Central bank purchases of Japanese equity ETFs continue to grow

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Bank of Japan (BoJ) cumulative ETF purchases


2016
Annual purchase target of ETFs raised from ¥3.3 trillion (0.7% of GDP) to ¥6 trillion (1.2% of GDP).

2019
Today the BoJ total stock of ETFs stands at c. ¥25 trillion – approx. 5% of Japan’s nominal GDP.

2021
At the current rate of purchases, the BoJ could become the single largest holder of Japanese stocks in two years.


But latest economic data shows some signs of recovery…

Business investment increased 8.8% Q-o-Q (Q4 of 2018)

Unemployment is only 2.3%, down 0.2% M-o-M (February 2019)

There are a couple of ways of looking at the purchases of Japanese equity exchange-traded funds (ETFs), a form of quantitative easing, by the Bank of Japan.

The negative approach taken by some commentators points to its distortionary potential and queries whether there could be some unintended consequences down the line, such as over-valuation of some stocks and sectors.

Taking a different view, it is worth considering the credentials of the Bank of Japan. As far as shareholders go, the central bank of the third-largest economy in the world would appear to be a fairly stable one, unlikely to start selling down its holdings, and thus reversing its accommodative stance, for many years.

There are additional factors investors could look at to inform a constructive longer-term outlook for the Japanese market. These include positive wage growth, continued gross domestic product (GDP) growth and improving corporate governance.

On this last point, in 2012 when Prime Minister Shinzo Abe first talked about corporate governance, some 45% of Tokyo Stock Exchange-listed companies had no external directors. That percentage fell to 0.2% in 2018. During the same period the percentage of companies with three or more external directors has increased from around 13% to more than 40%.

When it comes to assessing the potential for the erosion of market oversight of the corporate sector, this growing culture of governance gives us some comfort and could appear to compensate for BoJ ownership of c4% of the Japanese equity market.

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*Source: Japan Association of Corporate Directors. Data as of August 2018.*
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