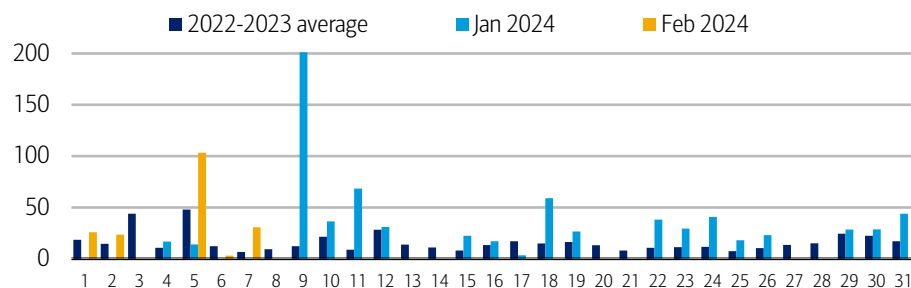


## FX Watch

## Japan BoP: rising Toshin flow to USD &amp; INR

## Exhibit 1: Net daily flow in large foreign equity Toshins\* in Jan/Feb vs 2022-23 intramonth avg (¥bn)

Inflow to foreign equity Toshins accelerating



Source: BofA Global Research, Bloomberg

\*See Exhibit 2

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## Rising flow from Japan to US &amp; India

On Feb 8, Japan's MoF released BoP data for Dec and a preliminary portfolio investment report for Jan.

- **Outward Toshin (Japan's investment trusts) flow accelerating** – Both macro and micro data suggest Japanese retail investors' outward equity investments have accelerated since beginning of year with USD and INR clear beneficiaries.
- **Outward FDI also accelerating** – Outward FDI rose in Dec and could rise in 2024 given active outward M&A announcement by Japan Inc.
- **Current account surplus moderated** – Current account surplus moderated in Dec as one-off factors in Oct/Nov faded.
- **Public pension funds rebalancing from equities to bonds** – Japan's trust accounts rebalanced from equities to bonds in Jan and rebalancing may continue.

## JPY view: BoJ led bounce amid structural decline

We are bearish JPY longer-term while we think JPY can be supported by expectations for the BoJ's policy normalization into the spring. Structural outflow appears accelerating as firms become more aggressive in overseas expansion to reflect their post-COVID strategy and the latest tax reform (NISA) encourages households to rebalance away from yen cash to foreign assets. This is negative for JPY.

Meanwhile, the BoJ could implement a set of policy normalization in the spring (our economists' base case = April). We do not think the BoJ will shock the FX market when it announces normalization measures, but there is certain degree of uncertainty as to what it will do, which may include removal of/changes to NIRP, YCC, QE, and risk asset purchases. To the extent the Fed and some other DM central banks have easing bias, uncertainty around the BoJ's policy normalization would support JPY near-term though a less dovish Fed is a rising risk to this view.

Trading ideas and investment strategies discussed herein may give rise to significant risk and are not suitable for all investors. Investors should have experience in relevant markets and the financial resources to absorb any losses arising from applying these ideas or strategies.

**BofA Securities does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.**

**Refer to important disclosures on page 16 to 17.**

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Timestamp: 08 February 2024 04:15AM EST

08 February 2024

G10 FX Strategy  
Global

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MoF: the Ministry of Finance

BoP: Balance of Payments

BoJ: Bank of Japan

FDI: Foreign direct investment

NISA: Nippon Individual Savings Account

Toshin: Japan's investment trust funds

NIRP: Negative interest rate policy

YCC: Yield curve control

QE: Quantitative easing

DM: Developed market

## Outward Toshin flow accelerating

Japan's investment trusts purchased net ¥1.2tn in foreign equities in Jan, most since Jan 2018 (Exhibit 25). We have argued new NISA would be negative for JPY as it would encourage households to rebalance from yen cash to foreign assets (see: [FX Watch: Japan's push for retail investments – risk or opportunity for JPY? 16 December 2022](#)). After new NISA became effective in January, outward Toshin flow has been accelerating even more than we had expected.

