

Investment Comment

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Japan – interest rate rise

The Bank of Japan raised its benchmark interest rate by 25 basis points to 0.5% on Wednesday 21 February. Rates were last raised in July 2006.

We take the interest rate increase as confirmation that the Japanese economy is continuing to strengthen, albeit slowly.

The Bank of Japan took its cue from better consumption numbers in fourth quarter GDP figures. This is a step towards the normalisation of the interest rate and, as such, we view it positively.

However, we expect that further rate rises depend on continued improvement in the outlook for consumer spending and an increasing Consumer Price Index, and here we believe that timing is quite uncertain.

We also think that perhaps the Bank of Japan is declaring its independence from the government with this hike and we are supportive of this stance.

We saw an interesting response from currency markets which indicate, by the weakening of the yen, that foreign exchange traders are emphasising Governor Fukui's comment that, notwithstanding Wednesday's hike, monetary conditions will remain accommodative for some time.

Harfun Ven is Portfolio Manager – Japan for Alliance Trust PLC and manages the investment portfolio of Premier Alliance Trust Japan Equity Fund for Alliance Trust's asset management business, AT Asset Management (Asia-Pacific).