

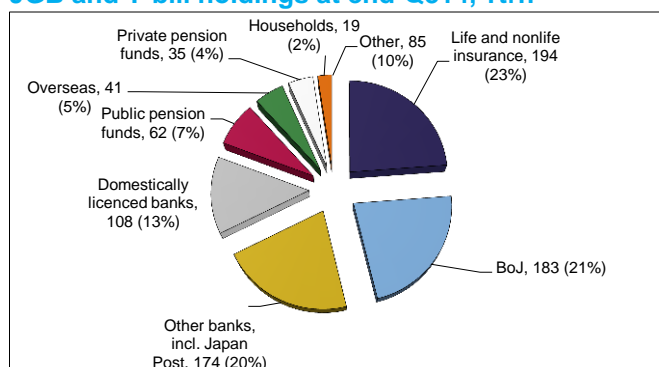
Yen Data Review: Q314 Flow of Funds

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- The BoJ's latest flow-of-funds data, published today, provided an update on the impact of QQE (ahead of its expansion at the end of October) on investor behaviour eighteen months after its launch.
- The direct impact of the BoJ's actions was of course again clearly evident, with its JGB holdings increasing by a further ¥13trn in Q3 to a record high of ¥183trn, more than double the pre-QQE level and increasing its share of the market (excluding bills) by more than 1ppt to 21%. Including bills, the BoJ remained the largest holder. Subsequent data, meanwhile, show that since the expansion of QQE at the end of October, the value of the BoJ's holdings was in excess of 50% of GDP and roughly one quarter of the market in early December.
- The BoJ's bond buying almost fully absorbed net new issuance. Japan's public pension funds were notable net sellers of JGBs in Q3 to take their share of the market to its lowest in eleven years, while households' holdings of JGBs fell to a decade low. Including T-bills, banks were again significant net sellers of JGBs in Q3 (¥6.6trn). And monthly data show that this trend continued into Q4, with the proceeds channelled into current account deposits at the BoJ. In contrast, despite reducing slightly their holdings of T-bills (albeit their share of the market was still on a par with the BoJ's at 32%), foreigners were notable net buyers of JGBs, taking their holdings of JGBs and T-bills combined to a record high of ¥90trn (almost 9% of the market).
- But while QQE is having a major impact on the JGB market, there is little evidence that it is encouraging investors to move out of low-yielding 'safe' assets and into riskier assets. For example, despite negative real interest rates, non-financial corporations' currency and deposit holdings hit a record high in Q3, ¥245trn, roughly one quarter of their total assets. And despite falling slightly in Q3, households' currency and deposit holdings still accounted for more than 50% of their total assets. Moreover, although households increased their holdings of overseas securities, for the fifth quarter in six, they continued to account for less than 1% of total assets.
- Insurers also increased their exposure to overseas securities (taking the share of total assets 0.8ppt higher to a record 14.8%). But JGBs still account for the lion's share of their assets, at almost 45%. JGBs also account for the largest share of private pension funds' assets, at 35%. But the share of their funds held in overseas securities rose to its highest on record (33½%), almost 10ppts higher than their public sector equivalents, even as their holdings also rose to a series high in Q3. There was also a further modest increase in the share of domestic securities held by public pension funds to 16% of their total assets. And given the end-October reform to the GPIF's portfolio allocation, we should see a greater proportion of the public pension funds' investments in riskier assets over coming quarters, which in turn might well also encourage the private sector to do the same.

JGB and T-bill holdings at end-Q314, ¥trn*



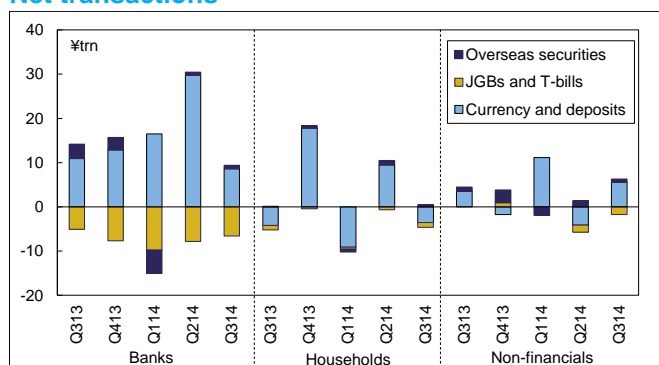
*Figures in parenthesis represent market share. Source: BoJ

