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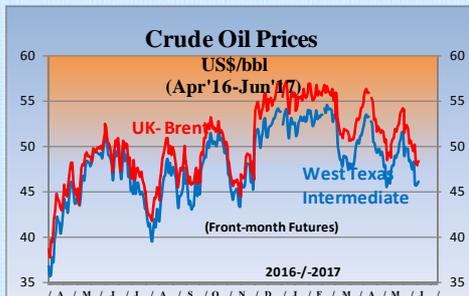
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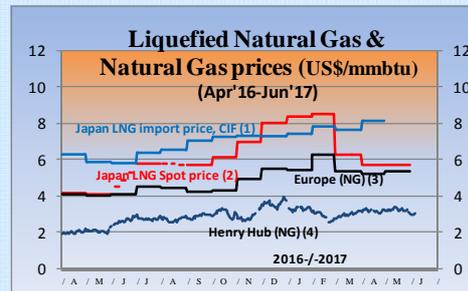
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Source: DOE-EIA, NASDAQ



Sources:

- (1) Ministry of Finance "Japan Trade Statistics"
- (2) Ministry of Economy, Trade and Industry (contract month basis)
- (3) Estimated by World Bank and World Gas Intelligence
- (4) DOE-EIA, NYMEX (Front-month Futures)
- (5) Investing.com



Source: x-rates.com



Source: Financial Times

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Summary

【World Monitoring】

1. US: Increasingly Complex Domestic and International Circumstances

The circumstances surrounding the Trump administration remain complex and strained. The administration is clearly at odds with the US's European allies, and an investigation is underway back home on its relationship with Russia. As geopolitical tension mounts in East Asia, the US appears increasingly isolated.

2. EU: French Presidential Election

The French presidential election was won by Emmanuel Macron, who has taken office. He is expected to follow the previous administration's energy policies, but parts of the policies remain uncertain.

3. China: US-China Relations from China's Perspective and Joint Construction of the Belt and Road

As the US-China relationship shifts toward stability after the summit in April, the Belt and Road Forum of international cooperation was held in Beijing. President Xi emphasized the achievements, commenting that joint construction has "entered a new stage of full implementation."

4. Middle East: Re-election of President Rouhani and Trump's ME Tour

President Rouhani was re-elected in Iran. US President Trump's Middle East tour seeking to rebuild ties with US allies had major success, including a huge weapon sales deal with Saudi Arabia, but could also worsen unrest in the region.

5. Russia: The 'Russia-gate' casting dark clouds over relationship with the West

The alleged collusion between the Trump administration and Russia is affecting the US-Russia relations. While advocates for appeasement with Russia has lost momentum in Europe, the world is paying attention to the trajectory of the Japan-Russia relations.



1. US: Increasingly Complex Domestic and International Circumstances

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President Trump's speech in Saudi Arabia, which called on the Middle Eastern countries to reject terrorism, was compared to the one made by President Reagan in the UK in 1982 by Newton Gingrich, former House Speaker and polemic who led the Republican "conservative revolution" in the 1990s. According to him, President Trump's speech is as significant as President Reagan's, which called on the West to unite against Soviet communism and totalitarianism, and became a turning point that led to the eventual collapse of the Communist bloc. President Trump signed a 110 billion-dollar weapon sales deal with Saudi Arabia aiming to counter terrorism, but was immediately opposed by Congress which submitted a bipartisan bill to block the sale, which would enable Saudi Arabia to step up attacks on and further radicalize Yemen. Meanwhile, Congress has also submitted a bipartisan bill that explicitly authorizes the President to wage war against ISIS, Al-Qaeda, and the Taliban. The repercussions of such actions by the business-minded President in an international community that has become far more complex since the Cold War must be monitored.

In Europe, the US is increasingly at odds with its allies, as shown by President Trump's criticism of NATO members for shouldering too little of the cost burden, the disagreement over migration policy and climate actions at the G7, and the UK's suspension of sharing confidential information with the US following an information leak. Back home, investigations on the suspicious relationship between the President's close adviser and Russia are progressing, and Congress is set to toughen the economic sanctions against Russia unless US-Russia relations improve significantly over Syria. Given the difficulty of developing "a renewed friendship" with Russia, the Trump administration is expected to take a more moderate stance in foreign policy, seeking concessions on individual issues while valuing its traditional allies.

