

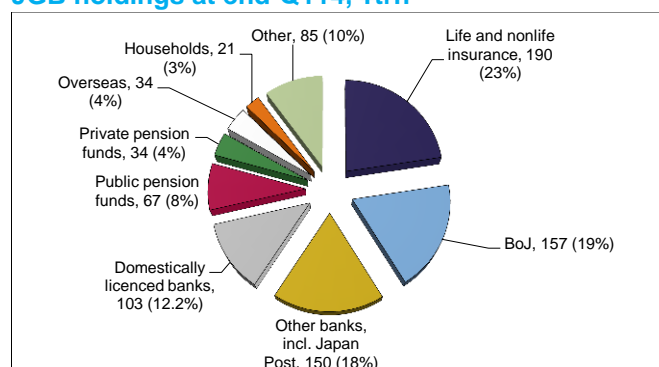
Yen Data Review: Q114 Flow of Funds

Emily Nicol

Economic Research Team +44 20 7597 8331

- The BoJ's latest flow-of-funds data, published today, provided new insights into the impact on investor behaviour of its massive monetary easing (QQE) one year on from its launch.
- Unsurprisingly, the direct impact of the BoJ's actions remains clear to see, with its holdings of JGBs increasing by ¥12trn in Q1 to a record high of ¥157trn. That took the cumulative increase in its JGB holdings in FY13 to more than ¥61trn and increased its share of the market (excluding bills) by almost 1½ppts to 18.7%, the highest since the series began in 1980. Including bills, the BoJ's share of the market rose above 20% for the first time, to overtake Japanese insurers as the largest holder.
- The BoJ's bond buying almost fully absorbed net new issuance. Meanwhile, Japanese life insurers were net sellers of JGBs (by ¥1trn) for the first quarter since Q408 and by the largest amount on record. In contrast, domestically licenced banks were net buyers for the first quarter since the start of QQE, although this still left their share of the market (12.2%) at the lowest for four years. And more recent monthly data suggest that banks reduced their JGB holdings at the start of Q2. But while bank lending increased further at the start of Q2, and today's confirmation that loan disbursements from the BoJ under its 'Stimulating bank lending facility' stepped up a gear in June also raises hopes for a further increase in lending over the near term, banks primarily continue to channel funds into current account deposits held at the BoJ.
- Today's data also suggest that there remains little evidence that QQE has yet to have the intended impact of driving investors out of safe low-yielding assets and into the riskier assets that might help to revitalise the economy. For example, despite negative real interest rates, non-financial corporations increased their holdings of currency and deposits by more than ¥10trn to a record ¥243trn (almost 25% of their total assets and equivalent to almost 50% of GDP). Total currency and deposits held by households in Q1 was only just off the record high to account for more than 50% of their assets and equivalent to a whopping 178% of GDP!
- The disappointing recent performance of Japan's equity markets has eroded some of the wealth gains of the early days of Abenomics – despite increasing their domestic equity holdings for the first quarter in six and by almost ¥2trn, the value of households' equity holdings was down around ¥7.5trn in Q1. In contrast, although Japanese households reduced slightly their holdings of overseas securities, the value of that stock rose to the highest on record (albeit less than 1% of their total assets).
- Insurers increased very slightly their exposure to overseas securities (taking the share 0.1ppt higher to 13.6%). But JGBs still account for the lion's share of their assets, at 45%. JGBs also account for the largest share of pension funds' assets, a little more than one third. But the share of their funds held in overseas securities rose above 30% for the first time, almost 10ppts more than the equivalent share held by their public sector equivalents. Of course, government plans to shake up the portfolio allocation of the GPIF means that shifts in the public pension fund sector should be most closely watched over coming quarters.

JGB holdings at end-Q114, ¥trn*



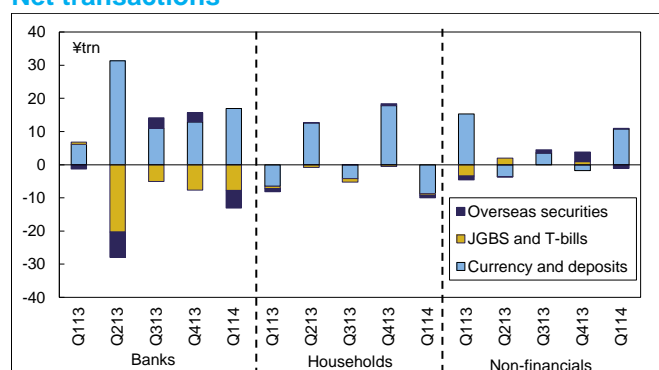
*Figures in parenthesis represent market share. Excluding bills. Source: BoJ

