

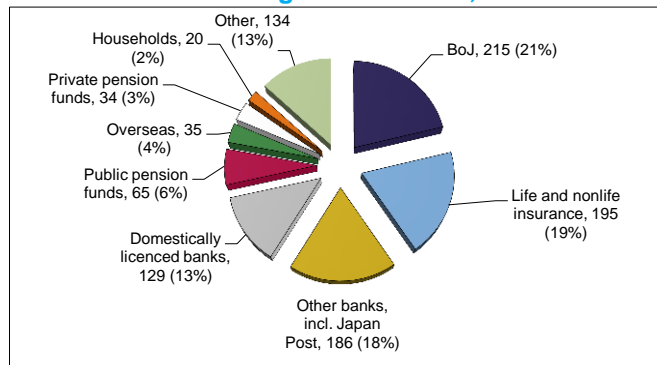
Yen Data Review: Q214 Flow of Funds

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- With the BoJ having increased its monetary base by almost ¥100trn since Kuroda unveiled the Bank's large-scale asset purchase programme in April 2013, the latest flow-of-funds data, published today, provided an update on the impact on investor behaviour.
- The direct impact of the BoJ's actions remains clearly evident, with its holdings of JGBs increasing by ¥12trn in Q2 to a record high of ¥170trn. That took the cumulative increase in its JGB holdings since Q113 to ¥64trn and increased its share of the market (excluding bills) by more than 1ppt to 20%, the highest since the series began in 1980. Including bills, the BoJ's share of the market rose above 21%, to remain the largest holder just ahead of Japanese insurers.
- The BoJ's bond buying almost fully absorbed net new issuance. Most domestic sectors were marginal net sellers, with Japan's public pension funds' and households' holdings of JGBs down to their lowest since Q306 and Q404 respectively. Including T-bills, banks were significant net sellers of JGBs in Q2 (¥7.4trn) for the eighth out of the past nine quarters. Monthly data suggest that this trend continued into Q3. But the proceeds continue to be channelled into current account deposits held at the BoJ.
- But, overall, today's data again suggested that the portfolio rebalancing that had been hoped for by the BoJ remained limited. For example, despite negative real interest rates, households increased their holdings of currency and deposits by more than ¥9trn to a record high ¥874trn – accounting for more than 50% of their assets and equivalent to 180% of GDP. Total currency and deposits held by non-financial corporations in Q2 were also only just off the record high, at ¥240trn, almost 25% of their total assets. While both non-financial corporations and households also increased very slightly their holdings of overseas securities (the latter by the largest quarterly amount since Q109 to take that stock to a record high), they continued to account for a very small share of total assets, by less than 6% and 1% respectively.
- Insurers again increased slightly their exposure to overseas securities (taking the share of total assets 0.4ppt higher to 14%). But JGBs still account for the lion's share of their assets, at 45%. JGBs also account for the largest share of private pension funds' assets, around one quarter. But the share of their funds held in overseas securities also rose to its highest for 8 years (22½%), exactly the same share held by their public sector equivalents, which in Q2 was a series high. There was also a further modest increase in the share of domestic securities held by public pension funds to more than 15% of their total assets. And in line with PM Abe's explicit intentions, we expect to see a further diversification of the GPIF portfolio towards riskier assets over coming quarters, which in turn might well also encourage its private sector peers to follow suit.

JGB and T-bill holdings at end-Q214, ¥trn*



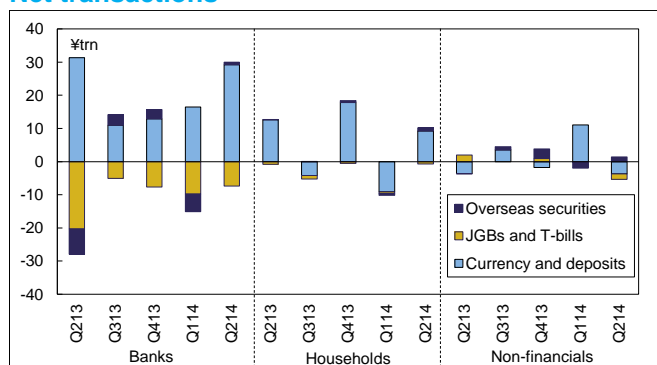
*Figures in parenthesis represent market share. Source: BoJ

