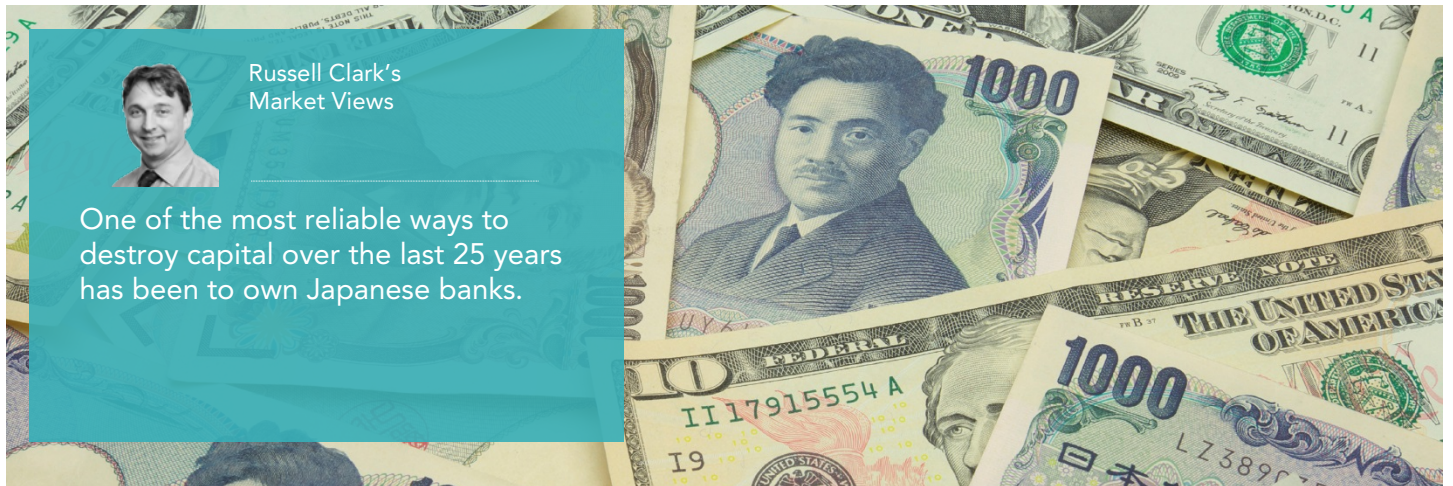


JAPANESE BANKS

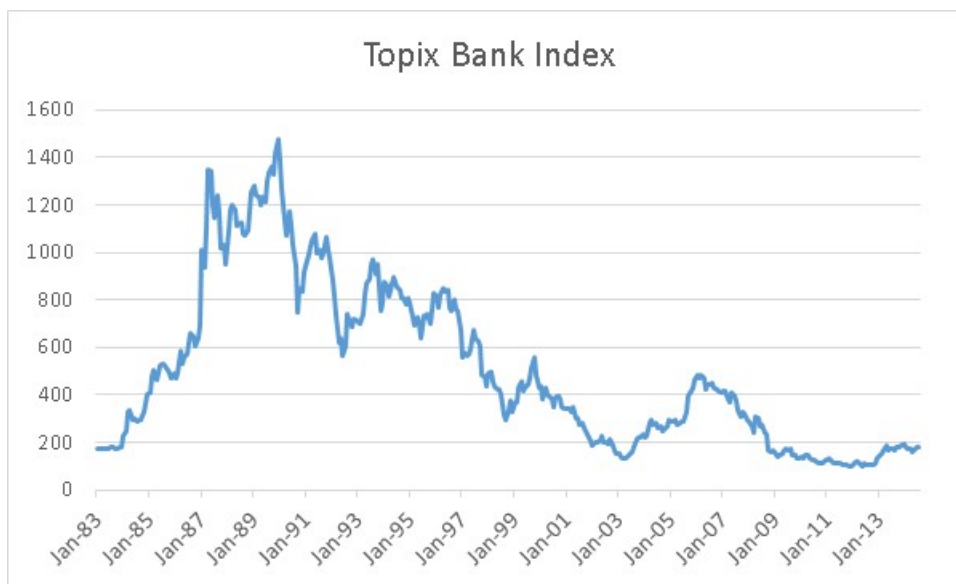


Russell Clark's
Market Views

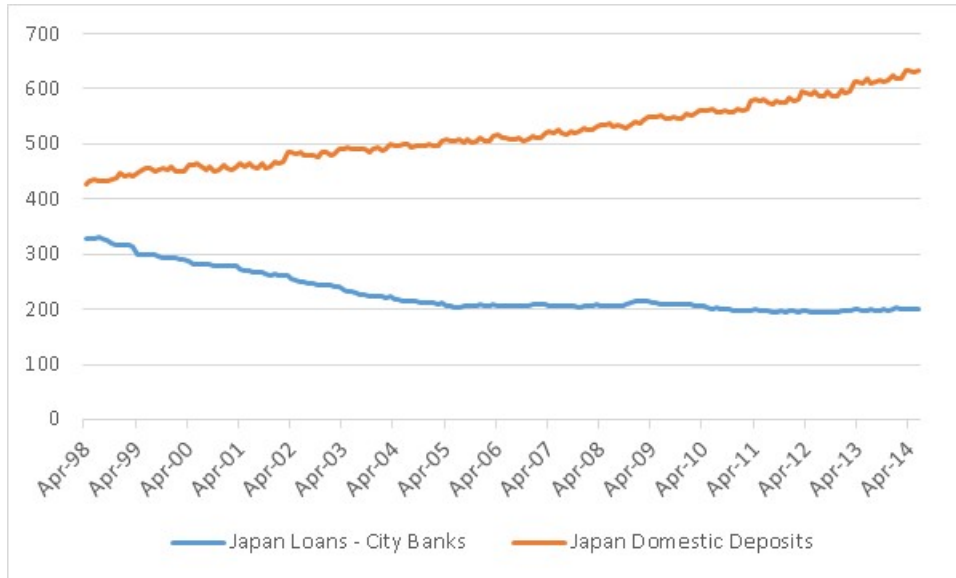
One of the most reliable ways to destroy capital over the last 25 years has been to own Japanese banks.



One of the most reliable ways to destroy capital over the last 25 years has been to own Japanese banks.



The big problem for Japanese banks is that, while they are awash with deposits, loan demand has been very weak in Japan.