JGB market share (%) at end-quarter*

	Q313	Q413	Q114	Q214	Q314
Banks**	12.6	12.3	12.0	12.6	12.5
Insurance firms	23.1	22.9	22.8	22.6	22.6
BoJ	15.7	17.3	18.7	19.9	21.3
Overseas	4.1	4.1	4.1	4.1	4.8
Public pension funds	8.4	8.3	7.9	7.6	7.2
Private pension funds	4.0	4.0	4.1	4.1	4.0
Households	2.7	2.6	2.5	2.4	2.2

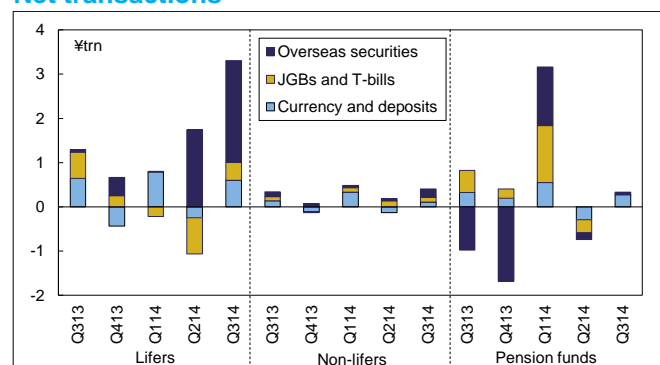
*Excluding bills. **Domestically licenced. Source: BoJ

Net transactions



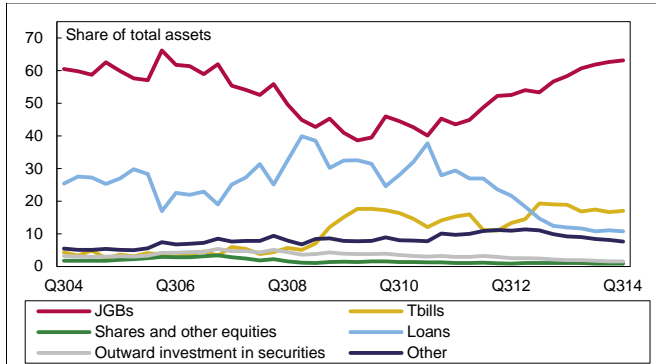
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Net transactions



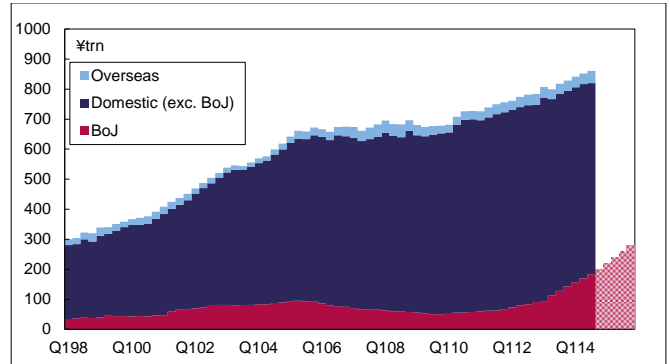
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by the BoJ



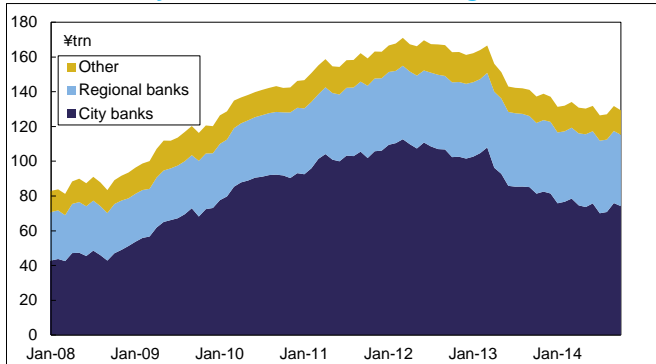
Source: BoJ and Daiwa Capital Markets Europe Ltd.