JGB market share (%) at end-quarter*

	Q113	Q213	Q313	Q413	Q114
Banks**	15.1	12.9	12.6	12.3	12.2
Insurance firms	23.4	23.2	23.1	22.9	22.6
BoJ	11.6	14.0	15.7	17.3	18.7
Overseas	4.4	4.2	4.1	4.1	4.1
Public pension funds	8.5	8.6	8.4	8.3	8.0
Private pension funds	4.1	4.0	4.0	4.0	4.0
Households	3.0	2.9	2.7	2.6	2.5

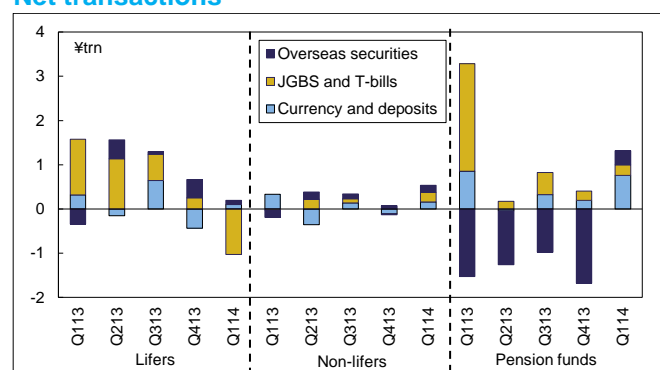
*Excluding bills. **Domestically licenced. Source: BoJ

Net transactions



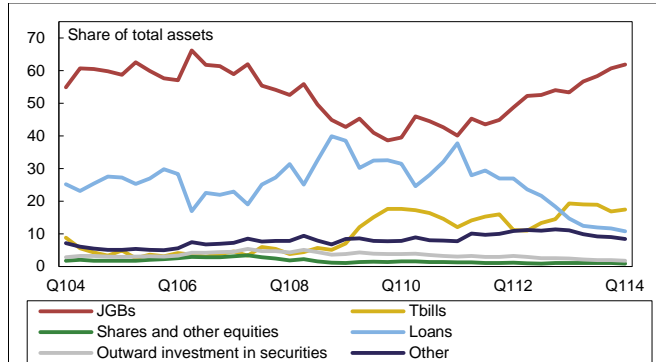
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Net transactions

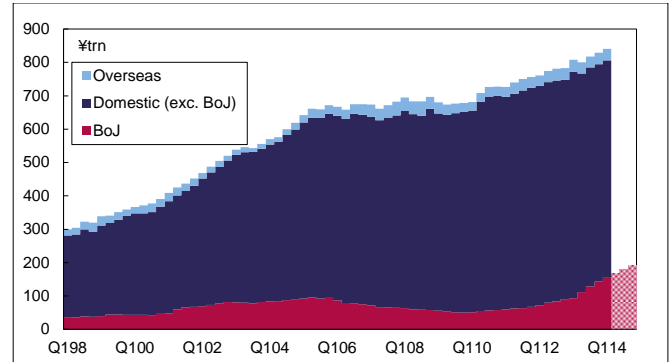


Source: BoJ and Daiwa Capital Markets Europe Ltd.