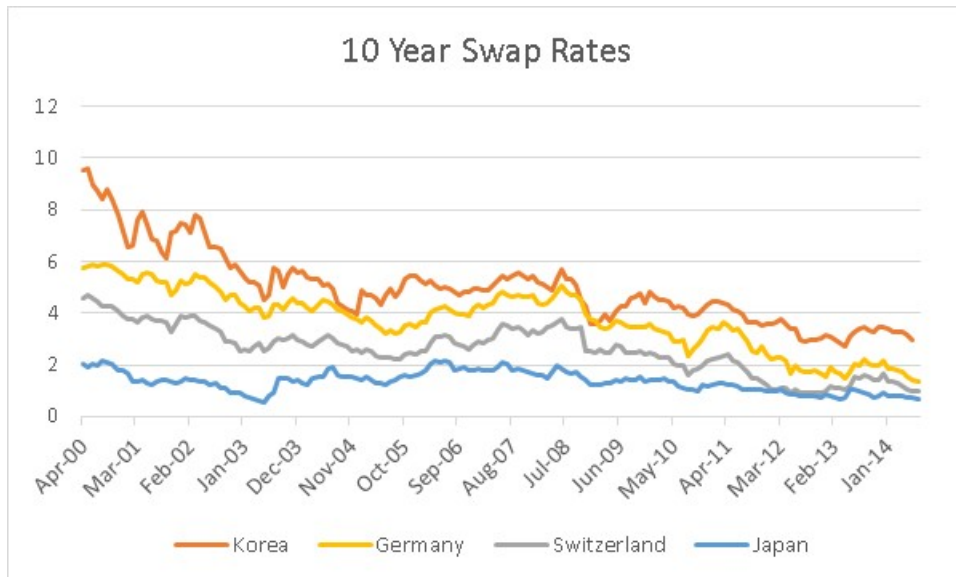


Japanese banks have tried to fill in the gap between domestic loans and deposits by doing two things. They are buying JGBs and lending overseas.

Japanese banks have traditionally been big holders of Japanese equities, so their share price tends to follow general moves in the markets, but they tend to outperform in periods of rising bond yields. This relationship still seems to hold.

