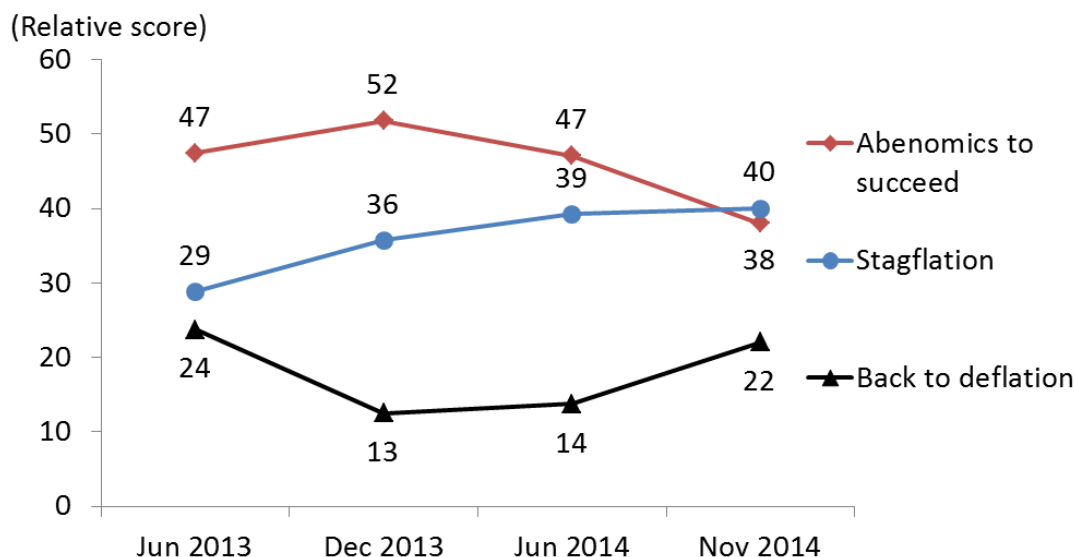


Risk Scoring Vector assessment as of November 2014

The Stagflation scenario scores higher than the Abenomics scenario

In our re-assessment as of late November 2014, we see the Stagflation scenario scoring higher than the Abenomics scenario, overtaking it for the first time since we started our assessment.



A weaker capital expenditure outlook hurt the outlook for Abenomics

Weaker private capital expenditure outlook in Japan, subdued global economic outlook and the continued stagnation in the Japanese exports are factors that hurt the score for the Abenomics scenario while raising the score for the Stagflation scenario.

In our scoring methodology, a weakening in yen raises the scores for both Abenomics and Stagflation scenarios, but the rapidness of the recent yen depreciation is more consistent with the Stagflation scenario. Similarly, the rise in stock prices raises the score of both scenarios, but the fact that Japanese stocks are still underperforming its global peers is more consistent with the Stagflation scenario. The deflation scenario continues to score lowest, but its score rose between June and November thanks to Japan's weak economic performances and the recent dis-inflation trend.

Little progress made on structural reforms

We see very little progress being made in the structural reform agenda. TPP still has not been concluded and labor market deregulations have stalled. The lack of visible progress in structural reforms may be discouraging Japanese corporate managers to invest in Japan. In our view, stronger growth in the private capital expenditure and Japan's export would be necessary conditions for Japan to shift its direction away from the Stagflation scenario and back toward Abenomics scenario.

Absolute score

	Abenomics to succeed		Stagflation		Back to deflation	
	Jun 2014	Nov 2014	Jun 2014	Nov 2014	Jun 2014	Nov 2014
Growth (8 points)	4	2	4	5	1	3
Current situation	1	0	1	1	0	1
Financial indicators	1	2	1	2	0	0
Structural reforms	1	0	1	1	1	1
External conditions	1	0	1	1	0	1
Inflation (6 points)	3	4	2	2	1	1
Current situation	1	1	1	1	0	0
Financial indicators	1	2	1	1	0	0
External conditions	1	1	0	0	1	1

Relative score (The scores of the three scenarios add to 100-points)

	Abenomics to succeed		Stagflation		Back to deflation	
	Jun 2014	Nov 2014	Jun 2014	Nov 2014	Jun 2014	Nov 2014
Total	47	38	39	40	14	22