

# Latest foreign flows into Japanese FI market

## Weekly update

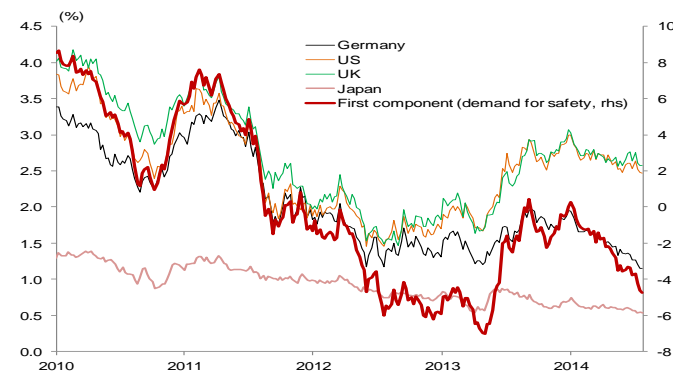
Japanese investment in foreign securities has been accelerating since the beginning of this fiscal year. All three key investor types (toshins, lifers, and pension funds) were net buyers of foreign securities in June, for the third month in a row (see ["Strong foreign investment continues in June"](#), 8 July 2014). We expect their foreign portfolio investment to remain strong, while Japanese corporate flows remain JPY negative.

Foreign flows into Japan also remain strong. Foreign investors continued to buy Japanese equities last week, for the second week in a row. Their Japanese equity investment may have a greater FX impact now than 12-18 months ago, as the hedge ratio may be lower (see ["Foreign equity flows into Japan and JPY"](#), 18 July 2014).

In addition, foreign demand for Japanese fixed income products has been relatively high, as yields declined recently (Figure 1). Even though the Fed and BoE are expected to withdraw their monetary accommodation gradually going forward, the latest decision by the ECB to add monetary stimulus, which encouraged a couple of other central banks to be more dovish, put downside pressure on global yields. This latest movement is likely to have increased the relative attractiveness of Japanese fixed income products. In fact, foreign investors have been accumulating Japanese fixed income products in tandem with the decline in global yields since 2011 (Figure 2). The pace of accumulation hence slowed in mid-2013, but their gradual accumulation of Japanese fixed income assets continues this year. While part of these flows is likely to be FX hedged, continuous foreign inflows into the Japanese fixed income market may also have been putting upside pressure on JPY, as well as foreign equity inflows.

Expected monetary tightening by the Fed and BoE will negatively influence foreign flows into the Japanese fixed income market, while the tightening will encourage Japanese investors to shift into foreign assets. The hedge ratios of Japanese and foreign investors will be also influenced. The flow picture is likely to be less JPY supportive into next year.

**Fig. 1: 10yr yields of major countries**



Note: First component is calculated based on sovereign yields of 32 countries.  
Source: Nomura, Bloomberg

**Fig. 2: Cumulative foreign investment in Japanese fixed income products and global yields**



Note: First component is calculated based on sovereign yields of 32 countries.  
Source: Nomura, MOF, Bloomberg

## Global Markets Research

31 July 2014

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## MOF international weekly capital flow data (20 - 26 July)

Japanese investors were net sellers of foreign bonds last week for the first time in three weeks, but continued to purchase foreign equities for the sixth week in a row (Figure 1). They sold JPY302bn (\$3.0bn) of foreign bonds, after purchasing JPY788bn of foreign bonds over the previous two weeks. US 10yr yields traded below 2.50% early last week, and the banking sector is likely to have to book profits ahead of the important events scheduled for this week, such as the FOMC meeting and the US NFP. Banks' dealing is unlikely to have influenced FX. Retail investors continued to purchase foreign bonds via toshins, to the tune of JPY26bn (\$2.6bn), according to NRI. Strong toshin momentum continues to support USDJPY, in our view (see ["Foreign investment via toshins continues"](#), 30 July 2014).

Although Japanese foreign bond investment has been volatile, as it is affected by banks' dealing flows without an FX impact, continued foreign equity buying by Japanese investors is worth noting. During the current JPY weakness, which began in late 2012, in the first phase Japanese investors, mostly pension funds and toshins were net sellers of foreign equities as they rebalanced their portfolios and booked profits. However, Japanese investors have been net buyers of foreign equities in 11 out of 16 weeks since the beginning of this fiscal year. Pension funds' investment behaviour is now changing ahead of the expected announcement of the GPIF's new basic portfolio, while toshin momentum gathers steam (see ["Outlook for asset shift at the GPIF and other public pension funds"](#), 16 July 2014). Trust banks, which manage pension fund money, were small net sellers of domestic equities last week, for the second week in a row, suggesting the full-scale portfolio shift by pension funds has not started yet. The healthy job market is expected to support toshin momentum going forward too. Thus, we expect foreign equity investment by Japanese investors to remain strong into H2 FY2014.