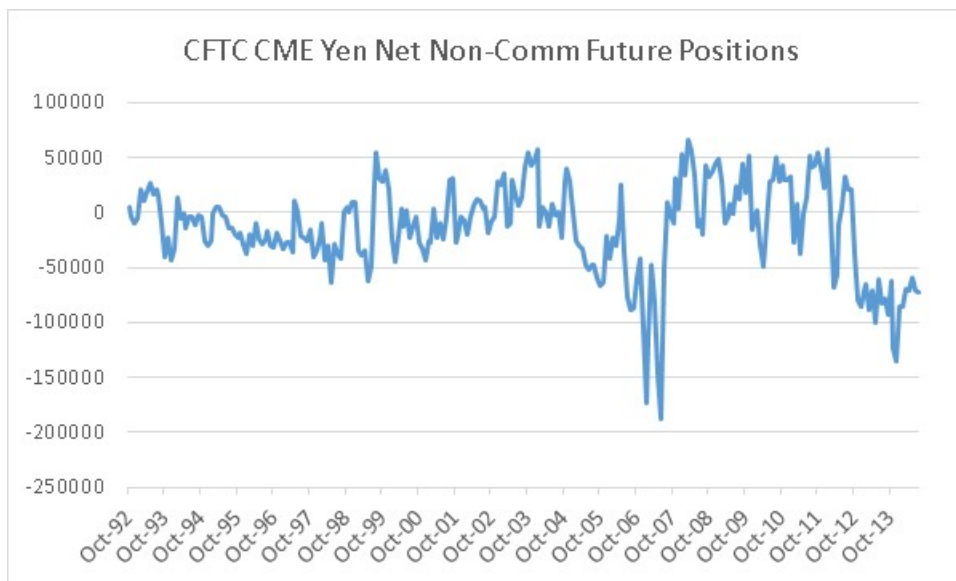


For many years it was possible for bulls of Japanese banks to argue that Japanese yields were so far below that of other nations that they could only rise. Recent moves in the yields of other export dependent nations make that outcome look very unlikely.

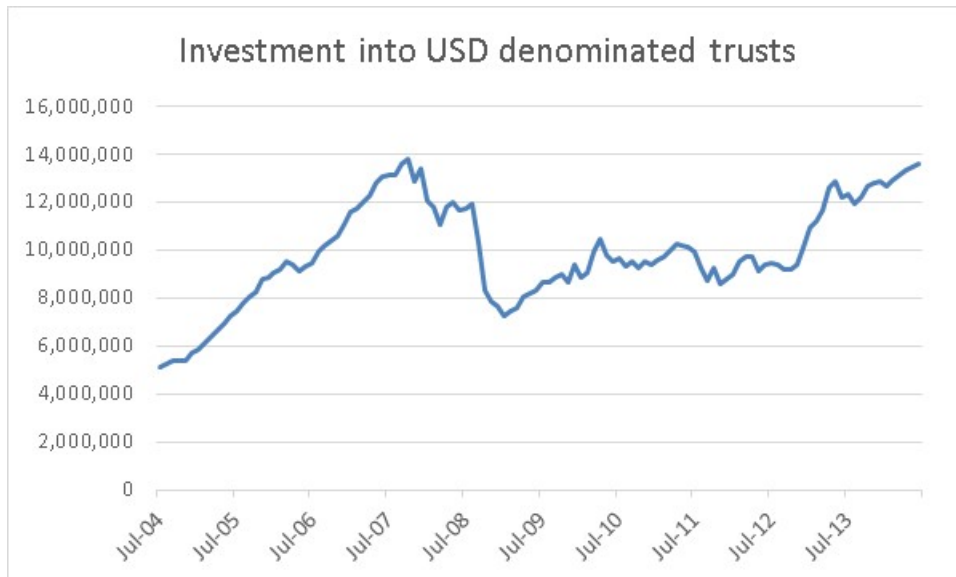


It has also been possible to be bullish of Japanese banks as they have offered a leveraged way to play a Japan rally driven by a weakening yen. The problem here is that the market has aggressively prepositioned presumed yen weakness. This can be seen in both the CFTC currency position for institutional investors and in the domestic Japanese retail investors' enthusiasm for USD investment trusts (toushin).

Future sellers are most aggressively short since 2007



Japanese retail investors are longest in USD since 2007.



Finally, Japanese banks have been aggressively expanding the loan books overseas, particularly into Asia.

http://www.bis.org/publ/qtrpdf/r_qt1309b.pdf

BIS quote Japanese banks as now being the biggest cross border provider of credit. As noted previously, Asia banks are now aggressively short dollars.



It is very possible that some sort of credit event in Asia will cause Japanese banks to not only book loan losses, but also to see the yen rally, and Japanese bond yields move lower. Any or all of these would be very negative for Japanese banks. The risk reward of shorting Japanese banks looks good to me.

INFORMATION

Issue Date: August 2014
Source: Bloomberg, unless otherwise stated
Investor Relations: Samantha Dunn
Email: info@russellclarkim.com
Telephone: +44 (0)20 7838 7580
Website: www.russellclarkim.com

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

DISCLAIMER

This Market View has been prepared and issued by Russell Clark Investment Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.