We summarize key observations:

- **Rising flow** – Net inflow to large foreign equity Toshins we track year-to-date at ¥933bn has been up by +132% YoY (Exhibit 2). But flow in domestic equity Toshins has been only slightly net positive (Exhibit 3), indicating clear preference for foreign equity funds among domestic investors.
- **USD biggest beneficiary** – Top selling funds have been US equity funds and global equity funds, benefiting USD (see: [FX Watch: Japan Toshin: Outward Toshin investment in Jan more than doubled YoY 01 February 2024](#)).
- **Significant flow to INR** – We also note rising inflow to India-focused equity funds year-to-date and INR has likely attracted Japan's retail money most among EM currencies year-to-date. Japanese retail investors' investment into India started to accelerate around the middle of 2023 (Exhibit 4). At estimated ¥157bn (\$1,082mn), net inflow to India-focused Toshins we track in Jan 2024 was equivalent to 43% of average net monthly portfolio inflow to India in 2023 (Exhibit 5). This move would be positive for INR/JPY over the long-term if it sustains.
- **Flow could be accelerating further in Feb** – While we need more data to confirm, Exhibit 1 hints outward Toshin investment may be accelerating in Feb and inflow to India-focused Toshins are clearly rising (Exhibit 6).

## Outward FDI may also accelerate

Japanese companies continue to expand abroad through FDI. The FDI account generated net ¥2.2tn outward investment in Dec, above the 12m average of ¥1.8tn (Exhibit 7). Announcement of outward M&A deals by Japanese firms has been strong for the past two months (Exhibit 8). We expect Japanese companies to be more active in outward investment in 2024 to reflect their increased risk-appetite after COVID (see: Liquid Insight: Japan risks for 2024 18 January 2024).

## Current account surplus moderated

Japan's current account surplus slightly declined to ¥1.8tn in Dec from ¥1.9tn in Nov after seasonal adjustments. The surplus in the intellectual property account within the service account was unusually high in Oct and Nov at ¥780 average per month vs ¥194bn monthly average over preceding 12 months. That surplus shrank to just 37bn in ¥Dec, suggesting the rise in Oct/Nov may have been driven by one-off factors (Exhibit 10).

The travel balance (seasonally unadjusted) rose to a record surplus at ¥369bn in Dec. As the number of Chinese tourists in Dec was still 44% of that in Dec 2019 (Exhibit 11), there is a scope for further improvement in the travel balance where the additional improvement could be as much as annualized ¥1-2tn. This would be net positive for JPY but would not be enough to offset accelerating outflow in the FDI and retail portfolio account.

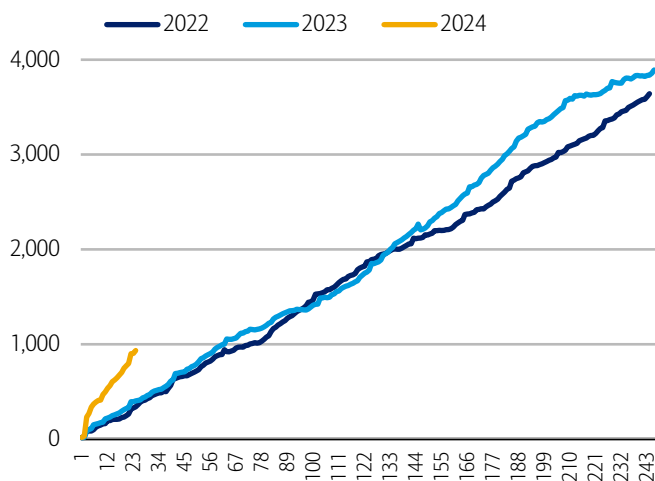
## Public pension funds may continue to rebalance

Japan's trust accounts continued to rebalance from equities to bonds in Jan as equities rallied. They sold ¥805bn in foreign equities and ¥709tn in domestic equities and bought ¥361bn in foreign bonds and likely added JGB (Exhibit 22). Their current allocation

appears still overweight in equities by our estimates (foreign equities by ¥2.0tn, domestic equities by ¥1.8tn) and underweight in bonds (foreign bonds by ¥2.9tn and domestic bonds by ¥0.9tn), implying continuation of rebalancing (Exhibit 12).

