



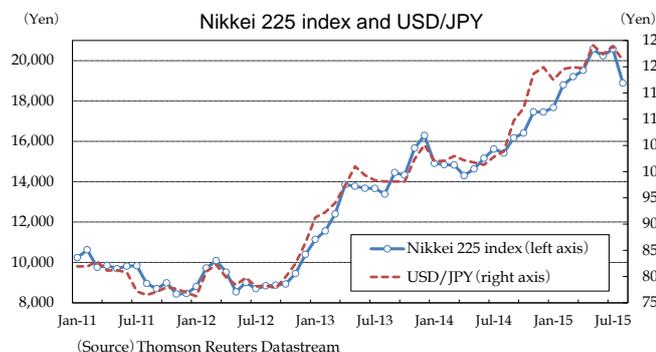
2015.9.14

Record Net Selling by Non-Japanese Investors in August and the USD/JPY Rate

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The Nikkei 225 index dropped by 8.2% in August as compared to the previous month and according to the investor type activity statistics released by Japan Exchange Group, this drop was mostly led by non-Japanese investors. In August non-Japanese investors' net selling of Japanese stocks (including futures) amounted to a record 2.7 trillion yen, the largest since the Lehman Shock.

Within the recent trend of global risk on/risk off, the linkage between share prices and exchange rates is becoming stronger and several causes have been pointed out for this that include the non-Japanese investors' buying of Japanese stocks and Yen selling for risk hedging and a use of high speed and frequent buy/sell investment programs, which execute simultaneously buying and selling of stocks and currencies for them.



The so called “Abenomics market”, which started from November 2012 when the lower house of the Diet was dissolved, was rising relatively well up till the first half of this year, during which the Nikkei 225 index rose from ¥8,000- to over ¥20,000-, and the JPY rate rose to ¥125- level from below the ¥80- mark. Non-Japanese investors had been driving the rise in Japanese stocks, but their record net selling of last month might be hinting a change in a medium-term trend not only for Japanese stocks but also for USD/JPY rates.

Because of the difference in monetary policies between Japan and the U.S., the future outlook of the USD/JPY rate suggests not a small possibility of continued “Higher USD/Lower JPY”, but, as mentioned by Mr. Kuroda, the governor of the Bank of Japan, during his testimony in the House of Representatives Financial Affairs Committee last June, if you look at the real effective exchange rates, the USD/JPY rate has already reached a pretty high level. The rate of ¥125.86 recorded on June 5, 2015 might be this year's highest for the dollar and one should carefully watch the movements of USD/JPY rate since the trend might have already changed.

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