

“Equity Investment by Foreign Investors” A Key to the Japanese Stock Market

1. How to Capture Equity Investment by Foreign Investors?

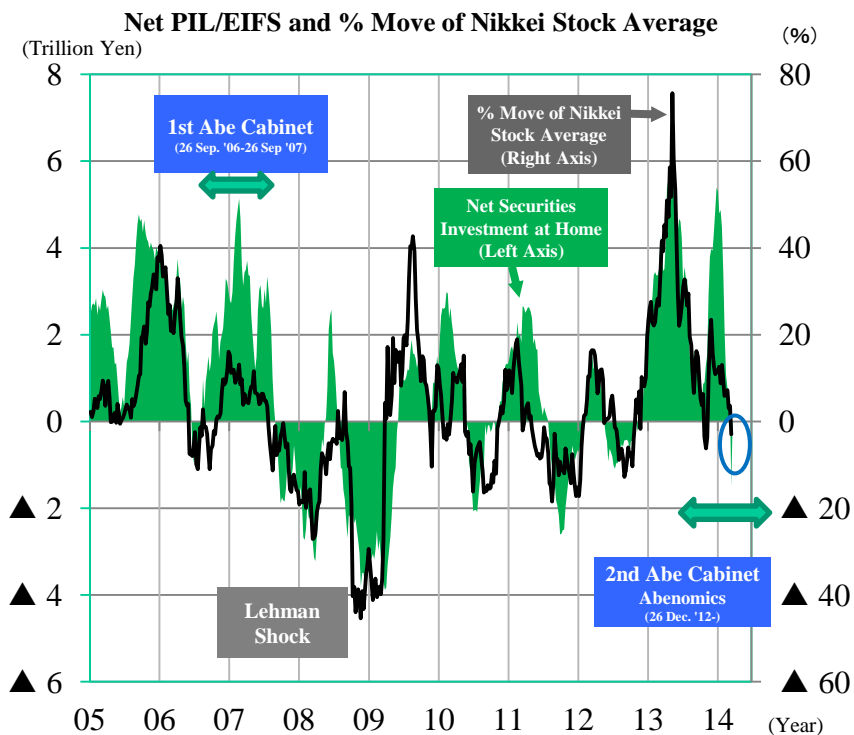
It can be captured by a statistics called “Portfolio Investment Liabilities / Equity & Investment Fund Shares (PIL/EIFS)” under “International Transactions in Securities” published by the Ministry of Finance Japan.

“International Transactions in Securities” is based on reports from the banks and financial instruments specialist (the designated investors) appointed by the Ministry of Finance Japan.

2. Latest Trend

There is a strong correlation between the trend of net transaction (purchase minus sales) of PIL/EIFS and that of Nikkei Stock Average.

For example, since the launch of second Abe Cabinet, accumulated net transaction value was continuously being the significant net purchase. However, entering into second week of March, % move of Nikkei Stock Average (compared to 24 weeks ago) turned negative and a net transaction turned into significant net sales of approx. 1trillion and 92billion yen. It was first time that the net sales exceeded 1 trillion yen on a weekly bases since “International Transactions in Securities” was published in January 2005.



(Note 1) Data Horizon is from Jan. 2005 to Mar. 2014. March is till 14th. Weekly bases.

(Note 2) Net PIL/EIFS: 12 weeks accumulated amount of Purchase minus Sales.

(Note 3) % move of Nikkei Stock Average: Compared to 24 weeks ago.

(Source) Produced by SMAM based on data from “International Transactions in Securities” (the Ministry of Finance Japan) and Datastream.

3. Future Outlook

One of the background of foreign investors being net seller could be attributed to weakening risk appetite because of the worsening Chinese economic data and escalation of tension in Ukraine, however, we tend to believe that the biggest reason could be the ambiguity of the Japanese economic outlook. We think that the central focus of the market going forward will be on the impact of consumer spending tax hike (April) to the Japanese macro economy, however, another focus could be on whether the foreign investors will continue to be a net seller or turned to be a net buyer which is a key to the Japanese stock market.

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