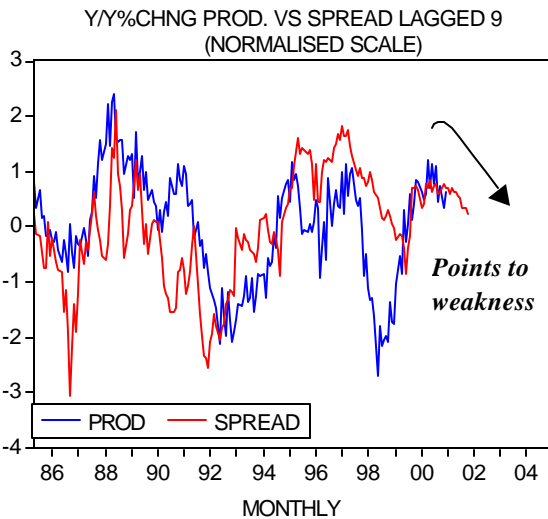
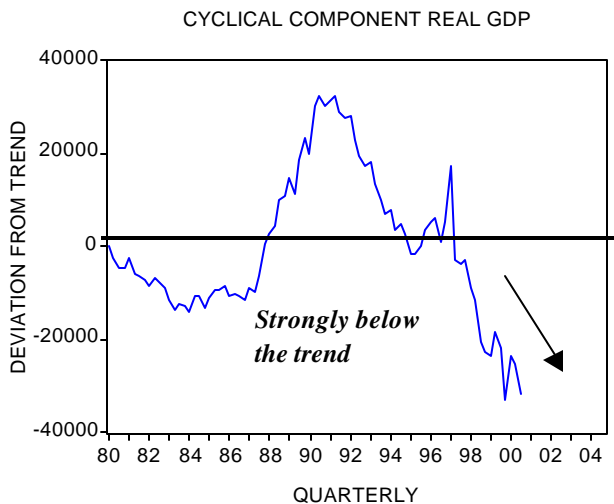


The yield spread points to a subdued Japanese economy

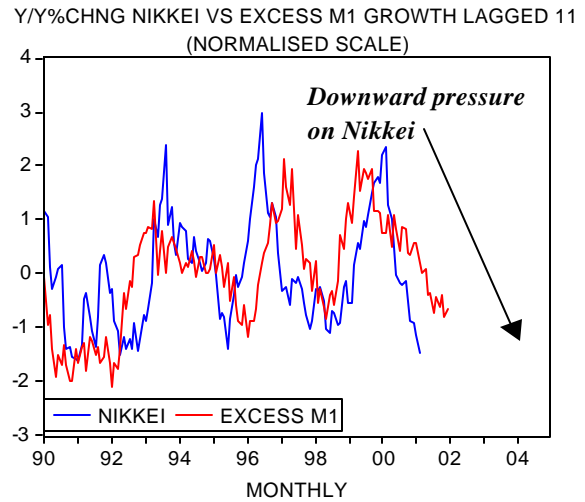
The spread between the 10-year government bond yield and the overnight lending rate fell to **1.28%** at the end of January from **1.4%** in December and **1.75%** in June. The narrowing in the spread points to the subdued yearly rate of growth of industrial production (see chart).



Moreover, economic activity in terms of real GDP remains weak. Real GDP fell **0.6%** in Q3 from Q2. The cyclical component of GDP remains strongly below the trend (see chart). Also, year-on-year in December industrial machinery orders fell by **8.7%** while the Japanese government downgraded its assessment of the economy.



For the time being a visible downtrend in excess money M1 growth poses a threat to the Nikkei share price index (see chart). The continued fall in bank lending is expected to depress further the momentum of growth of excess money M1.



Financial News

- Australian leading index fell at an annualised **2.5%** in Dec from Nov.
- Japan's finance minister said the government will be forced to raise consumption tax to **10%** from **5%**.
- S.Korea's unempl at **4.1%** in Jan vs **3.9%** Dec.
- HK unempl at **4.1%** in Nov-Jan vs **4.4%** in Oct-Dec.
- German factory orders rose **2%** in Dec from Nov.
- Eurozone industr prod up **2%** in Dec vs **+1.2%** Nov.
- Canada's leading index fell **0.4%** in Jan from Dec.
- US real purchases over the internet totalled **\$8.69**bln, or **1%** of all sales during Q4.

Thought for today

A wise man never attempts impossibilities.

Anonymous