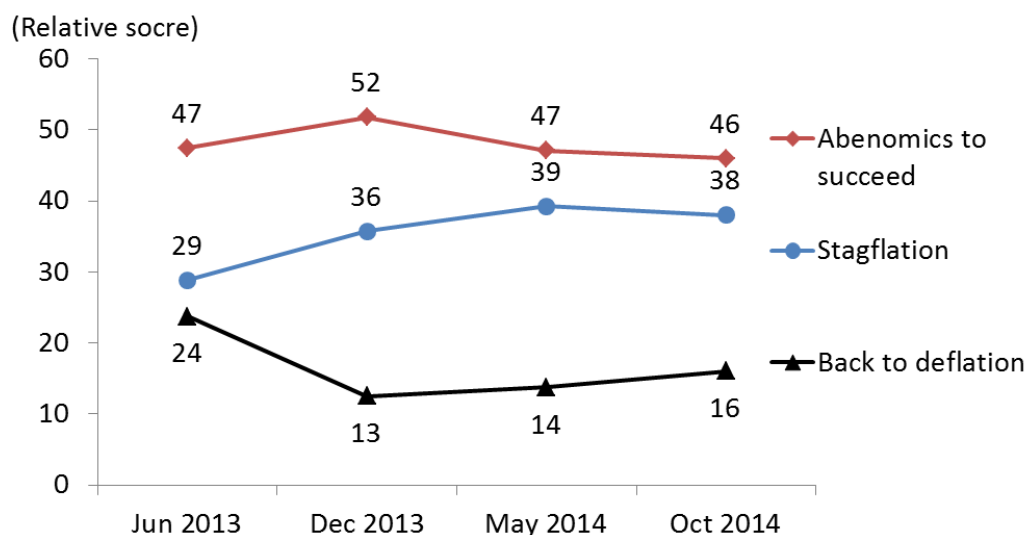


Risk Scoring Vector assessment as of October 2014

A modest rise in deflation risk

In our re-assessment as of mid-October 2014, we see a very modest rise in the score for deflation scenario, while the scores for both Abenomics and Stagflation have fallen, although only by a modest degree.



A weaker capital expenditure outlook hurt the outlook for Abenomics

Deteriorations in the economic outlook, both for Japan as well as for the global economy are chief reasons why the score has fallen for Abenomics. Between May and October 2014, the consensus growth outlook for Japan, in particular its capital expenditure outlook, have deteriorated. The deterioration in the growth outlook for Europe also contributed to the decline in the score for Abenomics through a narrowing in the interest rate spread between Japan and Europe.

No progress made on structural reform

We also see very little progress made in the structural reform agenda, such as TPP, labor market deregulation. The lack of visible progress may be contributing to the downward revision in private capital expenditure growth. The lower energy price is not a contributor to the lower score of Abenomics though. In our methodology, lower energy prices in fact contribute positively to the success of Abenomics as it will lead to a better terms of trade. A gradual but persistent acceleration in wage growth is also contributing positively to Abenomics scenario, and contributing negatively to deflation scenario.

Absolute score

	Abenomics to succeed		Stagflation		Back to deflation	
	May 2014	Oct 2014	May 2014	Oct 2014	May 2014	Oct 2014
Growth (8 points)	4	3	4	4	1	2
Current situation	1	0	1	1	0	1
Financial indicator	1	2	1	1	0	0
Structural reform	1	0	1	1	1	1
External circumstances	1	1	1	1	0	0
Inflation (6 points)	3	5	2	3	1	1
Current situation	1	2	1	2	0	0
Financial indicator	1	1	1	1	0	0
External circumstances	1	2	0	0	1	1

Relative score (Converting a sum of total score of three scenarios in the absolute score table into a 100-point scale)

	Abenomics to succeed		Stagflation		Back to deflation	
	May 2014	Oct 2014	May 2014	Oct 2014	May 2014	Oct 2014
Total	47	46	39	38	14	16

Note: Figures of this table is rounded off the number