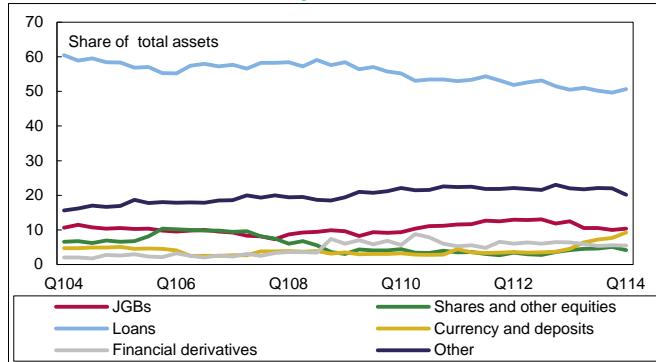
Financial assets held by the BoJ



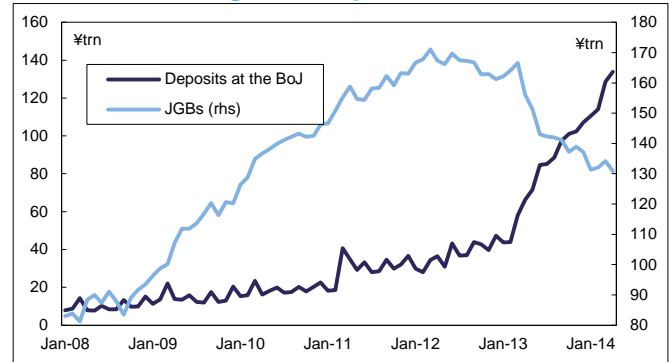
JGB holdings by domestic and overseas investors*



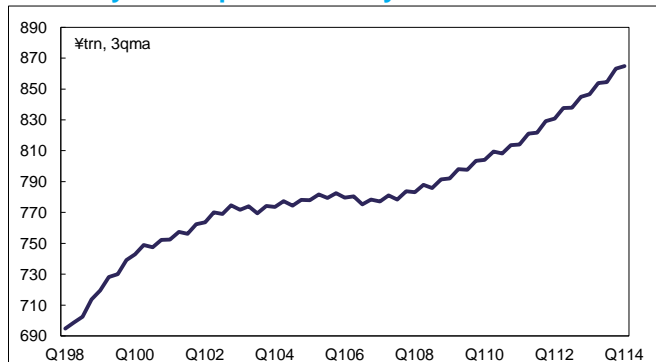
Financial assets held by banks



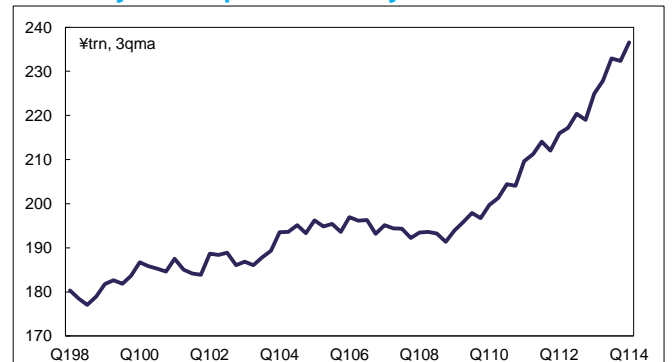
Bank JGB holdings and deposits held at BoJ*



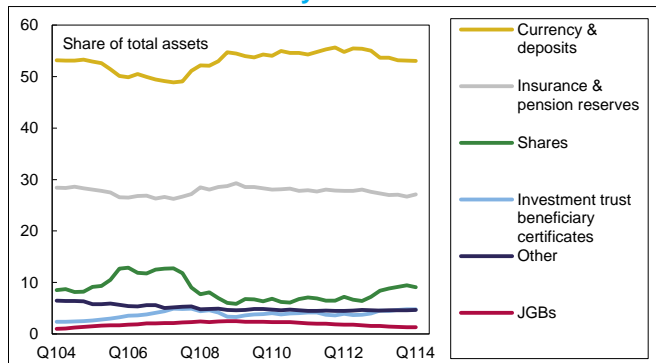
Currency and deposits held by households



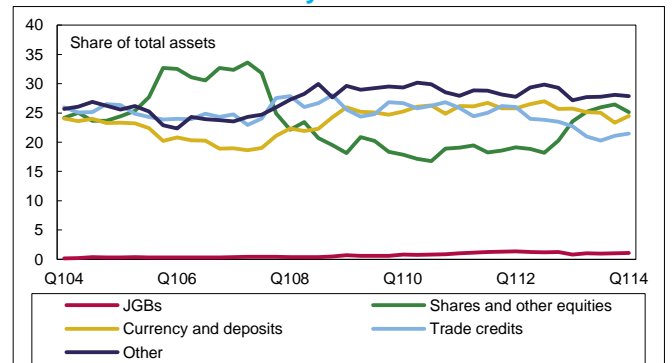
Currency and deposits held by non-financial firms



