

Yen Data Review: Q115 Flow of Funds

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Japan's flow-of-funds data continue to suggest that there has been only a very limited shift in domestic investor behaviour in response to the BoJ's QQE policy, which has now entered its third year.

The direct impact of QQE was again clearly evident in the latest figures. The BoJ's JGB holdings increased by ¥18trn in Q115 to a record high of ¥225trn, increasing its share of the JGB market to more than one quarter. Including T-bills, the BoJ held 27% of the market at end-Q1. And more timely data suggest that a further increase, of around ¥18½trn, so far in Q2 has left the BoJ's holdings of government securities at almost ¥295trn, up from ¥128trn at the launch of QQE.

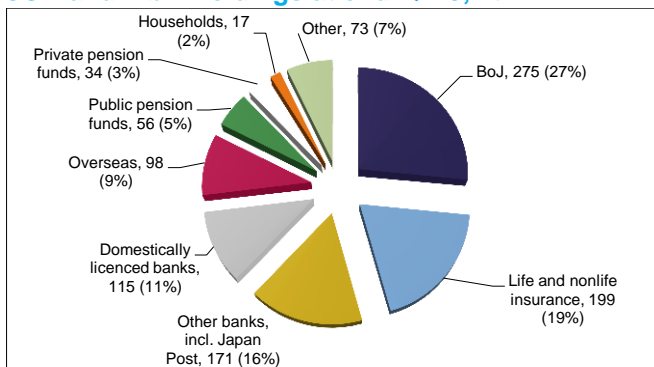
The BoJ's bond buying in Q1 largely absorbed new issuance. Japanese financial intermediaries were net sellers (¥4.4trn), to take their fiscal year-end holdings to the lowest since the early 1980s. Lifers were also net sellers of JGBs for the fourth quarter out of the past five, while Japanese households reduced their holdings for the 25th consecutive quarter seeing their share of the JGB market fall below 2% for the first time since Q200.

In contrast, Japanese banks slowed significantly the pace of JGB selling in Q1 (¥0.7trn, compared with ¥15trn in Q414). And surprisingly, public pension funds were net sellers to the tune of just ¥0.1trn, although this still saw their JGB holdings as a share of total assets fall below 40% for the first time in nine years. Given the much-trumpeted changes to the funds' portfolio targets – notably to reduce their domestic bond holdings to around 35% of their total assets – we expect renewed net JGB selling from public pension funds over coming quarters and a rebalancing towards other domestic and overseas securities.

By end-Q1, there was still little evidence that the private sector was moving away from low-yielding safe assets into riskier assets. Japanese banks increased slightly their exposure to overseas securities (by ¥4.5trn over the quarter). But they again channelled much of their excess liquidity into current account deposits at the BoJ (¥23.5trn), which accounted for almost 11% of their total assets (compared with just 3% at the start of QQE). Insurance companies upped very slightly their holdings of domestic equities, although those assets only accounted for around 8% of their total assets. Indeed, JGBs still account for the lion's share of their assets (44%). And private pension funds also continue to hold more than one-third of their assets in JGBs.

Despite exceptionally low interest rates, non-financial corporations increased their holdings of currency and deposits by ¥9½trn to a record ¥253trn, accounting for more than one-fifth of their assets. While Japanese households reduced slightly their currency and deposit holdings, they still accounted for more than 50% of their assets. Despite being net sellers of domestic equities in Q1, households and NFCs saw the value of those holdings rise more than 20%Y/Y. And with the Nikkei having recently hit a more than 18-year high, investors should have continued to benefit from this wealth effect in Q2.