### 20 - 26 July 2014

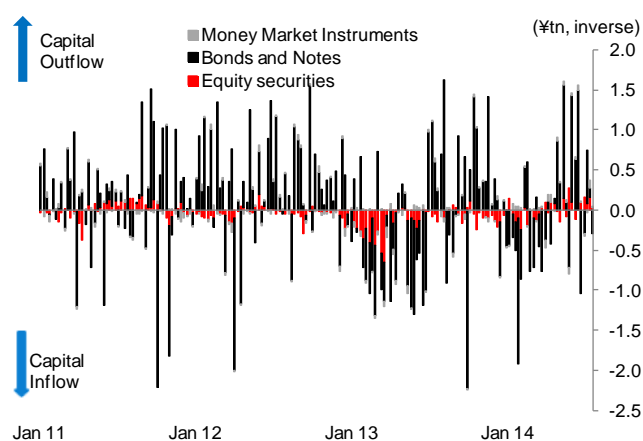
#### Japanese investors

- Foreign stocks: +JPY24bn, or +USD0.2bn (net buying = outflow)
- Foreign bonds: -JPY302bn, or -USD2.9bn (net selling = inflow)
- Foreign money markets: +JPY25bn, or +0.2USDbn (net buying = outflow)

#### Foreign investors

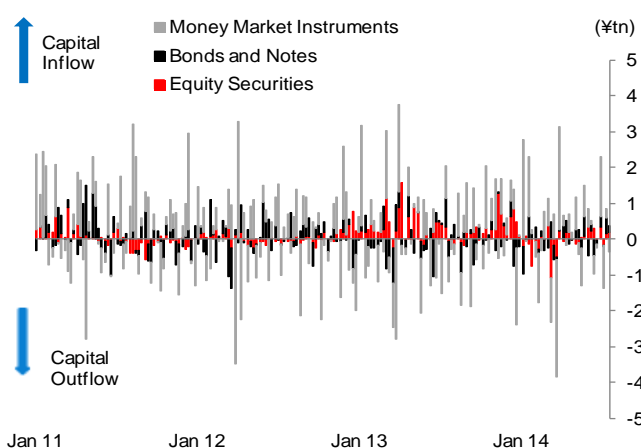
- Japanese stocks: +JPY205bn, or +US2.0bn (net buying = inflow)
- Japanese bonds: +JPY165bn, or +USD0.1bn (net buying = inflow)
- Japanese money markets: -JPY364bn, or -USD3.5bn (net selling = outflow)

**Fig. 3: Japanese investors' net purchases of foreign securities**



Source: Nomura, MOF

**Fig. 4: Foreign investors' net purchases of Japanese securities**

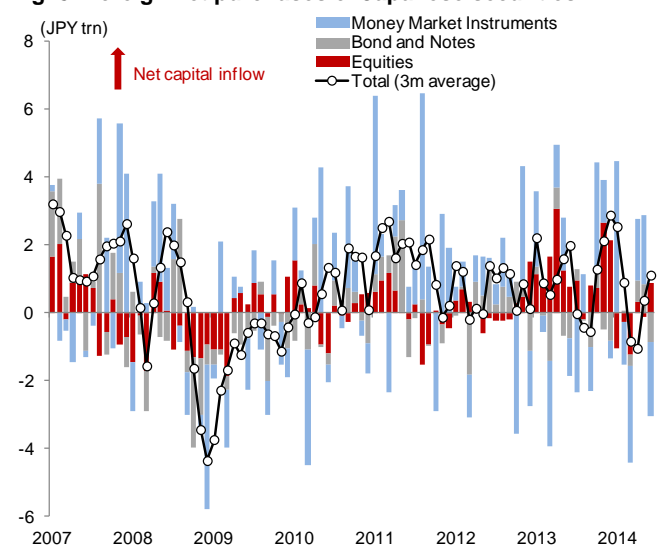


Source: Nomura, MOF

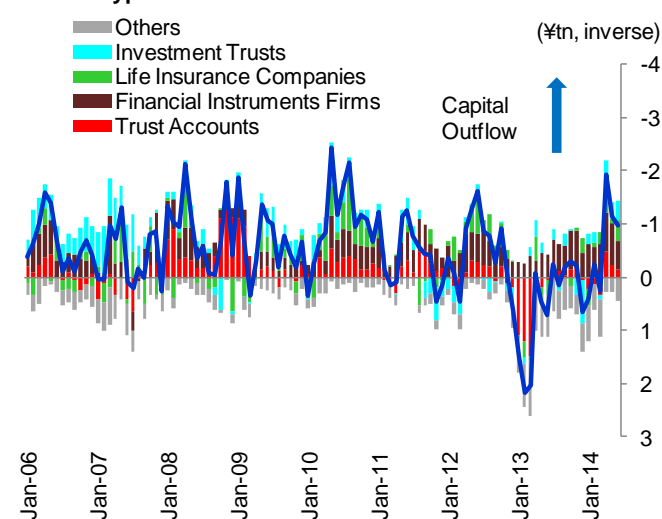
Appendix includes various figures and data on JPY flow

