

## When would BOJ buy in ETFs

- BOJ bought ETF when TOPIX showed 0.2% drop comparing closing price of morning session to previous day's closing price in 1<sup>st</sup> half of 2015.
- During the 3<sup>rd</sup> Q- 4<sup>th</sup> Q when share prices trend down, the central bank moved toward additional purchases on about 0.1% daily drop of the Tokyo Stock Index.
- BOJ has adjusted its policy stance to flexibly put money on ETFs depending on the market conditions. Recently, some experts have started to focus on drawback in the ETF buying measure.

### BOJ bought ETF when TOPIX showed 0.2% drop comparing closing price of morning session to previous day's closing price in 1<sup>st</sup> half of 2015

At the policy meeting held on 28<sup>th</sup> and 29<sup>th</sup> July, BOJ decided to double the total amount of ETF's purchase program to JPY 6 trillion from JPY 3.3 trillion on an annual basis. On approval of the Financial Minister and the commissioner of FSA, the renewed ETF purchase program has been effective since 3<sup>rd</sup> August 2016.

In the past, BOJ watchers assumed that the central bank would buy ETFs when TOPIX closed the morning session with a more than 1% drop compared to the previous day's closing price. We have validated relation between BOJ's purchase of ETF and share prices with data covering from 5<sup>th</sup> January to 1<sup>st</sup> June 2015 in our report titled "How BOJ's measures have affected the Japanese stock market" issued on 3<sup>rd</sup> June 2015. The fact we have found out was that BOJ bought in ETFs when TOPIX dropped about 0.2% and not more than 1% from the previous day's closing price.

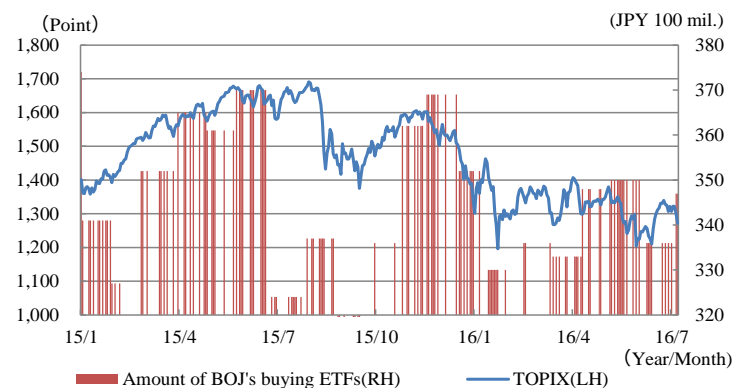
"Diagram 1: TOPIX drop rate when BOJ's buying ETFs"

Month/Year	TOPIX's smallest drop when BOJ bought ETFs(%)	TOPIX's largest drop when BOJ suspended buying ETFs (%)
Jun-15	-0.17	-0.07
Jul-15	-0.14	-0.13
Aug-15	-0.31	-0.13
Sep-15	-0.63	-0.44
Oct-15	-2.30	-0.75
Nov-15	-0.41	-0.16
Dec-15	-0.21	-0.76
Jan-16	-0.81	-0.18
Feb-16	-0.20	-0.30
Mar-16	-1.78	-1.22
Apr-16	-0.19	-0.23
May-16	-0.50	-0.17
Jun-16	-0.41	-
Jul-16	-0.24	-0.38
Aug-16	-0.78	-0.11

(Note) Unit of rate of drop is %. Rate of drop is based on closing price of morning session against previous day's closing price of Tokyo Stock Exchange (TOPIX). There was no day when BOJ suspended buying ETFs during June 2016. ETFs comprising of corporations active in capex and human resources investment are excluded.

(Source) SMAM, based on Bloomberg L. P. data.

"Diagram 2: TOPIX and amount of BOJ's buying ETFs"



(Note) Data period is from 5th January 2015 to 3rd August 2016. ETFs comprising of corporations active in capex and human resources investment are excluded.

(Source) SMAM, based on BOJ and Bloomberg L.P. data.

**During the 3<sup>rd</sup> Q- 4<sup>th</sup> Q when share prices trend down, the central bank moved toward additional purchases on about 0.1% daily drop of the Tokyo Stock Index.**

We calculated TOPIX's rate of drop (price decline of closing price of morning session from the previous day's closing price) on every business day, during the period from 1<sup>st</sup> June 2015 to 3<sup>rd</sup> August 2016. In addition, we have taken TOPIX's minimum decline rate out of the days when BOJ purchased ETFs and maximum decline rate out of the days when BOJ suspended the purchase of ETFs, on a monthly basis. I summarized the figures in a chart (Diagram1). However, ETF's actively investing in capital and human resources are not included in our calculation, as BOJ is purchasing these ETFs by JPY1.2 billion on almost every day since April 2016.

Analyzing data during June to November 2015, it was observed that BOJ moved to buy ETFs on a relatively small decline in price, especially in June and July, purchasing at around 0.1% drop. In contrast, the central bank purchased ETFs only when the index showed a 2.3% decline in October. This is because, stocks moved on a firm trend in October and BOJ only purchased ETFs on 14<sup>th</sup> October, when price drop was relatively large.

**BOJ has adjusted its policy stance to flexibly put money on ETFs depending on the market conditions. Recently, some experts have started to focus on drawback in the ETF buying measure.**

Later on, the central bank gradually disregarded its general rule of purchasing ETFs. In December 2015, February, April, and July 2016, the bank bought ETFs on a smaller drop in price than the price decline when it previously suspended purchase. For the above reasons, we believe BOJ has recently changed its policy stance to flexibly put money on ETFs depending on the market conditions rather than buying ETFs when TOPIX's daily drop reached a certain rate.

ETF purchasing by the central bank may positively work on supply-demand condition of the Japanese stocks. However, it is unfavorable for the central bank to keep on involving in the stock market for a long period, since it may interfere with practical market pricing. It is quite certain that merely purchasing ETFs cannot generate an upward share price trend (Diagram 2). We need to fully understand the drawback and actual impact in the ETF buying measure.

**\* Please note that this report is a translation of Japanese report written on 4<sup>th</sup> August, 2016.**

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