JGB market share (%) at end-quarter*

	Q213	Q313	Q413	Q114	Q214
Banks**	12.9	12.6	12.3	12.0	12.5
Insurance firms	23.2	23.1	22.9	22.8	22.6
BoJ	14.0	15.7	17.3	18.7	19.9
Overseas	4.2	4.1	4.1	4.1	4.1
Public pension funds	8.6	8.4	8.3	7.9	7.6
Private pension funds	4.0	4.0	4.0	4.1	4.1
Households	2.9	2.7	2.6	2.5	2.4

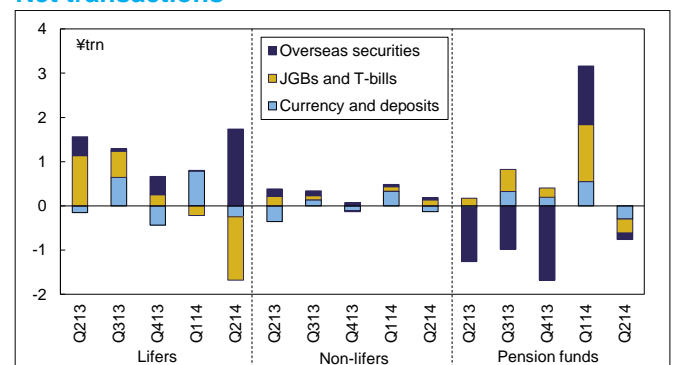
*Excluding bills. **Domestically licenced. Source: BoJ

Net transactions



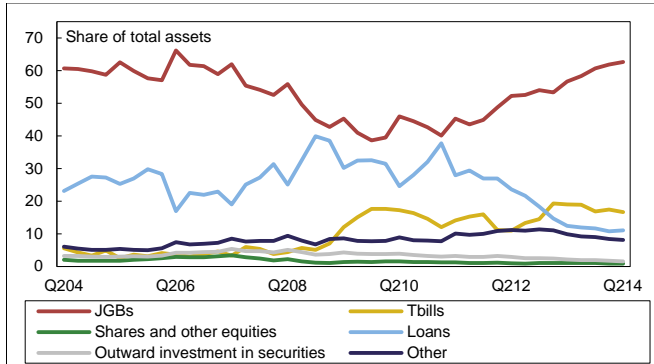
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Net transactions



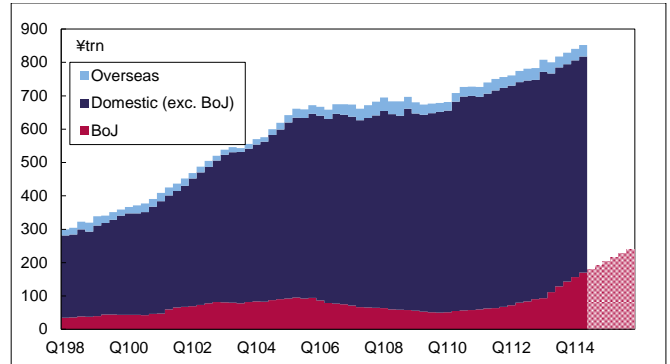
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by the BoJ



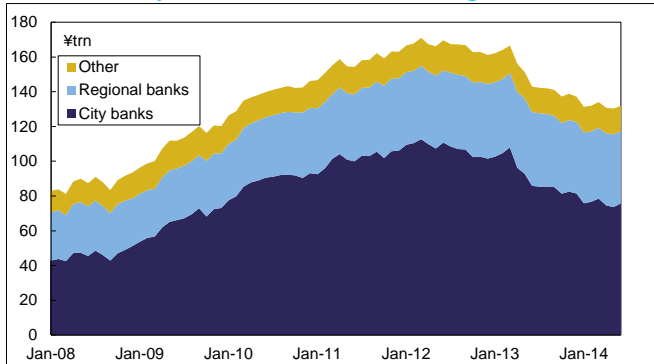
Source: BoJ and Daiwa Capital Markets Europe Ltd.