## MOF international monthly capital flow data and BOP

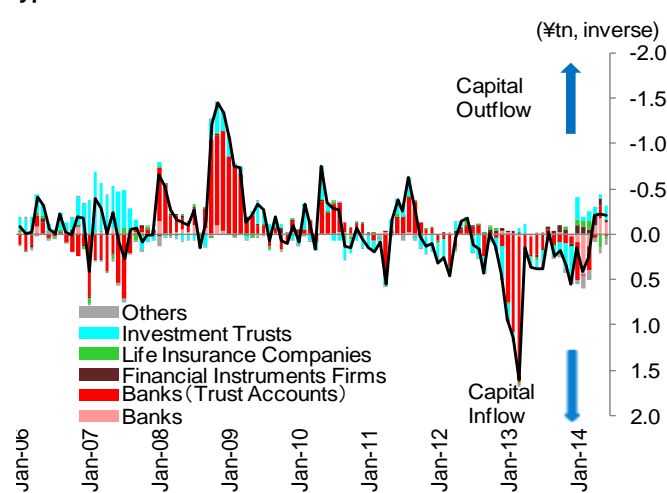
**Fig. 5: Foreign net purchases of Japanese securities**



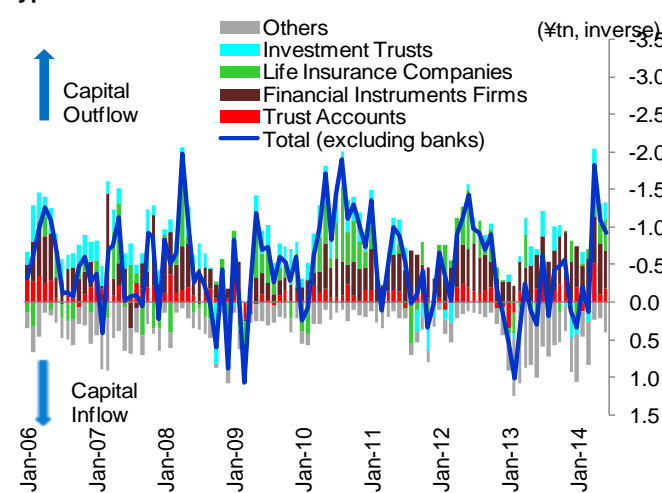
**Fig. 6: Japan's net purchases of foreign securities by investor type**



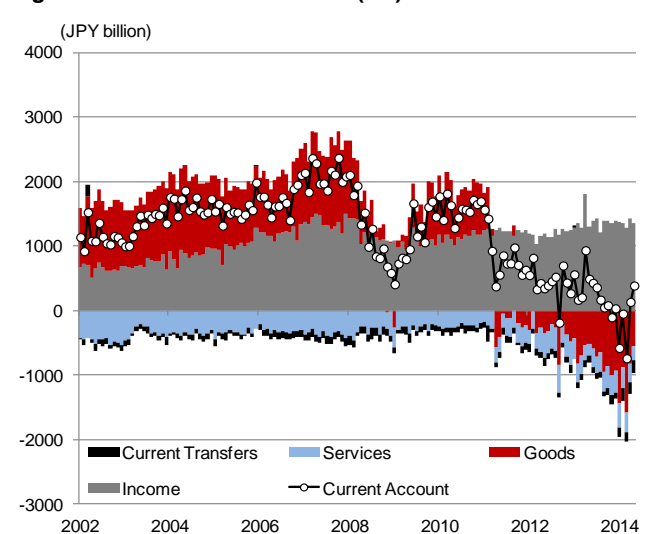
**Fig. 7: Japan's net purchases of foreign equities by investor type**



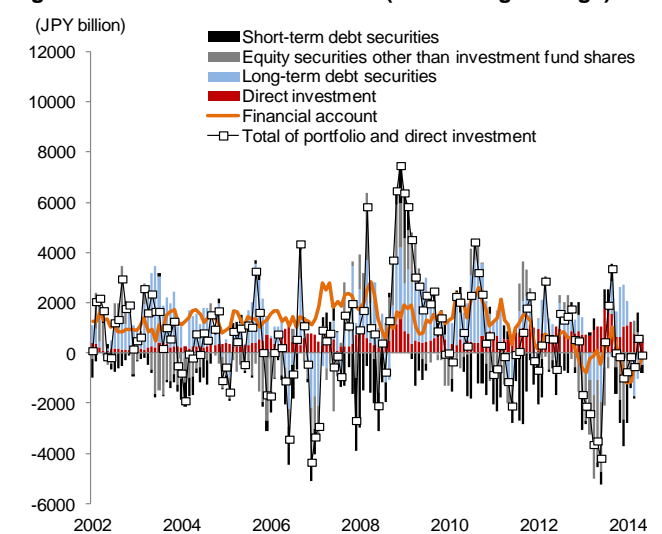
**Fig. 8: Japan's net purchases of foreign bonds by investor type**