JGB holdings by domestic and overseas investors*



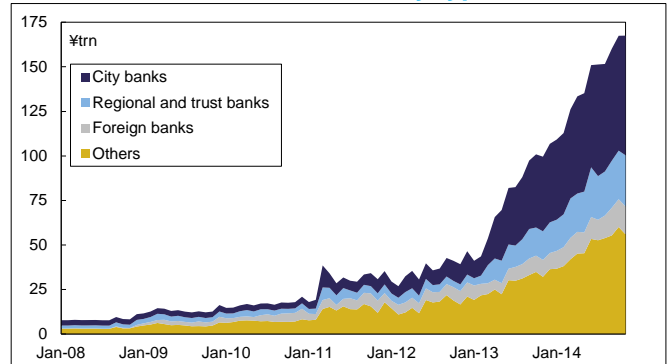
*Q414-Q415 figures represent BoJ forecast.
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Domestically licenced banks' holdings of JGBs



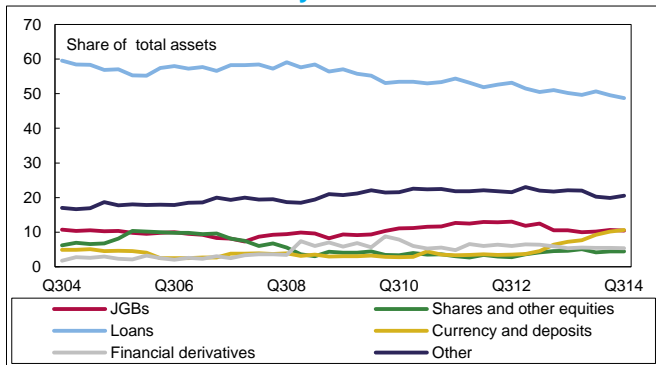
Source: BoJ and Daiwa Capital Markets Europe Ltd.

BoJ current account balances by type of institution



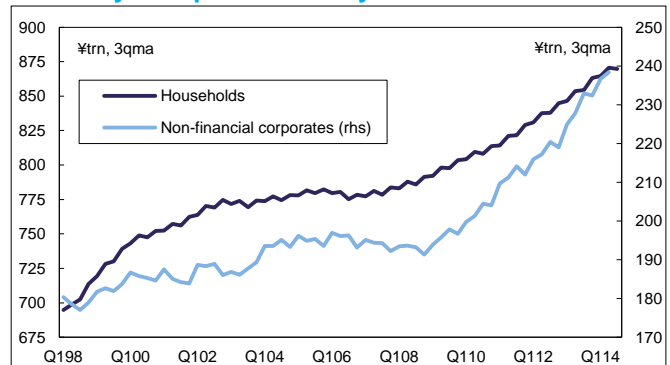
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by banks*



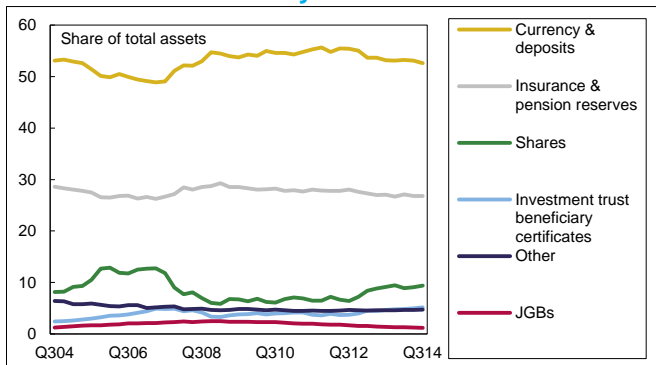
*Domestically licenced. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Currency & deposits held by households & NFCs