JGB holdings by domestic and overseas investors*



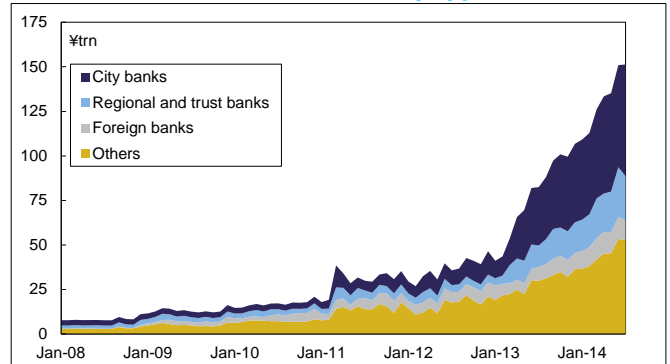
*Q314-Q415 figures represent BoJ forecast.
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Domestically licenced banks' holdings of JGBs



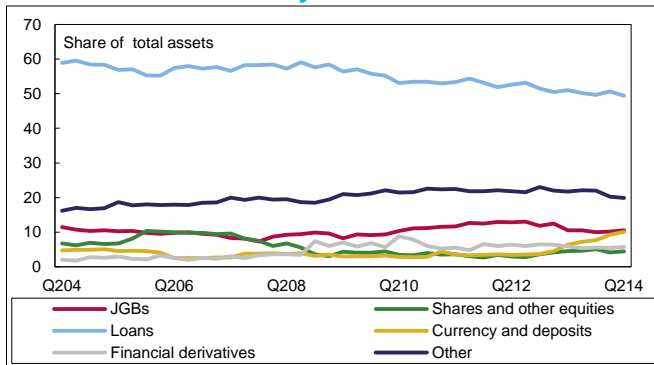
Source: BoJ and Daiwa Capital Markets Europe Ltd.

BoJ current account balances by type of institution



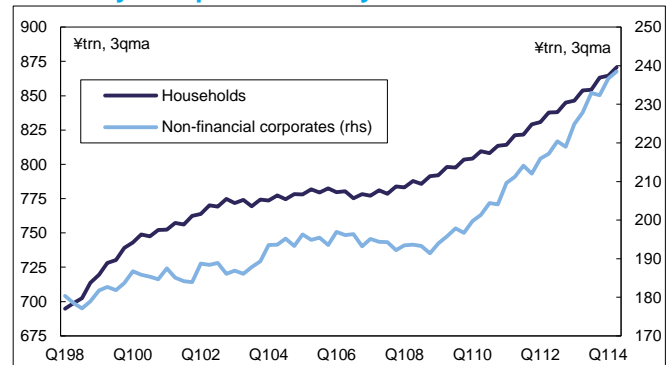
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by banks*



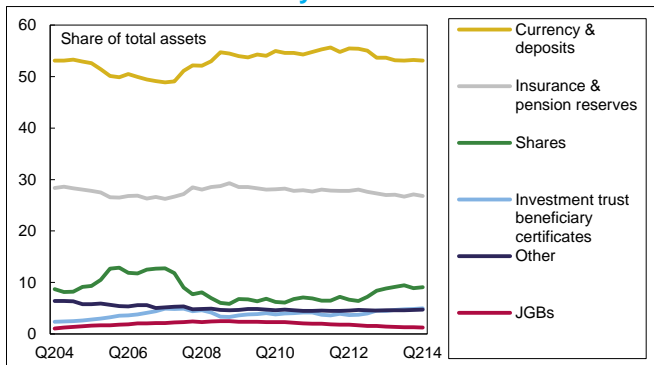
*Domestically licenced. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Currency & deposits held by households & NFCs