Regarding the North Korea issue, which appeared in the Leaders' Communique of the Summit, the Trump administration attempted a "deal" with China through economic compromises such as reversing his campaign promise to label China as a currency manipulator, and in return demanding China's cooperation by increasing pressure on North Korea. China agreed to limit its trade with North Korea to some extent, but President Xi is sticking to his policy of resolution through dialogue. Meanwhile, in May, the US demonstrated its willingness to deal with North Korea alone by sending several carrier strike groups to East Asia. In the same month, a Chinese fighter jet approached a US reconnaissance jet near Mischief Reef over which China claims territorial rights, and immediately afterward, US military vessels conducted a drill in nearby waters, suggesting that the US has changed its stance to seek cooperation.

Between the US and China, the US is demanding that China open up its markets. Despite the establishment of a new USTR which is uncompromising toward China and moves over anti-dumping, the US has few cards to play in the negotiations. Further, many believe that China has an advantage in the negotiations, as US state governments are choosing to strengthen economic ties with China regardless of the federal government's stance. Regarding security, the US is under more pressure than



China as North Korea is getting closer to developing the capability to attack the US mainland. Further, with President Trump's isolationist speech and declaration to downscale US aid and other kinds of involvement in other countries, ASEAN countries are falling increasingly out of step, with President Duterte of the Philippines accepting China's request for direct dialogue over the disputed territories. Under such circumstances, China's Belt and Road Initiative is raising hopes in the international community as a new multilateral economic framework, while China and the EU are jointly urging the US to return to multilateralism. The US seems to be becoming more isolated in ways other than President Trump had hoped.



2. EU: French Presidential Election

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The French presidential election on May 7 was won by Emmanuel Macron, who took office on the 14th. In France, the major left- and right-wing parties have long taken turns at power, but this time, neither party made the run-off, which was contested between centrist Emanuel Macron and ultra-right party leader Marine Le Pen. Mr. Macron's victory is viewed positively as putting an end, albeit temporarily, to the spread of populism in Europe, as has the Dutch general election in March.

President Macron had announced his campaign promises on March 2. His major promises in energy include moving away from fossil fuels and accelerating the shift to carbon-free energy production. Specifically, he has promised to close the existing coal-fired thermal power plants within five years, prohibit shale gas exploration and not issue any new drilling permits for fossil fuels in view of the Paris Agreement, increase the carbon tax to 100 euros/tCO₂ in 2030 to reflect the environmental cost in the carbon price, double wind power and solar PV capacities by 2022, accelerate and simplify the procedure for introducing renewable energies, and focus on research, development, and investment in energy storage and smart grids. Regarding nuclear power, the plan has been announced to uphold the targets of the previous administration of closing the Fessenheim nuclear power plant (and instead putting Flamanville Unit 3 into operation) and to reduce the share of nuclear power to 50% by 2025, and to make a strategic decision on extending the operational period based on the discussions by the French Nuclear Safety Authority (ASN), which are due to be finalized in 2018.

President Macron formed his new Cabinet on May 17, and the organization in charge of France's energy policy was renamed from the Ministry for the Environment, Energy and Marine Affairs to the Ministry of Ecological and Solidary Transition, to be led by journalist and environmentalist Nicolas Hulot. Formerly a central member of France's Les Verts, Mr. Hulot has consistently advocated renewable energies. While President Macron is expected to continue the energy policy of the previous government, it is uncertain how far Mr. Hulot could influence the energy policy of the new government. If Mr. Hulot decides to demand the closure of more nuclear power stations than is stipulated under the Energy Transition for Green Growth Act (which sets nuclear energy at 50% of total electricity and the maximum nuclear power capacity at the current level of 63.2 GW in 2025), it would be necessary to revise the law and renegotiate compensation for the plant closure with the operator EDF.

France is scheduled to hold a lower house election in June. While President Macron served as the Minister of the Economy, Industry, and Digital Sector in the previous socialist government, his own new party, La République En Marche! (REM), is yet to gain a seat. Whether the party can gain enough seats in the upcoming election must be closely monitored, as it would affect the power base for his leadership during his five-year presidency.