JGB and T-bill holdings at end-Q115, ¥trn*



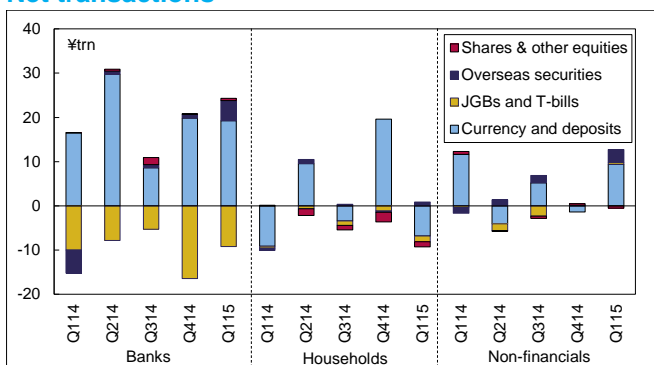
*Figures in parenthesis represent market share. Source: BoJ

JGB market share (%) at end-quarter*

	Q114	Q214	Q314	Q414	Q115
Banks**	12.2	12.7	12.8	12.0	12.1
Insurance firms	22.9	22.6	22.6	22.5	22.3
BoJ	18.7	20.0	21.4	23.5	25.5
Overseas	3.7	3.8	4.4	4.8	4.9
Public pension funds	7.9	7.7	7.3	6.4	6.4
Private pension funds	4.2	4.1	4.1	3.9	3.9
Households	2.5	2.4	2.3	2.1	1.9

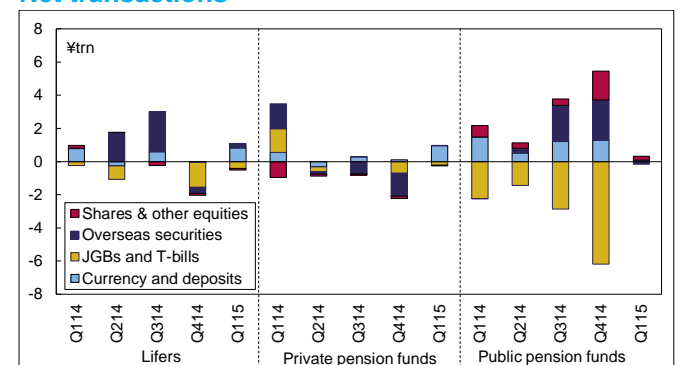
*Excluding bills. **Domestically licenced. Source: BoJ

Net transactions



Source: BoJ and Daiwa Capital Markets Europe Ltd.

Net transactions

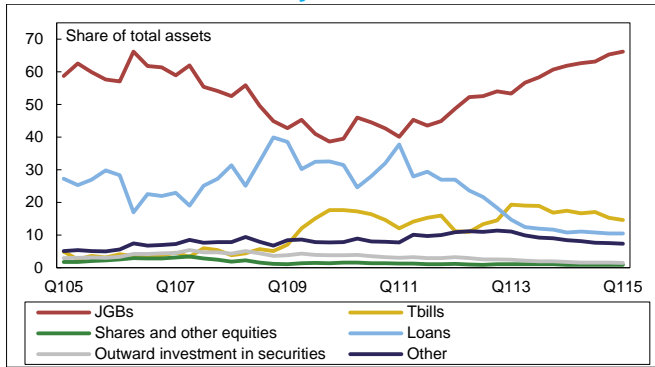


Source: BoJ and Daiwa Capital Markets Europe Ltd.



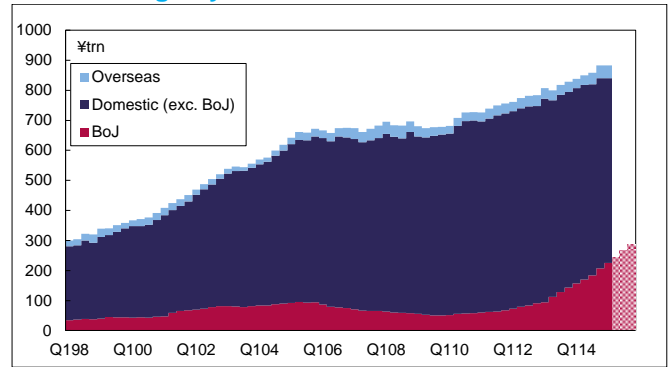
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Financial assets held by the BoJ



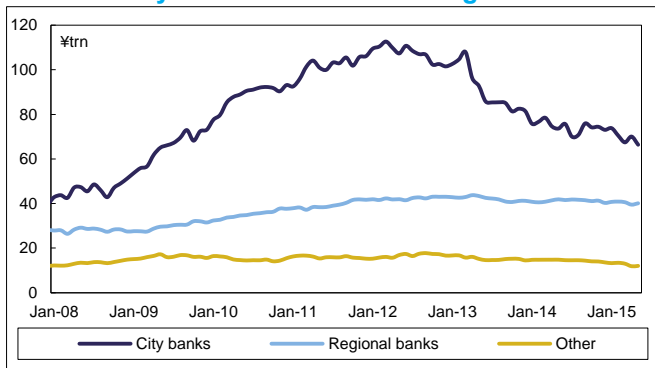
Source: BoJ and Daiwa Capital Markets Europe Ltd.