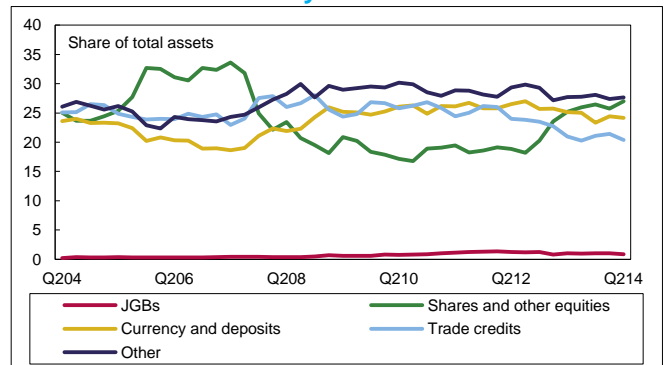
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by households



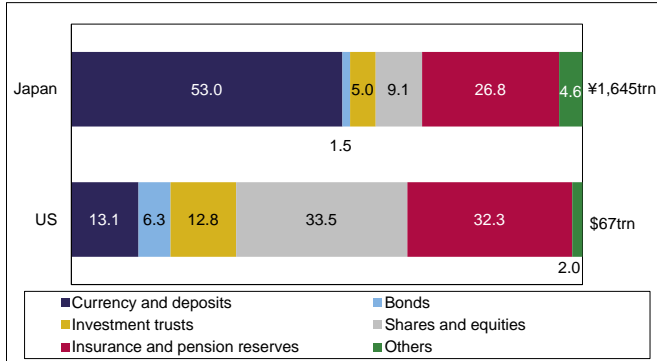
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by non-financial firms



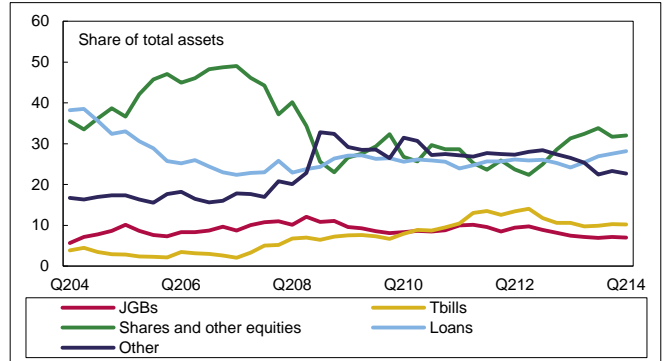
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets held by households*



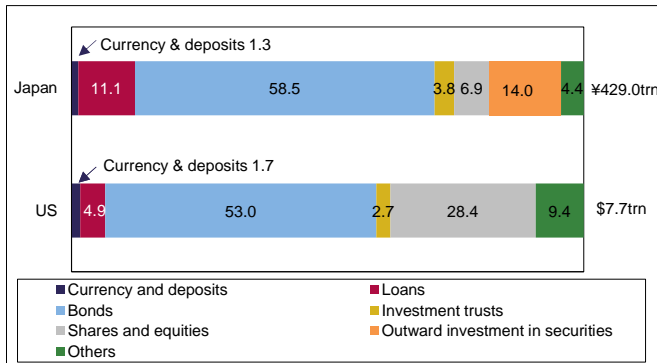
*Q2 2014. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Japanese financial assets held by foreigners



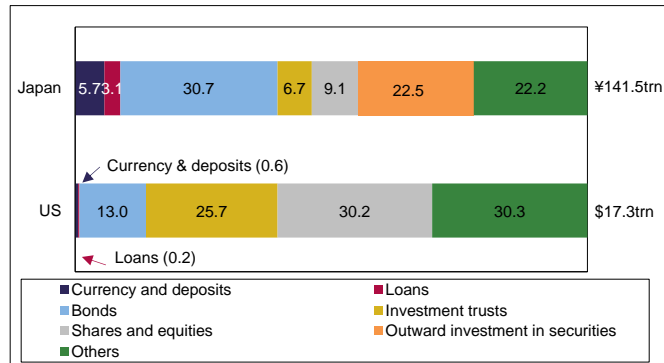
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets held by insurance firms*