3. China: US-China Relations from China's Perspective and Joint Construction of the Belt and Road

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China is hoping that US-China relations have shifted toward stability since the Summit in April. President Trump has decided not to label China a currency manipulator. He declined a request from Taiwanese President Tsai Ing-wen for a telephone conference, and postponed plans to sell them weapons. Meanwhile, China has allegedly started to put pressure on North Korea, which is escalating its threats to the international community through nuclear experiments and ballistic missile launches, with a possible ban on oil exports. Further, as the first step of the 100-day plan to improve the trade imbalance, on May 11, China and the US agreed that China will restart importing beef and expand LNG imports from the US, the US will allow cooked poultry imports from China, and both countries will mutually open parts of their financial markets (China opening its card payment market to US firms, and the US applying the same supervisory regulations to Chinese financial institutions as to American ones). It is important to note the last of the 10 early achievement areas in the agreement, which states that "The United States recognizes the importance of China's Belt and Road Initiative and is to send delegates to attend the Belt and Road Forum (BRF) in Beijing May 14-15." According to Vice Finance Minister Zhu Guangyao, this item was proposed by the US.¹ Hence, China is celebrating this achievement as President Trump's clear acceptance of President Xi's request for cooperation. Accordingly, the Summit is being praised as "having set the course of US-China relations in the new era," and hopes are reportedly rising for the future.

Under such circumstances, the BRF was held in Beijing on May 14 and 15, attended by representatives of more than 130 countries including the leaders of 29 countries. Representatives of more than 70 international organizations also joined the Forum, including UN Secretary-General Antonio Guterres, President Jim Yong Kim of the World Bank, and IMF Managing Director Christine Lagarde. The Belt and Road is an initiative of broad-area economic cooperation extending from China to Europe, the Mediterranean Sea, the Indian Ocean, and the South Pacific via routes on land and sea, and was announced by President Xi in the autumn of 2013. It is remarkable that support for the initiative has spread to many countries in just three years.

Meanwhile, it is also true that there has long been suspicion that the Belt and Road Initiative is a way for China "to use other countries to resolve its own overcapacity" and "to control other countries through economic aid." In response to such concerns, President Xi emphasized at the opening of the BRF that "the Initiative hopes to achieve a new model of win-win cooperation" and "China has no intention to interfere in other countries' internal affairs, export our own social system and model of development, or impose our own will on others." The joint statement adopted at the Summit also incorporated words indicating China's stance: "We uphold the spirit of peace, cooperation, openness, transparency, inclusiveness, equality, mutual learning, mutual benefit and mutual respect by strengthening cooperation on the basis of extensive consultation and the rule of law, joint construction, shared benefits and equal opportunities for all." Further, the statement also mentioned enhanced climate actions and strengthening cooperation in fully implementing the Paris Agreement, developing renewable energies, energy efficiency, and upgrading regional and international power grids.

¹ For instance, see <http://news.sina.com.cn/o/2017-05-12/doc-ifyfekhi7437566.shtml>



In a press conference after the closing of the BRF, President Xi commented that the BRF has "yielded positive results" and "the Initiative has entered a new stage of full implementation." At the next BRF scheduled for 2019, the achievements of the "full implementation" will be analyzed. Developments, for which there are high expectations, must be closely monitored.



4. Middle East: Re-election of President Rouhani and Trump's ME Tour

Koichiro Tanaka, Managing Director &
President of JIME Center

The Iranian presidential election appeared to become a tight race when conservative hard-liners united behind one candidate against President Rouhani seeking a second term, but in the end, Mr. Rouhani, who achieved the nuclear agreement, won by a large margin, with more than 23 million votes, or 57% of the total. The majority of the voters were not misled by the hard-liner candidate who promised hand-outs and cast their votes for Mr. Rouhani and his policy of pursuing dialogue with the rest of the world, showing the maturity of the Iranian society. However, the defeated rival Seyyed Ebrahim Raisi won over 38% of the votes thanks to his tough stance against the increasingly hostile US, and the second Rouhani government is likely to face tougher opposition when it is launched in August. Having put up a good fight despite his low profile, Mr. Raisi is almost certain to run again in the next presidential election in 2021.

By choosing Saudi Arabia and Israel as the first and second destinations of his initial official trip abroad, President Trump emphasized his stance of putting allies first. He signed a deal to sell more than 110 billion dollars of weapons to Saudi Arabia, and signed the Joint Strategic Vision Declaration of the United States of America and the Kingdom of Saudi Arabia as well as mutual investment agreements totaling 380 billion dollars. In addition to bilateral summits, the President participated in the US-GCC Summit and the Arab Islamic American Summit, in which he met with the leaders of 55 states, or almost all member states of the Organisation of Islamic Cooperation (OIC), and agreed to establish a Terrorist Financing Targeting Center and Global Center for Combating Extremist Ideology in Riyadh.