JGB holdings by domestic and overseas investors*



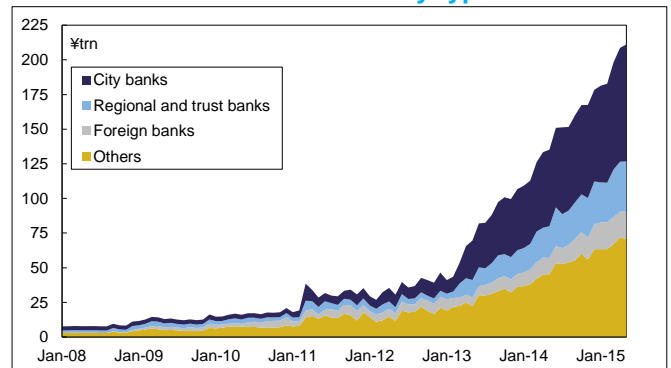
*Q215-Q415 figures represent forecast.
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Domestically licenced banks' holdings of JGBs



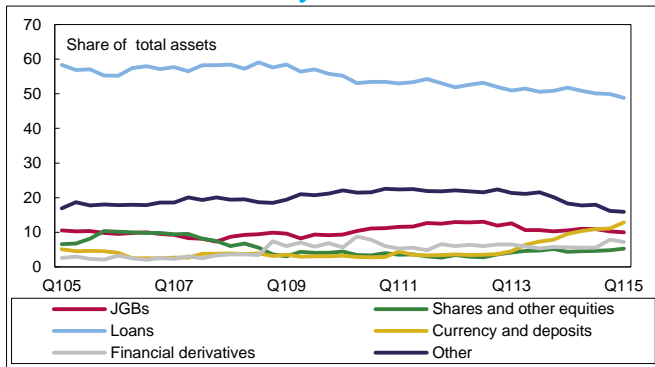
Source: BoJ and Daiwa Capital Markets Europe Ltd.

BoJ current account balances by type of institution



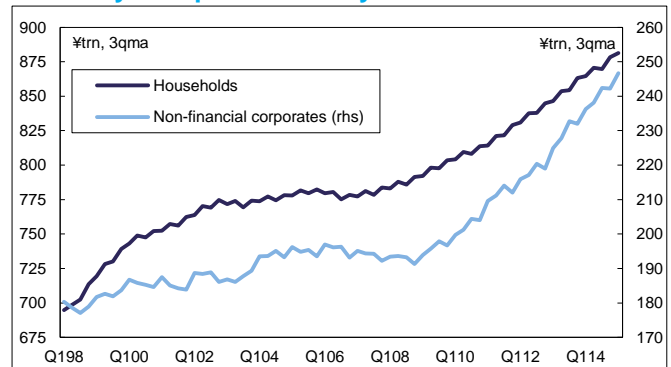
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by banks*



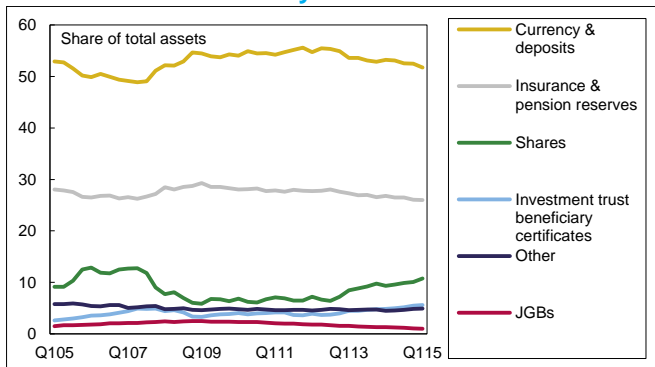
*Domestically licenced. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Currency & deposits held by households & NFCs