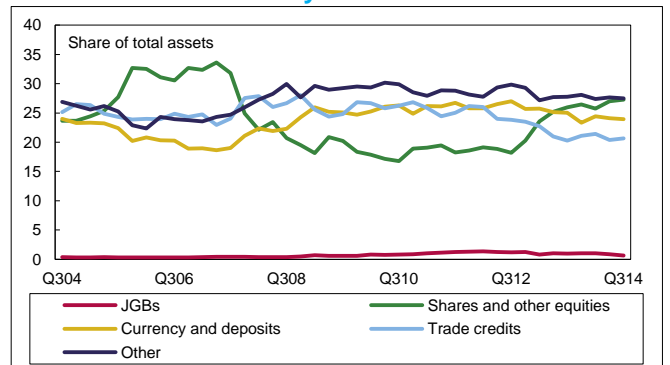
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by households



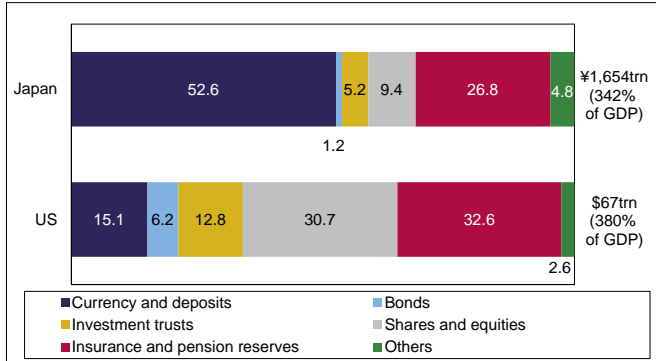
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by non-financial firms



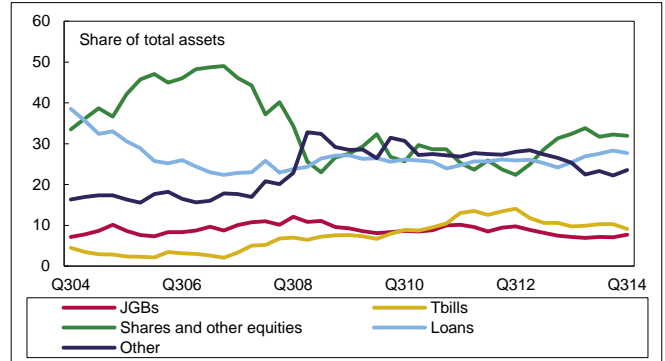
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets held by households*



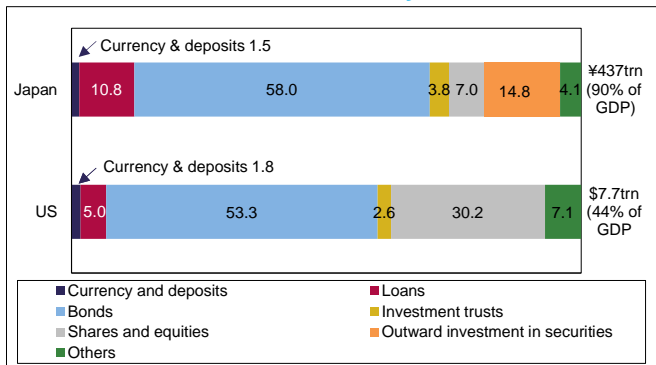
*Q314. US includes non-profit organisations.
Source: BoJ, Fed and Daiwa Capital Markets Europe Ltd.

Japanese financial assets held by foreigners



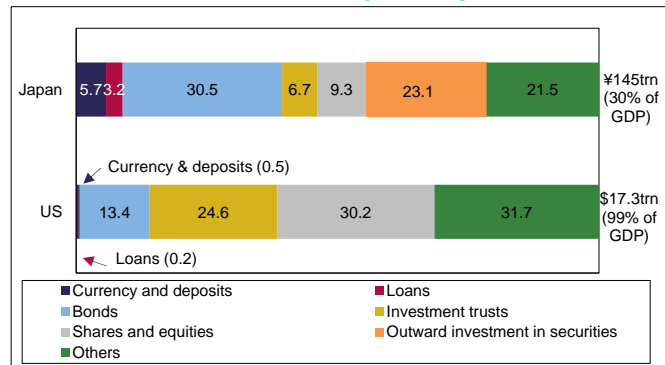
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets held by insurance firms*