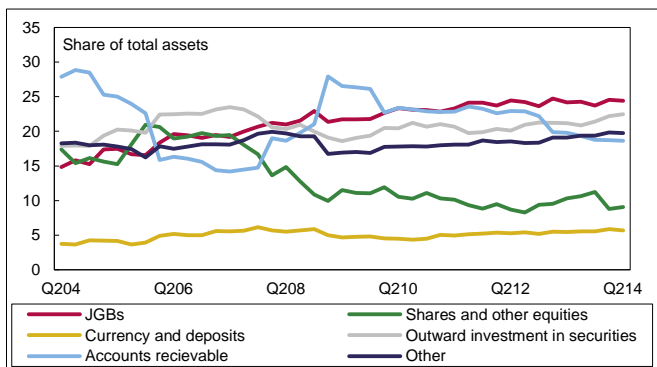
*Q2 2014. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets of private pension funds*



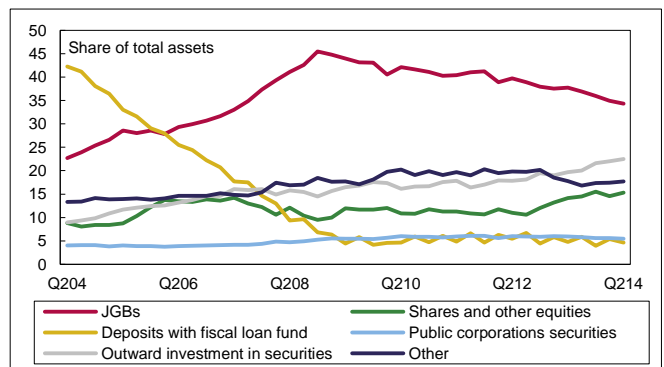
*Q2 2014. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by private pension funds



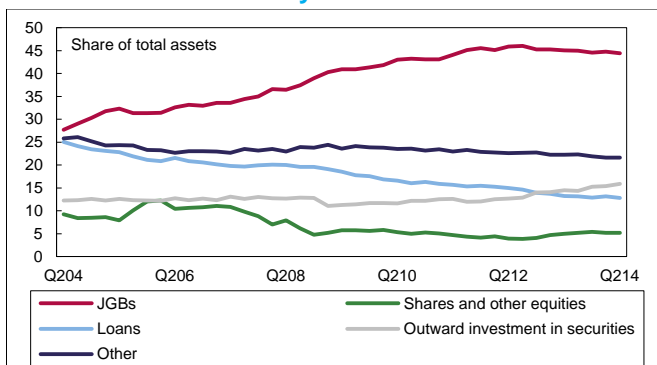
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by public pension funds



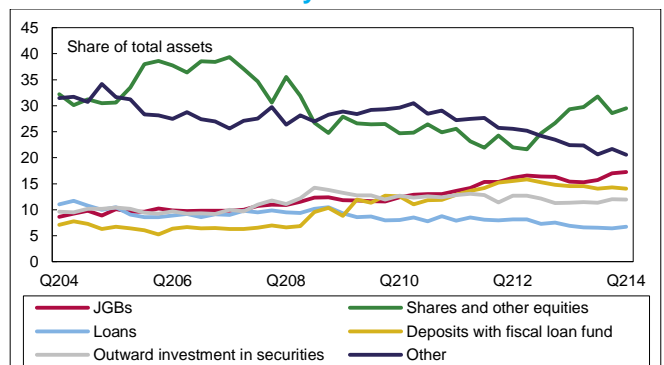
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by life insurers



Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by non-life insurers



Source: BoJ and Daiwa Capital Markets Europe Ltd.

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