**Fig. 9: Current account balance (SA)**



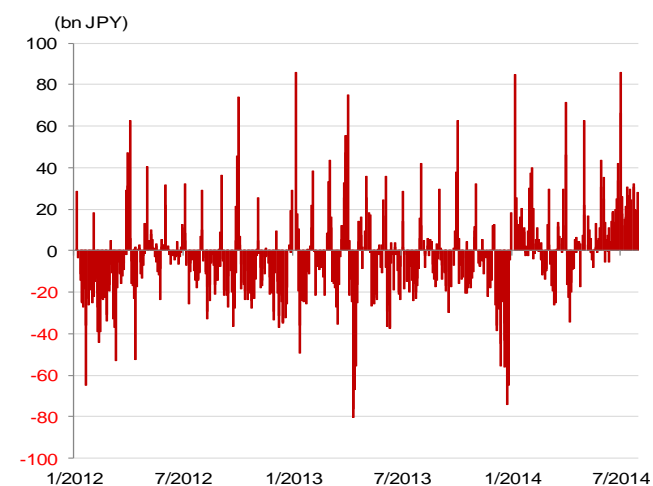
**Fig. 10: Financial account balance (3m moving average)**



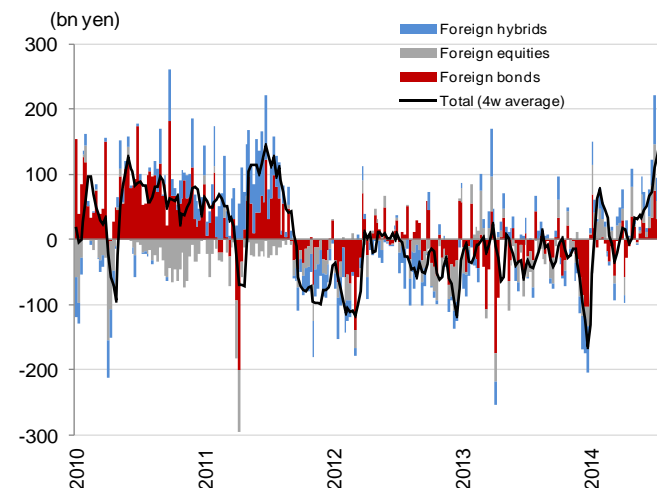
Source for all charts on this page: Nomura, MOF.

## Toshin market

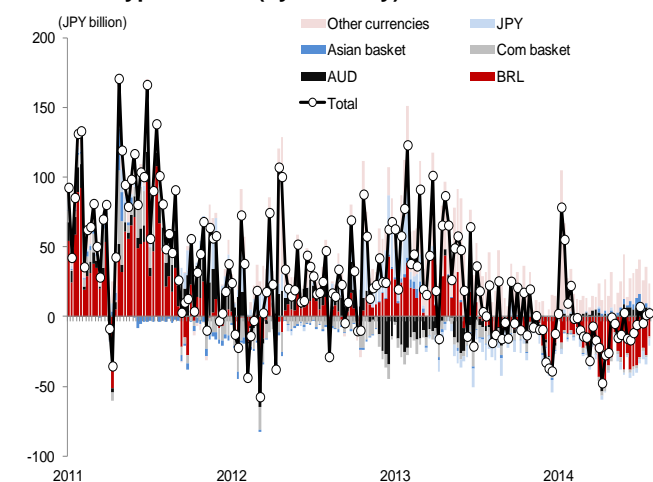
**Fig. 11: Net purchases of toshins investing in foreign securities (daily)**