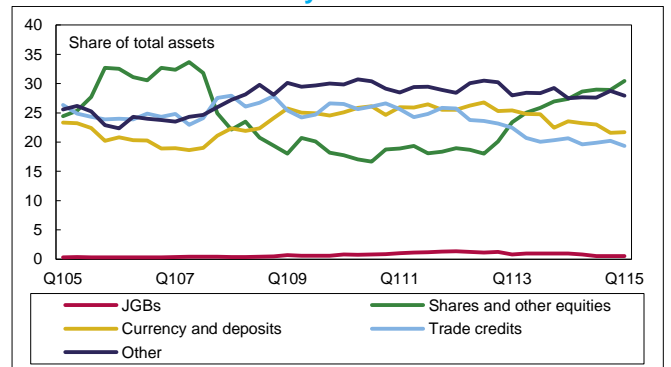
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by households



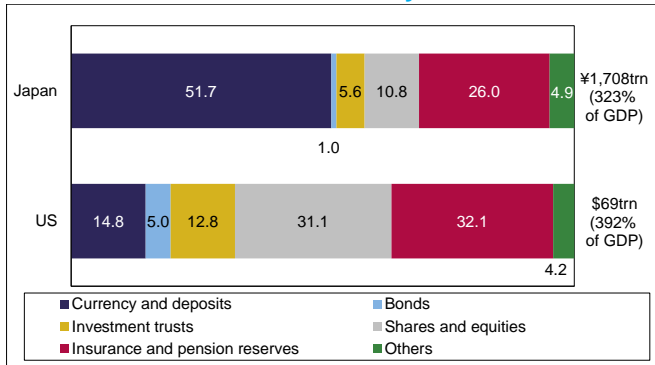
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by non-financial firms



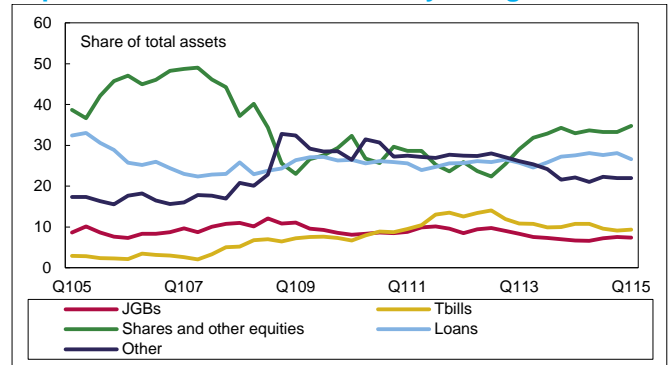
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets held by households*



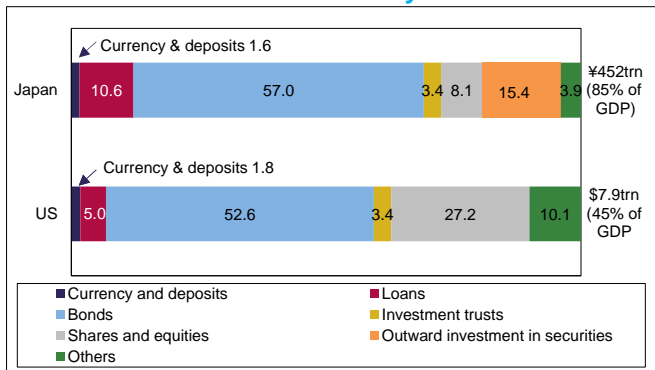
*Q115. US includes non-profit organisations.
Source: BoJ, Fed and Daiwa Capital Markets Europe Ltd.

