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Considering ETF purchases ▶

BOJ a top shareholder of Japanese electronic parts makers

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TOKYO -- It was almost two years ago that the Bank of Japan decided to increase its purchases of exchange-traded funds as part of its "new paradigm" in monetary policy. Although there is little information to go by, the central bank appears to have ended up as a major, though invisible, shareholder of Fast Retailing and other pieces of corporate Japan.

ETF are financial instruments that track an index, like the Nikkei Stock Average. The instruments can be bought and sold like stock.

The BOJ does not say when it is about to buy ETFs; it also does not disclose what types of ETFs it is going to buy or has bought.

On any dip

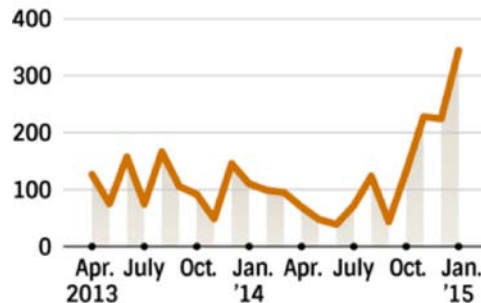
It is generally believed that since 2013 the BOJ was basing its ETF purchases on the so-called 1% rule: Whenever the Topix index were to fall more than 1% during the morning session, the bank would step in to buy ETFs during the afternoon session. Recently, though, the BOJ's buying behavior changed, according to Kazuhito Suzuki, a senior strategist at Shinkin Asset Management.

In January, the BOJ purchased ETFs on 10 days, almost every other trading day, spending 344.3 billion yen (\$2.8 billion) during the month. Both the number of days and yen amount were record highs since the BOJ began aggressively flooding Japan's financial system with yen in April 2013.

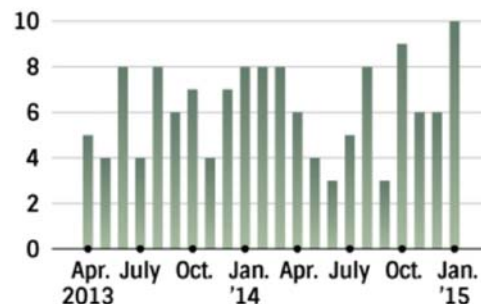
That is a lot of ETFs. Consider that trust banks in the same month spent a net 520 billion yen on stocks.

Bank of Japan's monthly purchases of exchange-traded funds

Amount purchased; in billions of yen



Number of days purchased



Market data

Nikkei 225	17,652.68	-59.25	-0.33%
DJIA	17,868.76	+139.55	+0.79%
Hang Seng	24,315.02	-213.08	-0.87%
USD/JPY	119.65	+0.93	+0.78%
USD/CNY	6.24	±0.00	±0.00%

Data delayed by at least 15 minutes.

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It seems that the BOJ in January stepped in to buy ETFs whenever the Topix fell, no matter how slightly. This ultra-aggressive posture is part of the central bank's additional easing efforts, announced in October. That month, the bank said it would increase its outstanding ETF holdings by about 3 trillion yen during 2015 (it projected it would own 3.8 trillion yen worth of ETFs at the end of 2014).

More than half

The BOJ purchases ETFs linked to the Nikkei index, the Topix index and JPX-Nikkei Index 400 but "does not disclose the amount or type of ETFs purchased, including at news conferences," a BOJ media relations representative said.

Nevertheless, Mitsushige Akino, executive director at Ichiyoshi Asset Management, and other industry executives say there is widespread market speculation that more than 50% of the BOJ's ETF purchases are linked to the Nikkei index.

The speculation seems to be based on the BOJ's principal terms and conditions for ETF purchases, which state, "The maximum amount of each ETF to be purchased shall, pursuant to the relevant rules of the Bank, be set so that the Bank's purchase would roughly be proportionate to the total market value of that ETF issued."

Based on this condition, it is assumed that 54% of the BOJ's ETFs are linked to the main Nikkei index, 42% to the Topix and 4% to the JPX-Nikkei Index 400.

But some market experts believe more than 50% of the BOJ's ETFs are linked to the Topix, which is comprised of all issues listed on the Tokyo Stock Exchange's first section. If this is the case, the likely explanation is that the BOJ is spreading its purchases between the Topix and the Nikkei index -- Tokyo's main share price barometer -- out of a sense of fairness.

Raising share prices

The BOJ has been clear as to why it is purchasing ETFs -- to help stock prices move up by reducing the risk premiums investors expect when buying ETFs.

Shingo Ide, chief researcher at the NLI Research Institute, looked at the decline in risk premiums since November 2012, when former Prime Minister Yoshihiko Noda called for a snap election. At that point, the market knew the BOJ would go in a new direction. From then through the end of last month, the Nikkei index gained nearly 9,000 points. According to Ide's analysis, 80% of that gain was due to improved corporate earnings, and the remaining 20% (more than 1,700 points) to the reduction in risk premiums that the BOJ orchestrated.

To gauge the effects on individual companies, Ide estimated the BOJ's stockholdings in individual companies via its ETF purchases from April 2013 through Feb. 2 of this year. According to Ide's estimates, the BOJ essentially has large stakes in Advantest, a Tokyo-based company that makes testing equipment for semiconductors, Fast Retailing, the parent company of the Uniqlo apparel chain, as well as electronic parts makers like Mitsumi Electric, Taiyo Yuden and TDK.

If an ETF holder qualified as a stockholder, the BOJ would be Mitsumi Electric's and TDK's fourth-largest shareholder and Taiyo Yuden's sixth-largest, according to the estimates.

Shares in Mitsumi Electric jumped more than 70% from when the BOJ began its new paradigm in easing through last month, far exceeding the Topix's 40% increase. Not all of Mitsumi Electric's strong share price gain is attributable to the BOJ, but the central bank did have an impact.

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