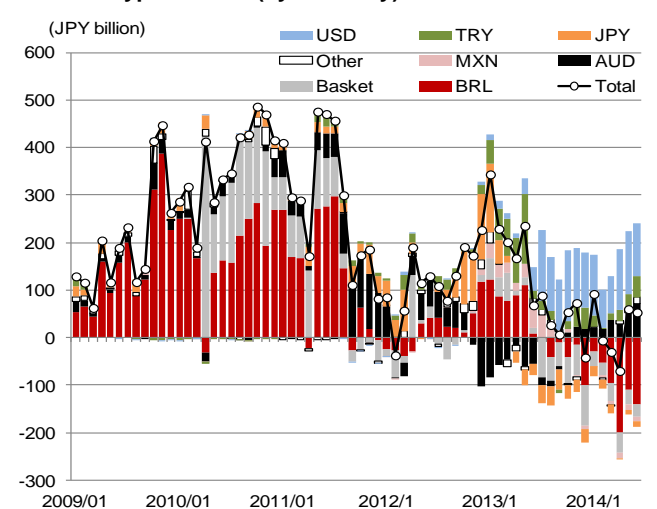
**Fig. 12: Net purchases of toshins investing in foreign securities (weekly)**



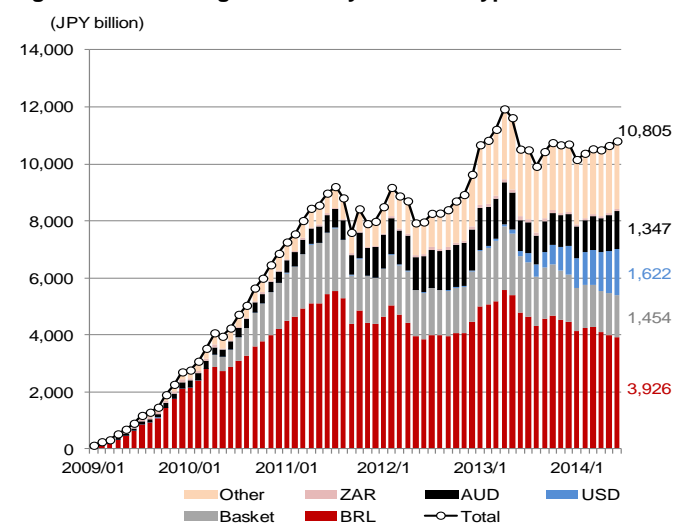
**Fig. 13: Estimated weekly retail investment via currency selection-type toshins (by currency)**



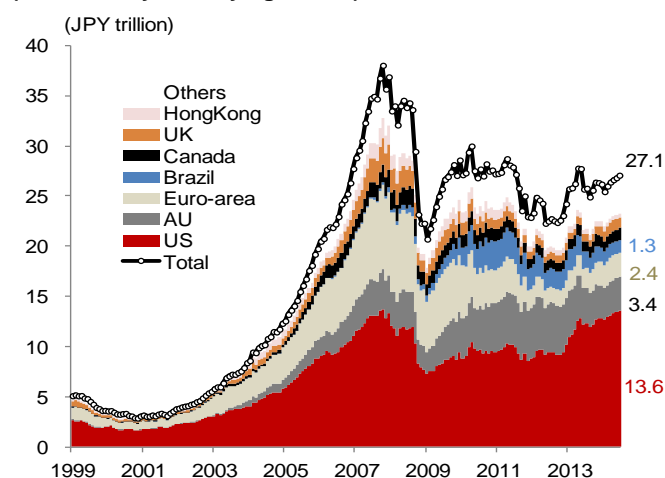
**Fig. 14: Estimated monthly retail investment via currency selection-type toshins (by currency)**



**Fig. 15: Outstanding of currency selection-type toshins**



**Fig. 16: Outstanding of toshins investing in foreign assets (classified by underlying assets)**



Source for all charts on this page: Nomura, Lipper-Japan, Investment trust association, Bloomberg, NRI.

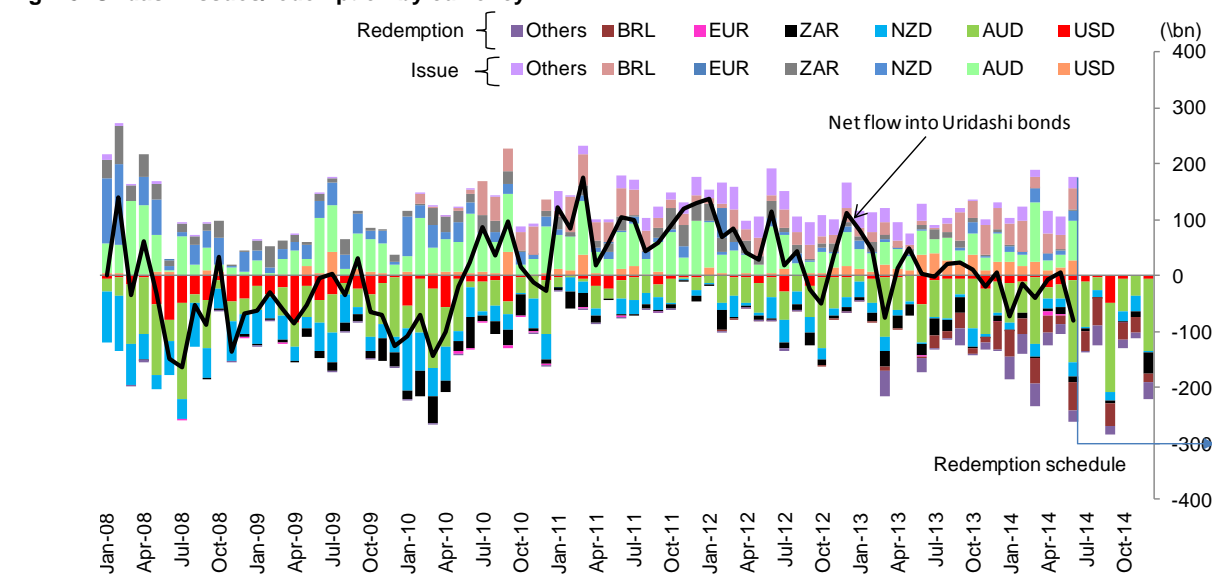
## Toshin schedule and Uridashi issuance