Meanwhile, President Trump has repeatedly condemned Iran for "conducting and supporting terrorism and continuing to develop ballistic missiles," and clearly expressed his intention to stand with Saudi Arabia and its Arab allies in jointly confronting Iran. In a recent interview, Saudi Deputy Crown Prince Mohammed caused controversy by saying: "We won't wait for the battle to be in Saudi Arabia. Instead, we'll work so that the battle is for them in Iran." Presumably in criticism of such belligerent comments that fuel regional unrest, following President Trump's visit, the Qatar News Agency reported the alleged words of Qatar's Emir Sheikh Tamim criticizing the GCC's hardline stance against Iran and acknowledging Hamas as the legitimate representative of the Palestinians. Implicitly offended by these words, Saudi Arabia and the UAE are turning increasingly hostile toward Qatar.

President Trump travelled directly from Saudi Arabia to Israel, where he met with Prime Minister Netanyahu in Tel Aviv and President Abbas of the Palestinian Authority in Bethlehem to convey his eagerness to achieve peace in the Middle East, though without mentioning any specific measures or the possibility of creating an independent Palestinian state. Nor did he mention the explosive issue of relocating the US embassy to Jerusalem. Rather than the Palestinian issue, the US and Israel are giving higher priority to fighting terrorism, radicalism, and countering with Iran jointly with Saudi Arabia and others.

Currently reviewing the nuclear deal, the Trump administration decided to extend the presidential waiver of economic sanctions against Iran. In the meantime, following his return from the US, President Erdogan of Turkey was reinstated as leader of the ruling AKP based on the recent constitutional amendment, taking yet another step toward consolidating his authority.



5. The 'Russia-gate' casting dark clouds over relationship with the West

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On May 9, U.S. President Trump stunned the world with the sudden dismissal of FBI Director James Comey. The dismissal has led to speculation about a possible obstruction of justice, as Director Comey was strengthening investigations of the alleged collusion between close aides of President Trump and Russia. This dismissal has been called "Russia-gate" after the Watergate scandal (August 1974) that eventually led to President Nixon's resignation, and is capturing the attention of the world.

On the day following Director Comey's dismissal, President Trump met Russia's Foreign Minister Sergei Lavrov at the White House in the latter's first visit to the United States after Russia's annexation of Crimea in March 2014. While the United States officially announced that the main topics of the meeting included Syria, Iran, and Ukraine, Russia only acknowledged having discussions on Syria, Israel, and Afghanistan, and did not clarify whether Iran and Ukraine were addressed. After the meeting, Konstantin Kosachev, Chair of the Foreign Affairs Committee of the Federation Council, praised the result, saying that "U.S.-Russia relations have begun to thaw now that the administration recognizes Russia as a partner and an equal."

Despite President Trump's intention to mend U.S.-Russia relations, dark clouds are looming over the "Russia-gate". As criticisms mount over the dismissal even within the ruling Republican party, on May 17, the U.S. Justice Department appointed former FBI Director Robert Mueller as special prosecutor, and announced that "the investigation will include all areas including the Trump administration's connections with Russia." President Trump used Twitter to call this move "the single greatest witch hunt of a politician in American history," but the President's relationship with Russia is under increasing scrutiny in America. Due to such developments in the United States, the Russians are increasingly pessimistic about finding a way for mending relations with the US.

Despite Russia's initial expectations, Europe is moving away from a possible disunity on Russia that could lead to the lifting of economic sanctions. Besides the victory of the ruling party over the ultra-right party in the Dutch general election in March, on May 7, a centrist candidate, Emmanuel Macron, defeated Marine Le Pen, the leader of the National Front who officially promised to mend relations with Russia, in the French presidential election run-off. On the 29th, the new President Macron met President Putin in France and agreed to promote bilateral dialogue, but the former has underscored the importance of policy coordination with Germany. Meanwhile, the popularity of the ruling party led by Prime Minister Merkel is rising again in Germany. The German and Russian leaders held the first official summit in seven months on May 2 (in Sochi), but reportedly, President Putin did not respond directly to Prime Minister Merkel's demand to promptly implement the Minsk agreement.

On April 27, Prime Minister Abe had a summit meeting in Moscow, and agreed to move ahead with the Japan-Russia Agreement reached in December 2016, including efforts to conclude a peace treaty. As Russia's relationship with the West stagnates, the world is watching over developments in Japan-Russia relations.



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