

Global Macro Strategy

Macro Trades: Go Long Nikkei 400, Go Short SEK and CHF vs EUR on Global Disinflation

Strategy

Japan

Continued global disinflation...

In our recent piece "[Disinflation-felt locally, spread globally](#)", we outline the case for continued low inflation, globally, which supports our trade views to buy Japan equities, and sell SEK and CHF versus the EUR. Regardless of the situation in China or with commodity prices, we believe inflation will likely remain low over the coming quarters, due to: (a) a negative global output gap, (b) rising inflation persistence, and (c) a flatter Phillips curve. In this context, central banks will remain accommodative.

...is bullish for Japan equities (and even more so post the recent sell-off)...

Japan is among the developed economies where ongoing disinflation is likely to challenge monetary policy goals and trigger expectations of further easing. Combined with healthy levels of credit growth, Japan ranks high among the countries where disinflation-driven easing will likely have the largest positive impact on activity and equities. The levels and the timing are also opportune. In "A theme for all seasons" ([link](#)) Niall MacLeod adds weight to our view. While Japan is heavily exposed to the slowing Chinese economy and would suffer from weaker Asia ex Japan currencies, it has one strong structural theme in its favour: "Kakusei" or corporate restructuring. This is a commitment to maximise return to shareholders (see "Kakusei: Is Corporate Japan Awakening?" for Niall's five key institutional initiatives that are encouraging greater shareholder focus, [link here](#)). After the global equity selloff the upside for 60 'Kakusei' stocks (identified in the note [here](#)) is now 24%.

...and bearish for SEK and CHF.

Due to the global nature of the inflation shock, currencies from small open economies, such as Sweden and Switzerland, where policy rates are below zero and inflation is below target, should weaken. These economies will likely continue to feature the highest degree of imported disinflation. Given the policy constraints of the zero bound, the currency is the likeliest release valve. In our [disinflation piece](#) we find high sensitivities to domestic inflation for both countries. The recent broad EUR sell-off is offering a window of opportunity for clients to short SEK and CHF against their benchmark cross.

Trade 1: Buy Nikkei 400 with a target of 15,500 and a stop at 12,400

We would recommend investors buy Nikkei 400 (the index most geared to the corporates theme) at the market open. Our initial target is 15,500, with a stop at 12,400.

Trade 2: Go long EURSEK & EURCHF, targeting a potential upside of about 4%

We would also recommend investors to sell SEK and CHF against the EUR. We would target EURSEK levels of 9.90 with a stop at 9.14 and EURCHF levels of 1.14 with a stop at 1.0780.

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Sell	FSR is > 6% below the MRA.	13%	20%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

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