# Justifying my nikkei 225 index futures short position report example

Business, Marketing

For this assignment, I gathered and analyzed information from the international financial markets in the period December 19-30, 2011. Based on my analysis, I decided to go short the futures on the Nikkei 225 stock index. Here I offer you my reasoning.

## In increasing order of significance, the summarized reasons for my decision are:

the Japanese economy has been in a funk for the past 20 years;

the consequences of the March 2011 disasters;

## the European sovereign debt crisis and its effects on the global economy;

the Yen reached record highs against major currencies.

After the post-war Japanese economic wonder, the Japanese economy has gone nowhere for a period of over 20 years. The graph below, based on OECD and FRED data, shows the quarterly percentage change in real GDP in Japan for the period 1989-2011. As can be seen, economic growth has ranged between 0-1% for most of the time. The Japanese Cabinet Office projects a 2% growth rate for 2012.

The Japanese stock market, as measured by the Nikkei 225 index, has suffered an even worse performance during this period. From its all-time high in December 1989 of close to 39, 000, it has gone down persistently, reaching below 9, 000 in December 2011.

## Based on this grim information, I believe shorting the Nikkei 225 futures is a safe bet.

Moreover, I believe, the tsunami-flood-nuclear disaster that struck Japan in March 2011 will have negative consequences for the Japanese economy and the stock market that will stretch well into 2012. Although Japan has shown immense courage and resilience in the face of this crisis, it will take time for people and businesses to recover and start operating again at full capacity. Until then, a short position in the Nikkei is reasonable.

Another issue weighing down the economy, and not only the Japanese, is the unfolding European sovereign debt crisis. Europe is a major export market for Japan and an article (21-Dec-2011) in The China Post describes the situation as follows: “ Exports tumbled in November, data showed Wednesday, leaving Japan with a trade deficit for a second straight month, with exports to the key European market floundering as the debt crisis grips.”

This will be a serious challenge for Japanese companies and it clearly point the negative outlook for the Japanese stock market in the coming year or at least until (if at all) the European crisis is resolved.

Finally, a factor that is tightly connected with the declining Japanese exports and the forming trade deficit and a major reason for my short position in the Nikkei is the record historic strength of the Japanese Yen. Two articles in Bloomberg Businessweek note that the Yen has reached record highs against the US dollar and the Euro. This will make Japanese goods uncompetitive and Japanese companies will suffer the double effects lower demand both domestically and internationally.

All these reasons support my short thesis about the Japanese stock market, which I have chosen to play by shorting futures on the Nikkei 225.

# Works Cited

“ Cabinet to cut economic growth projections.” The Asashi Shimbun. 19 Dec. 2011. Web. 20 Dec. 2011.

“ Gross Domestic Product in Japan.” Federal Reserve Economic Data 19 Dec. 2011. Web 20 Dec. 2011.

“ Japan exports tumble as European economy slows.” The China Post. 21 Dec. 2011. Web. 22 Dec. 2011.

Nikkei 225 Chart. Yahoo Finance. 19 Dec. 2011 Web. 20 Dec. 2011.

“ Nikkei 225 Declines as Yen Reaches 10-Year High Against Euro.” Bloomberg Businessweek. 29 Dec. 2011. Web. 30 Dec . 2011.

“ Yen Touches Record High Against Dollar on Europe’s Debt Turmoil.” Bloomberg Businessweek. 25 Oct. 2011. Web. 30 Dec. 2011.