Fig. 17: Inception schedule of Japanese foreign currency toshin

Inception date	Fund name	Regional focus	Target size		(C) Net assets at inception	(C)/(A)	(C)/(B)
			(A) Max	(B) Initial			
8/11/14	NOMURA GLOBAL BOND FUND A	Global	200.0 bn yen	n.a.			
	NOMURA GLOBAL BOND FUND B	Global	200.0 bn yen	n.a.			
	NOMURA GLOBAL BOND FUND C	Global	200.0 bn yen	n.a.			
	NOMURA GLOBAL BOND FUND D	Global	200.0 bn yen	n.a.			
	NOMURA GLOBAL BOND FUND E	Global	200.0 bn yen	n.a.			
	NOMURA GLOBAL BOND FUND F	Global	200.0 bn yen	n.a.			
8/8/14	DAIWASB NB MULTI STGY SMA	Global	10.0 bn yen	n.a.			
8/1/14	DIAM MEDICAL SCIENCE FUND	Global	10.0 bn yen	n.a.			
7/31/14	GLBL PREFE RD STCK 1407 NH LO	Global	80.0 bn yen	n.a.			
	NOMURA JP US GOVT BOND F LO	US/Japan	50.0 bn yen	n.a.			
	AMUNDI GLB STRGY EQ F MON	Global	100.0 bn yen	n.a.			
	AMUNDI GLB STRGY EQ F SEAN	Global	100.0 bn yen	n.a.			
	MUAM BANK LOAN USDJPY PRM SA	US	50.0 bn yen	n.a.			
	MUAM BANK LOAN USDJPY PRM MO	US	50.0 bn yen	n.a.			
	PICTET GLB INCM EQ MON FLEX	Global	50.0 bn yen	n.a.			
	PICTET GLB INCM EQ ANN FLEX	Global	50.0 bn yen	n.a.			
7/29/14	SMAM ASHMORE EM ST BD AG NH	Emerging	500.0 bn yen	n.a.			
	SMAM ASHMORE EM ST BD MO NH	Emerging	500.0 bn yen	n.a.			
7/29/14	PINEBRIDGE DOUBLE ENGINE1407	Brazil	30.0 bn yen	n.a.	1.4 bn yen	4.5 %	n.a.
7/28/14	TKO MRN JREIT FD USD MON DIV	Japan	50.0 bn yen	n.a.	0.0 bn yen	0.0 %	n.a.
	TKO MRN JREIT FD USD SAN DIV	Japan	50.0 bn yen	n.a.	0.0 bn yen	0.0 %	n.a.
	TKO MRN JREIT FD MXN SAN DIV	Japan	50.0 bn yen	n.a.	0.0 bn yen	0.0 %	n.a.
	TKO MRN JREIT FD MXN MON DIV	Japan	50.0 bn yen	n.a.	0.0 bn yen	0.0 %	n.a.
7/25/14	MUAM GL FI IN HY SE NHG 1407	Global	60.0 bn yen	n.a.	15.5 bn yen	25.8 %	n.a.
7/22/14	DIAM BEST SELECTED US EQUITY	US	100.0 bn yen	n.a.	2.0 bn yen	2.0 %	n.a.
7/17/14	NISSAY EUROPE EQ BEST FL INV	Europe	105.0 bn yen	n.a.	26.8 bn yen	25.5 %	n.a.
	NISSAY EUROPE EQ BEST RSK CN	Europe	105.0 bn yen	n.a.	18.1 bn yen	17.2 %	n.a.
7/14/14	NIKKO HAMAGIN NZ BOND 1407	New Zealand	30.0 bn yen	n.a.	2.8 bn yen	9.5 %	n.a.
7/9/14	MHAM INCOM BUILDER SAN WCA	Global	100.0 bn yen	n.a.	0.2 bn yen	0.2 %	n.a.
	MHAM INCOM BUILDER MON WCA	Global	100.0 bn yen	n.a.	0.2 bn yen	0.2 %	n.a.