**Exhibit 2: Cumulative net flow into largest Japanese investment trusts (Toshin) invested in foreign equities (incl. REIT, fund of funds) by calendar year\* (¥bn, number of business days, our estimate)**

YTD flow is up 132% YoY



Source: BofA Global Research, Bloomberg

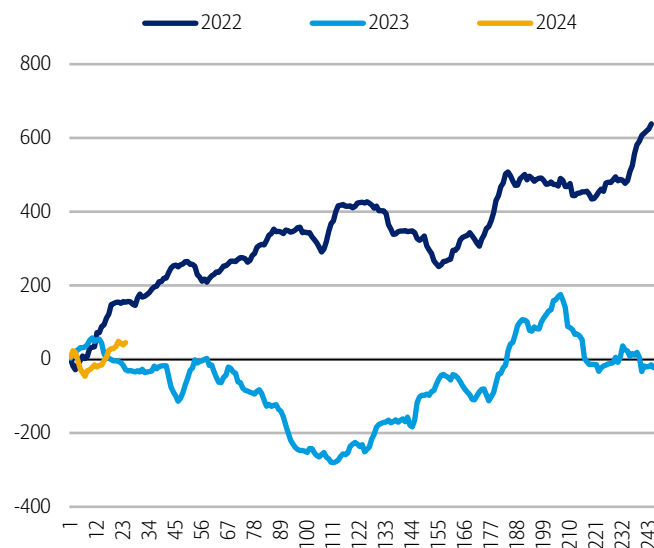
\*We screen 100 largest investment trusts by assets under management (AUM) available in Japan and invested in foreign assets with price and AUM history since 2022 by Bloomberg's screening function (excluding bond and commodity funds, balance funds which also invest in domestic assets; including real estate investment trusts (REITs), fund of funds)

We estimate net daily flow as AUM change not explained by price change

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**Exhibit 3: Cumulative net flow into large Japanese investment trusts (Toshin) invested in Japanese equities\* (¥bn, number of business days, our estimate)**

No major rise in flow into domestic equity Toshins



Source: BofA Global Research, Bloomberg

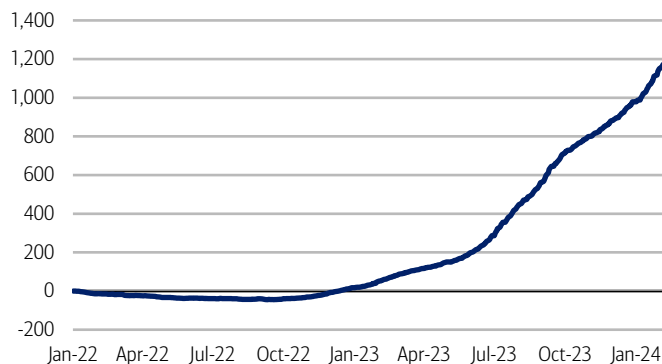
\*We screen investment trusts available in Japan and invested in Japanese equities with AUM > JPY10bn by Bloomberg's screening function

We estimate net daily flow as AUM change not explained by price change

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**Exhibit 4: Cumulative net flow into large Japanese investment trusts (Toshin) invested in Indian assets\* (¥bn, our estimate)**

Japanese retail investors started to invest in India around late 2022 and the flow has accelerated since the middle of 2023



Source: BofA Global Research, Bloomberg

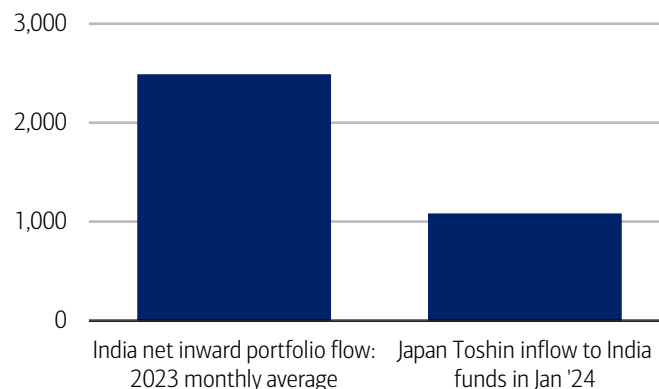
\*We screen investment trusts available in Japan and invested in Indian assets with AUM > JPY10bn by Bloomberg's screening function; most are equity funds