Japanese financial assets held by foreigners



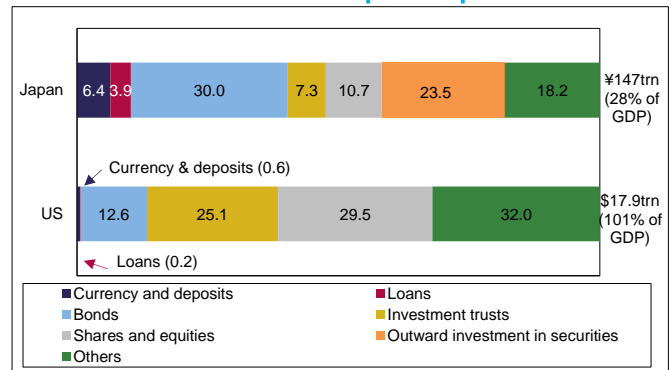
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets held by insurance firms*



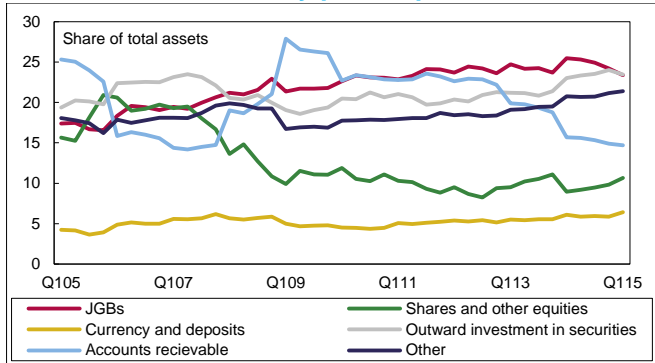
*Q115. Source: BoJ, Fed and Daiwa Capital Markets Europe Ltd.

Share of financial assets of private pension funds*



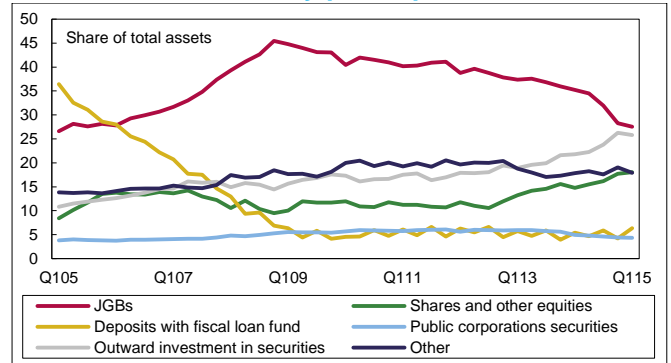
*Q115. Source: BoJ, Fed and Daiwa Capital Markets Europe Ltd.

Financial assets held by private pension funds



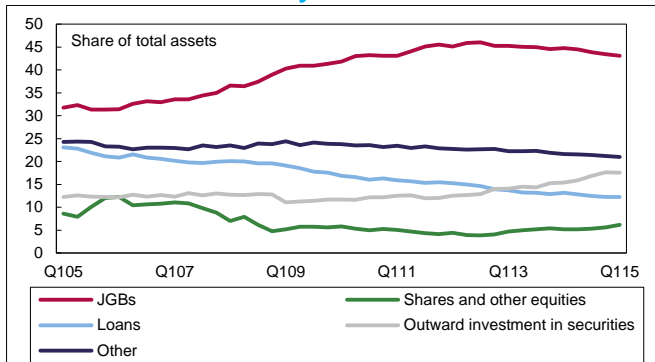
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by public pension funds



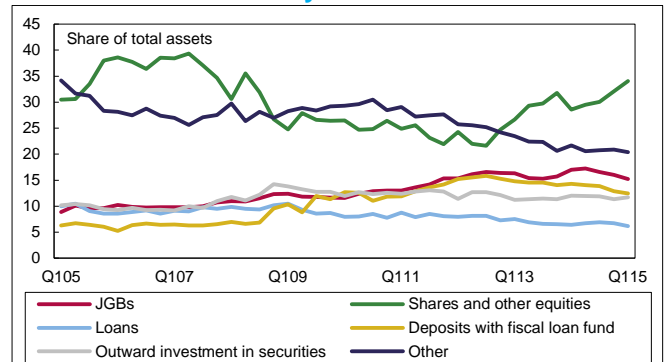
Source: BoJ and Daiwa Capital Markets Europe Ltd.

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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