Source: Nomura, Bloomberg

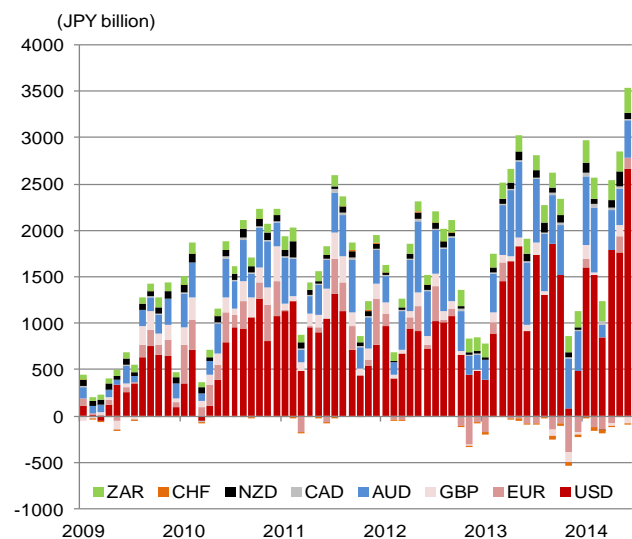
Fig. 18: Uridashi issues/redemption by currency



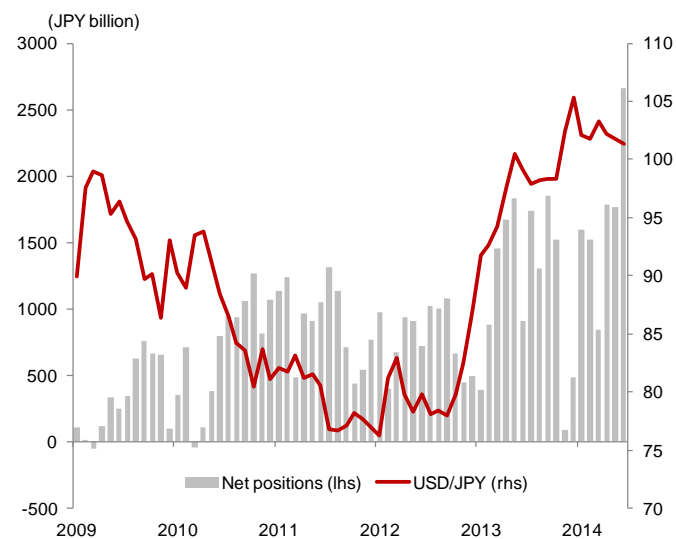
Source: Nomura, Bloomberg

## Margin trades (Mrs. Watanabe)

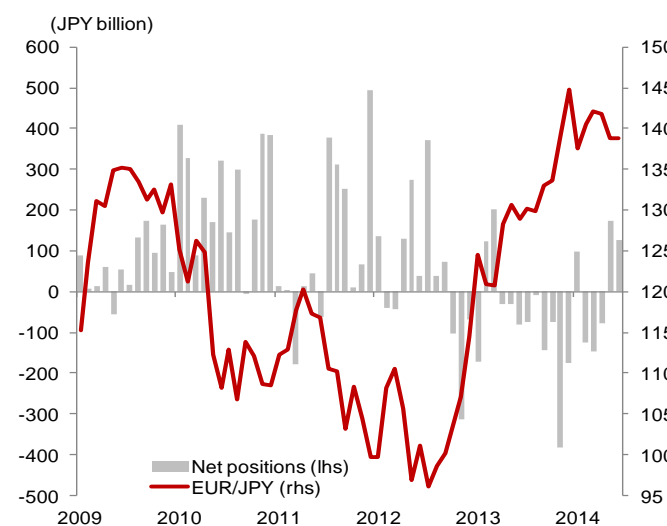
**Fig. 19: JPY selling margin trade positions at OTC**



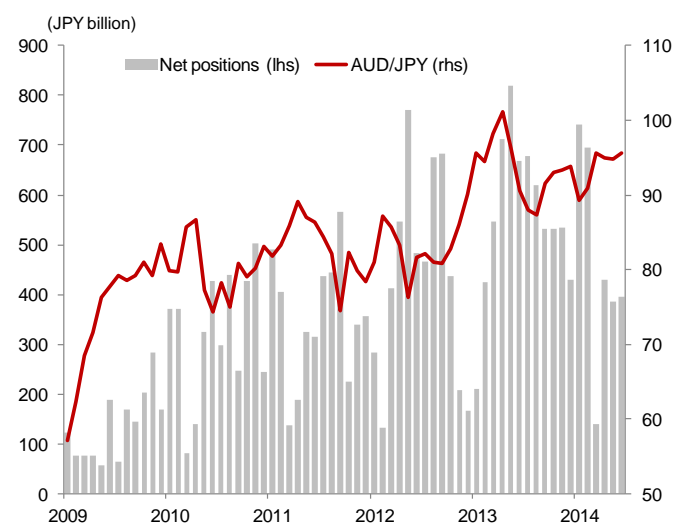
**Fig. 20: USDJPY and margin trade positions at OTC**