We estimate net daily flow as AUM change not explained by price change

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**Exhibit 5: Japan Toshin inflow to India funds (see: Exhibit 4) in Jan '24 vs average monthly net inward portfolio flow to India in 2023 (\$mn)**

Inflow to India-focused Toshins in Jan '24 was 43% of net average monthly portfolio inflow to India in 2023

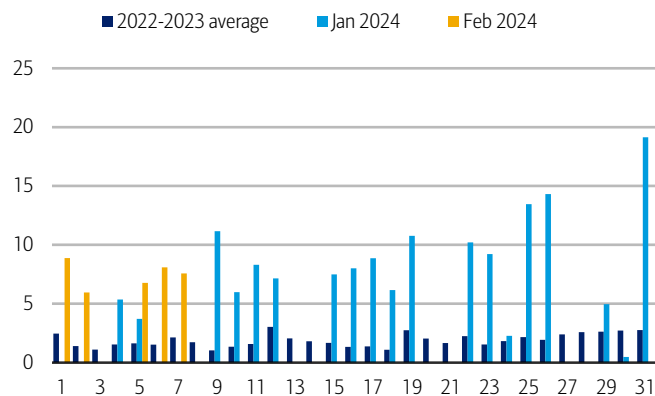


Source: BofA Global Research, Bloomberg

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### Exhibit 6: Daily flow into India-focused Toshins (see Exhibit 4) in Jan/Feb vs 2022-23 (¥bn)

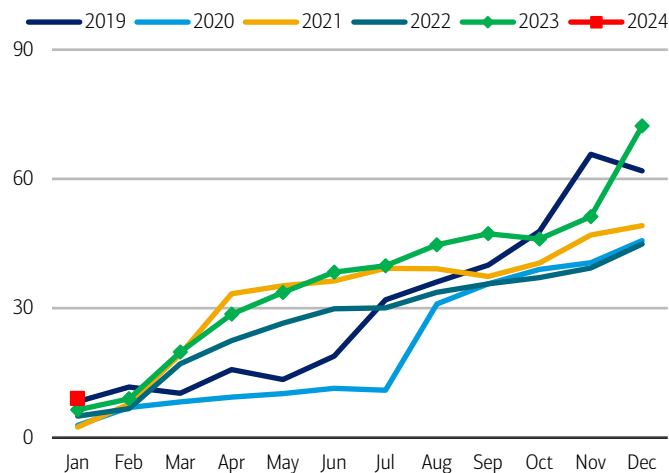
Flow into India Toshins may be accelerating further in Feb



Source: BofA Global Research, Haver  
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### Exhibit 8: Japan Inc.'s cumulative outward M&A announcements by calendar year\* (\$bn, net of disposition)

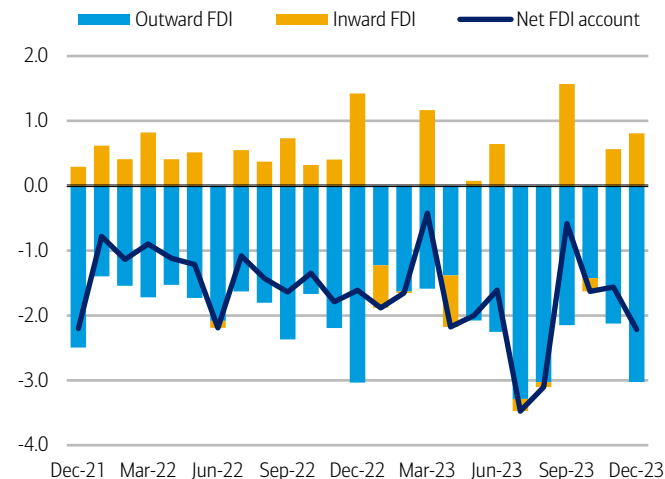
Japan's outward M&A accelerating



Source: BofA Global Research, Bloomberg  
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### Exhibit 7: Monthly FDI account balance (¥tn)

