist under the new Trump administration. For example, there was the decision to withdraw from TPP recently and to renegotiate NAFTA, possibly even withdrawing from that agreement. If trade friction arises between Japan and the US, Japan's export-driven industries could be hard hit. For this reason we will be closely watching the US-Japan trade talks planned for April.

Export Volume by Trade Partner; Global Economy and Japan's Export Volume

Chart 3



Source: Ministry of Finance; OECD; compiled by DIR.

Notes: 1) OECD CLI (Composite Leading Indicator): OECD member and six non-member countries.

2) Export volume seasonally adjusted by DIR.

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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
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* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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