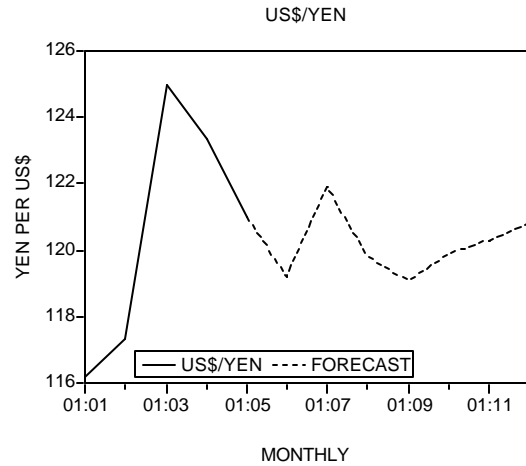
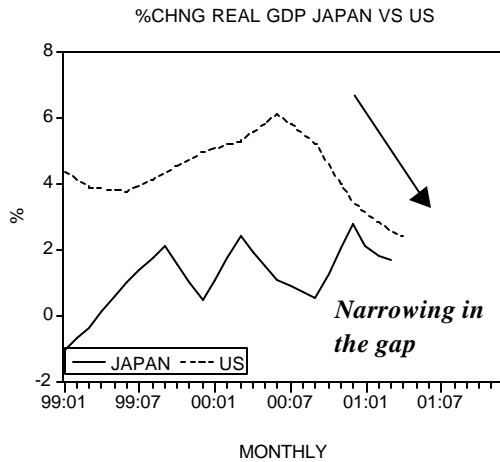


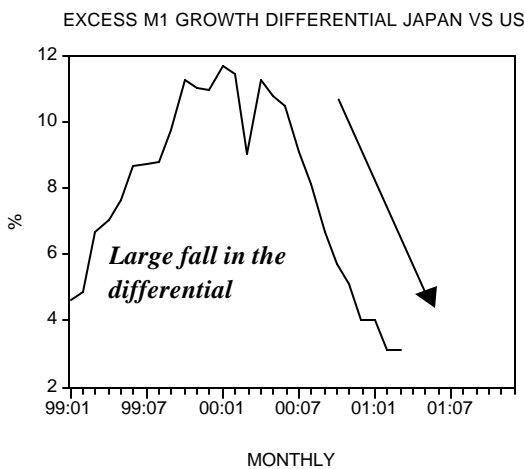
Prospects for US\$/Yen

Although the US rate of growth in terms of real GDP still exceeds the Japanese rate of growth the gap is shrinking. It fell to below **1%** in March from **5%** in June last year (see chart).

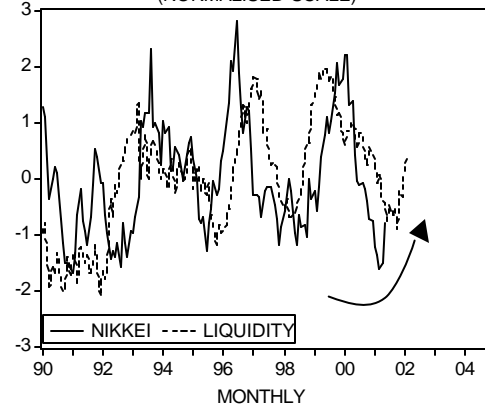


Meanwhile monetary growth in relation to nominal economic activity jumped to **7.3%** in April from **6.8%** in March. This improvement in liquidity should help the Nikkei (see chart).

The excess money M1 growth differential between Japan and the US fell to **3%** in March from **11.7%** in January last year (see chart). The fall in the differential had taken place despite the aggressive monetary pumping by the BOJ. The main reason for this is still depressed bank lending. Year-on-year lending fell by **3.4%** in April after a fall of **3.6%** in March and a fall of **3.7%** in February.



Y/Y%CHNG:NIKKEI VS LIQUIDITY LAGGED 10 (NORMALISED SCALE)



An econometric model, which is driven by the lagged excess money M1 growth differential indicates that the US\$/Yen rate of exchange will hover in the range of **119** to **121** Yen until the end of this year (see chart).

Financial News

- Taiwan's April leading index fell **0.5%** vs March.
- Isuzu to cut workforce by **26%** over next 3 years.
- Japan's April vehicle exports fell **10%** y/y.
- Global semiconduct sales seen down **13.5%** in 2001.
- German April import prices up **5.1%** y/y.
- ECB's Duisenberg calls interest rates "appropriate".

Thought for today

Men take more pains to mask than mend.

Benjamin Franklin