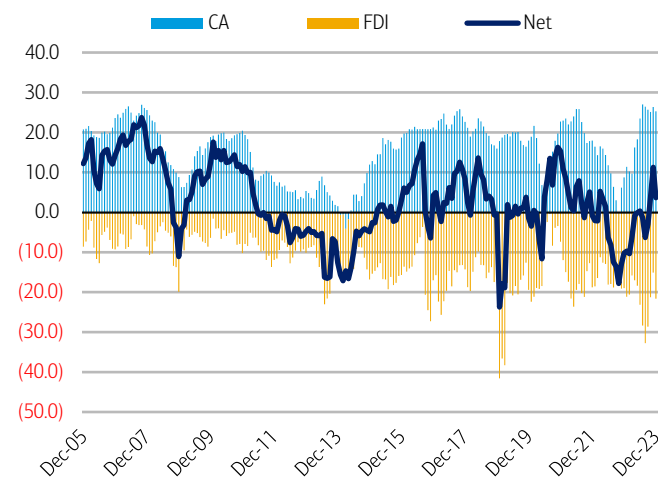
Outward FDI continues



Source: BofA Global Research, Haver  
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### Exhibit 9: Japan's basic balance of payments (annualized rolling 3m, ¥tn)

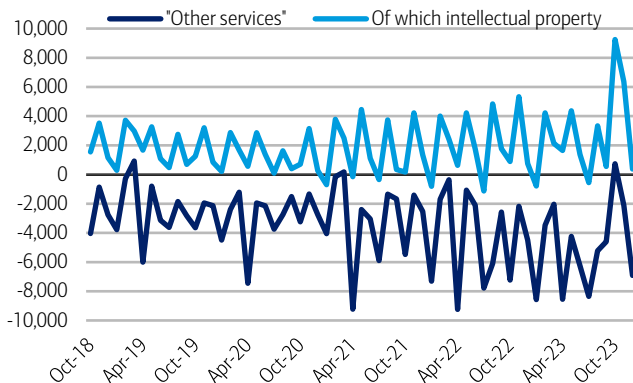
Surplus shrank in Dec as the service balance normalized from one-off factor leading to strong surplus in Oct/Nov.



Source: BofA Global Research, Haver.  
\*Excluding Softbank related deals  
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### Exhibit 10: Japan monthly service balance – “other services” component (¥100mn)

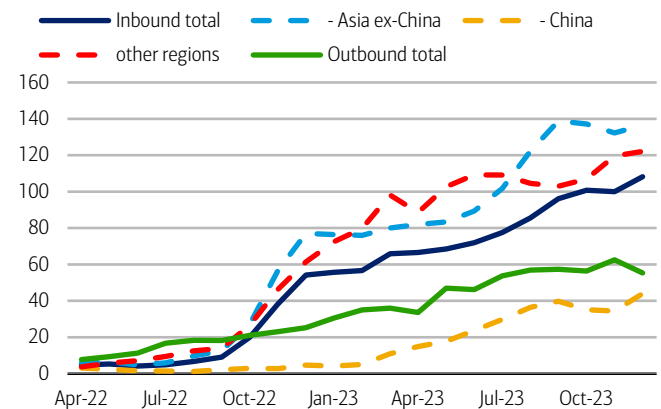
Intellectual property account balance normalized in Dec after strong surplus in Oct/Nov



Source: BofA Global Research, Haver  
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### Exhibit 11: Japan number of monthly cross border tourists as % of 2019 level

Scope for rise in inbound Chinese tourists



Source: BofA Global Research, Haver, Japan National Tourism Organization  
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### Exhibit 12: Simulation of public pension rebalancing

Allocation of assets under management (AUM) for Government Pension Investment Fund (GPIF) and three other public pension funds (estimation methodology cited below)

#### GPIF

	Allocation estimate as of Feb 8 (%)	Model portfolio (%)	Rebalancing to be done (¥bn)
Domestic bond*	25.0	25	43
Domestic equity	25.4	25	-893
Foreign bond (unhedged)	24.1	25	2,039
Foreign equity	25.5	25	-1,188
AUM (bn JPY)	236,086		