**Fig. 21: EURJPY and margin trade positions at OTC**



**Fig. 22: AUDJPY and margin trade positions at OTC**



Source for all charts on this page: Nomura, Bloomberg, Financial Futures Association of Japan.

## JPY forecast

Fig. 23: JPY forecast

		2014/7/31	Q3 14	End 2014	Q1 15	Q2 15	Q3 15	Q4 15
<b>G10</b>								
US Dollar	(USD/JPY)	102.8	108	112	114	116	117	118
Euro	(EUR/JPY)	137.7	143	146	147	148	147	148
	(EUR/USD)	1.339	1.32	1.30	1.29	1.28	1.26	1.25
Swiss Franc	(CHF/JPY)	113.1	116.1	117.9	117.5	117.2	115.8	115.7
	(USD/CHF)	0.91	0.93	0.95	0.97	0.99	1.01	1.02
British Pound	(GBP/JPY)	173.9	180	187	188	193	193	194
	(GBP/USD)	1.691	1.67	1.67	1.65	1.66	1.65	1.64
Australian Dollar	(AUD/JPY)	95.8	102	103	103	104	106	109
Canadian Dollar	(CAD/JPY)	94.3	96	97	99	101	104	106
New Zealand Dollar	(NZD/JPY)	87.5	93	95	95	96	98	100
Norwegian Krone	(NOK/JPY)	16.4	17.7	18.2	18.4	18.8	18.9	18.9
Swedish Krona	(SEK/JPY)	14.9	15.6	15.8	16.2	16.5	16.6	16.8
<b>Asia</b>								
Chinese Renminbi	(CNY/JPY)	16.65	17.7	18.5	18.8	19.2	19.4	19.6
Hong Kong Dollar	(HKD/JPY)	13.27	13.9	14.4	14.6	14.8	14.9	15.1
Indonesian Rupiah	(100IDR/JPY)	0.89	0.89	0.91	0.90	0.91	0.92	0.93
Indian Rupee	(INR/JPY)	1.71	1.83	1.93	1.98	2.02	2.05	2.09
Korean Won	(100KRW/JPY)	10.00	10.7	11.1	11.2	11.3	11.5	11.6
Malaysian Ringgit	(MYR/JPY)	32.22	33.4	34.4	34.5	34.8	35.2	35.8
Philippine Peso	(PHP/JPY)	2.37	2.49	2.60	2.66	2.72	2.76	2.80
Singapore Dollar	(SGD/JPY)	82.5	86	88	88	90	91	91
Thai Baht	(THB/JPY)	3.21	3.28	3.35	3.36	3.38	3.41	3.44
Taiwan Dollar	(TWD/JPY)	3.43	3.58	3.68	3.73	3.77	3.80	3.83
<b>Europe and Africa</b>								
Czech Koruna	(CZK/JPY)	5.00	5.6	5.7	5.8	5.9	6.0	4.82
Hungarian Forint	(HUF/JPY)	0.44	0.46	0.46	0.47	0.48	0.47	0.38
Polish Zloty	(PLN/JPY)	33.10	36.1	37.3	38.1	38.8	38.9	31.47
Israeli Shekel	(ILS/JPY)	29.99	29.6	30.7	31.1	31.5	31.7	31.89
Russian Ruble	(RUB/JPY)	2.90	3.13	3.20	3.26	3.31	3.34	3.37
Turkish Lira	(TRY/JPY)	48.22	49	52	53	54	54	54.88
South African Rand	(ZAR/JPY)	9.63	10.5	10.7	0.0	0.0	0.0	12.10
<b>Latin America</b>								
Brazilian Real	(BRL/JPY)	45.8	45	46	46	47	47	47
Chilean Peso	(CLP/JPY)	0.180	0.206	0.211	0.213	0.215	0.215	0.215
Mexican Peso	(MXN/JPY)	7.81	8.2	8.6	8.8	9.0	9.1	9.3
Colombian Peso	(10COP/JPY)	0.55	0.56	0.57	0.57	0.57	0.57	0.56
Argentina Peso	(ARS/JPY)	12.6	12.7	12.3	10.9	9.8	8.9	8.1

Source: Nomura, Bloomberg



# Appendix A-1

## Analyst Certification

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