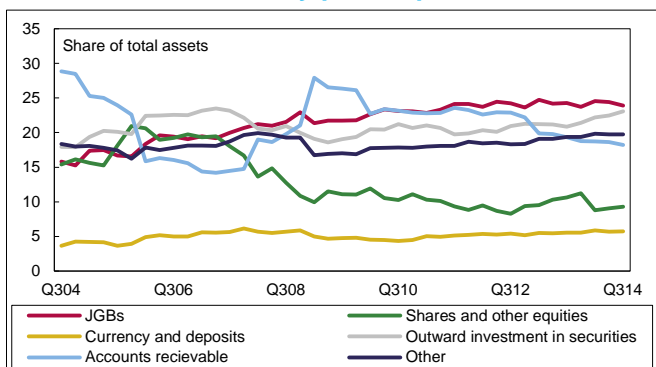
*Q314. Source: BoJ, Fed and Daiwa Capital Markets Europe Ltd.

Share of financial assets of private pension funds*



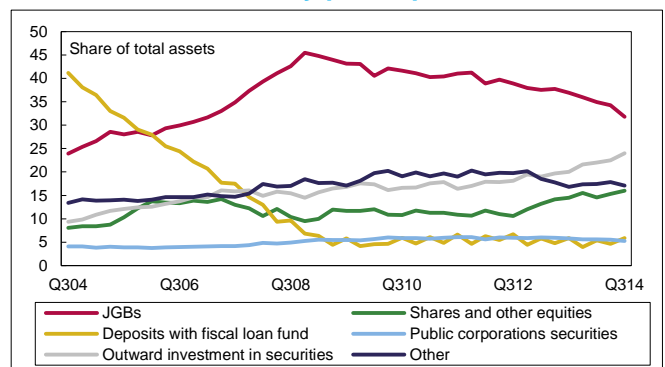
*Q314. Source: BoJ, Fed and Daiwa Capital Markets Europe Ltd.

Financial assets held by private pension funds



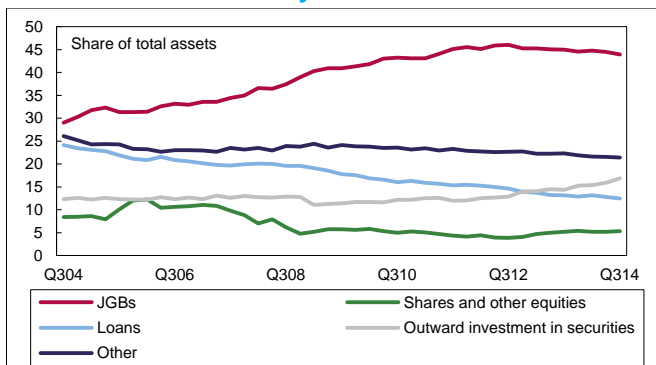
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by public pension funds



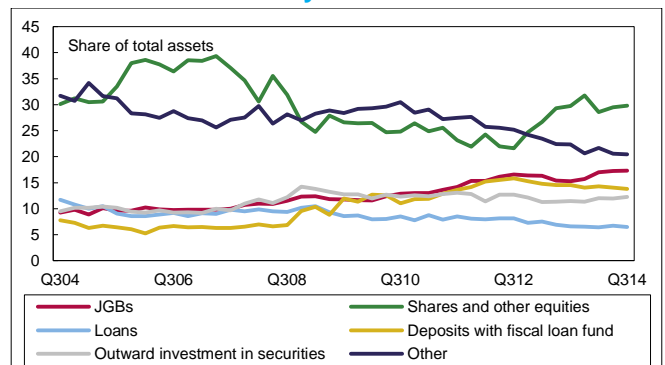
Source: BoJ and Daiwa Capital Markets Europe Ltd.

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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