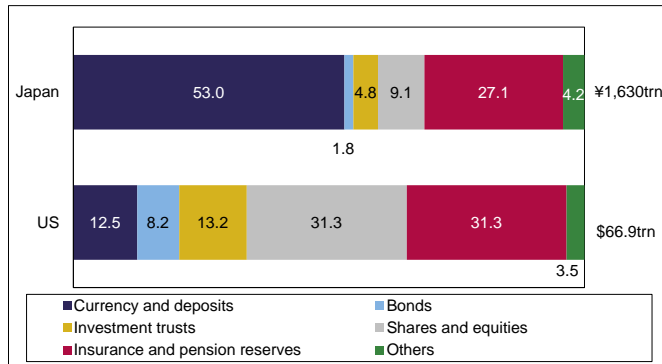
Financial assets held by households



Financial assets held by non-financial firms

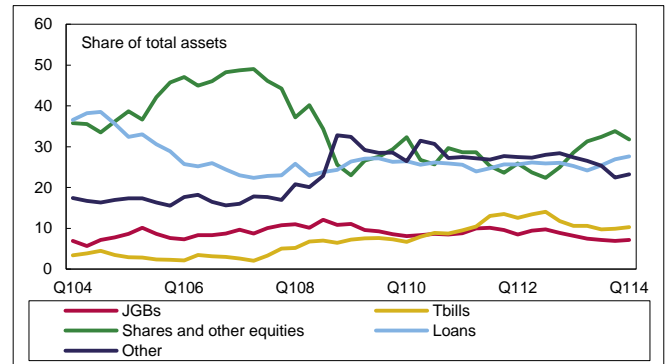


Share of financial assets held by households*



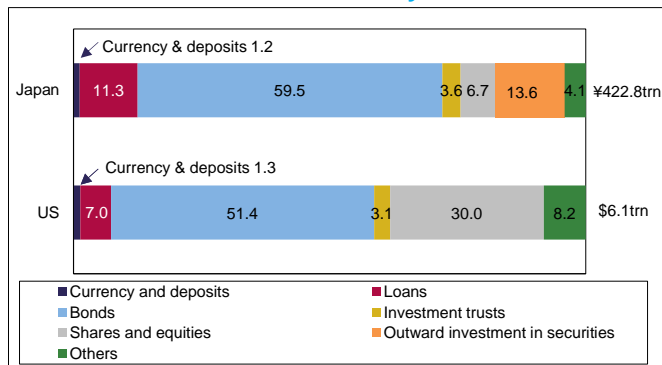
*Q114. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Japanese financial assets held by foreigners



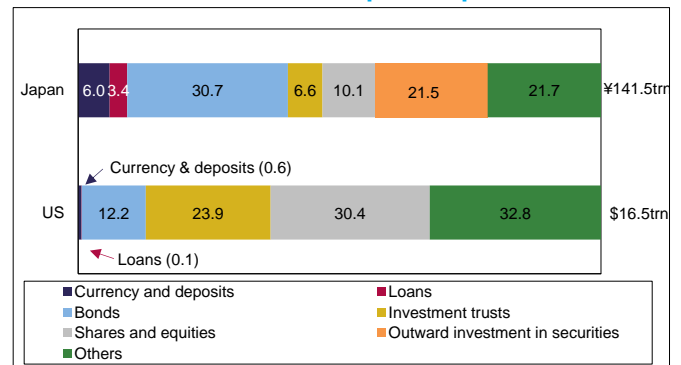
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets held by insurance firms*



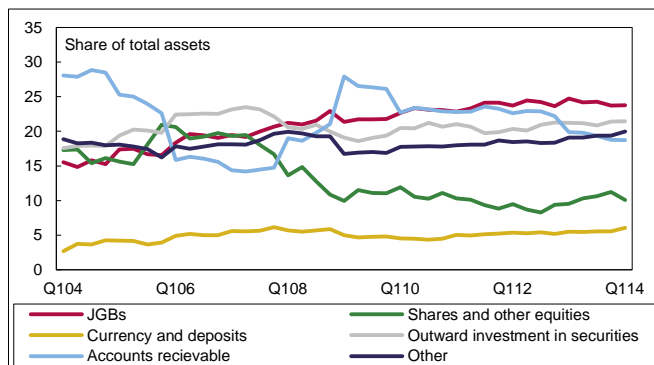
*Q114. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Share of financial assets of private pension funds*



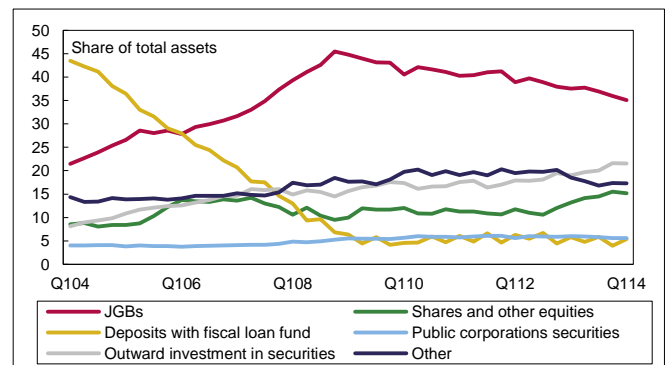
*Q114. Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by private pension funds



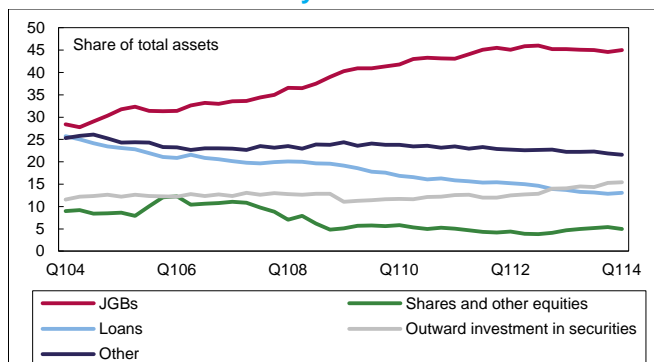
Source: BoJ and Daiwa Capital Markets Europe Ltd.

Financial assets held by public pension funds



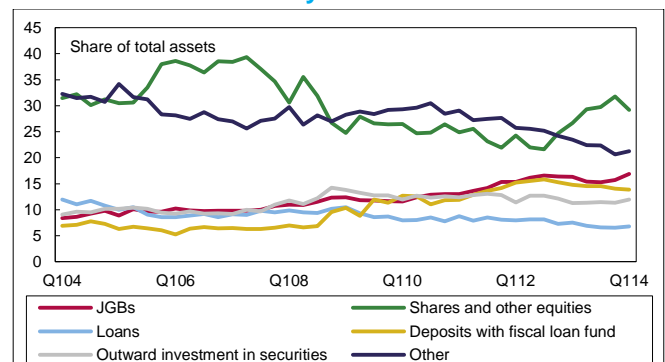
Source: BoJ and Daiwa Capital Markets Europe Ltd.

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.

Economic Research

Key contacts

London

Head of Research	<i>Grant Lewis</i>	+44 20 7597 8334
Head of Economic Research	<i>Chris Scicluna</i>	+44 20 7597 8326
Euro Area Economist	<i>Robert Kuenzel</i>	+44 20 7597 8322
Economist	<i>Emily Nicol</i>	+44 20 7597 8331
Credit Analyst	<i>Jakub Lichwa</i>	+44 20 7597 8466
Research Graduate	<i>Mantas Vanagas</i>	+44 20 7597 8318
Research Assistant	<i>Alice Tallents</i>	+44 20 7597 8332

New York

Chief Economist	<i>Mike Moran</i>	+1 212 612 6392
Junior Economist	<i>Lawrence Werther</i>	+1 212 612 6393

Hong Kong

Economist	<i>Kevin Lai</i>	+852 2848 4926
Research Associate	<i>Christie Chien</i>	+852 2848 4482
Economic Assistant	<i>Junjie Tang</i>	+8610 6500 6688

London Translation

Head of Translation, Economic and Credit	<i>Mariko Humphris</i>	+44 20 7597 8327
------------------------------------------	------------------------	------------------

DAIR <GO>

All of the research published by the London and New York research teams is available on our Bloomberg page at DAIR <GO>. If you are unable to access the research on this page, please contact Sally Bomford on +44 207 597 8332.

Access our research blog at:

<http://www.uk.daiwacm.com/research-zone/research-blog>



Follow us
[@DaiwaEurope](https://twitter.com/DaiwaEurope)

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange and Eurex Exchange. Daiwa Capital Markets Europe Limited and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of Daiwa Capital Markets Europe Limited and its affiliates may have positions and effect transactions in such securities or options and may serve as Directors of such issuers. Daiwa Capital Markets Europe Limited may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <http://www.daiwausa.com/>.