#### 3 Funds

	Allocation estimate as of Feb 8 (%)	Model portfolio (%)	Rebalancing to be done (¥bn)
Domestic bond*	23.8	25	847
Domestic equity	26.3	25	-943
Foreign bond (unhedged)	23.8	25	882
Foreign equity	26.1	25	-785
AUM (bn JPY)	71,374		

#### GPIF + 3 other public pension funds

	Allocation estimate as of Feb 8 (%)	Model portfolio (%)	Rebalancing to be done (¥bn)
Domestic bond*	24.7	25	889
Domestic equity	25.6	25	-1,836
Foreign bond (unhedged)	24.1	25	2,921
Foreign equity	25.6	25	-1,974
AUM (bn JPY)	307,460		

Source: BofA Global Research, Government Pension Investment Fund (GPIF), Chikyoren, KKR, Shigaku Kyosai

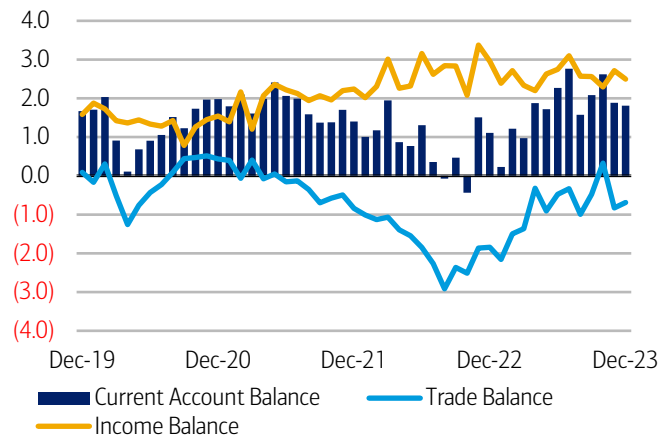
\*Domestic bonds include hedged foreign bonds and short-term liquidity

For estimation methodology, please see [FX Watch: Japanese pension-fund rebalancing progressing 09 March 2020](#)

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**Exhibit 13: Japan's monthly current account balance**

(seasonally adjusted, ¥tn)



Source: BofA Global Research, MoF, Haver

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**Exhibit 15: Japan's outward investment**

Country breakdown of sovereign bonds (Japan BoP, ¥bn)

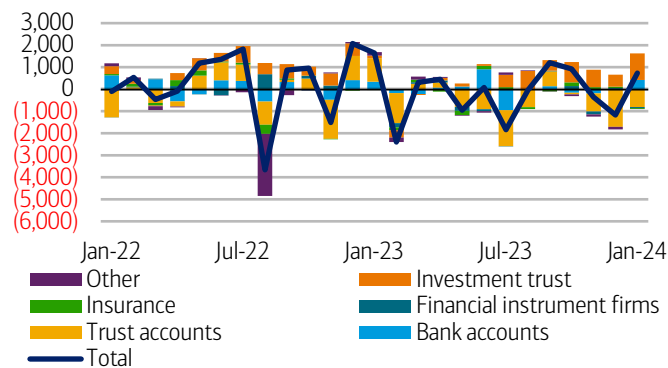
	US	Australia	Germany	France	Italy	Netherland	UK	Canada
Q1 '23	9,419	-4	638	-614	213	-146	316	-224
Q2 '23	6,851	477	269	-319	61	-44	117	-127
Q3 '23	3,574	143	-63	-191	-241	-64	253	-388
Q4 '23	2,642	-89	774	-351	75	-275	419	-127
Jan-23	441	-154	273	165	145	-123	264	-101
Feb-23	4,595	-38	0	-87	-49	14	-60	-5
Mar-23	4,383	188	365	-692	116	-36	112	-118
Apr-23	-2,127	327	-96	460	-7	-22	65	-5
May-23	3,115	213	-471	313	-254	38	5	-32
Jun-23	1,779	25	-426	51	90	190	161	103
Jul-23	-161	14	-43	-541	35	-56	242	-204
Aug-23	557	150	192	152	-77	57	95	-28
Sep-23	3,178	-22	-212	198	-199	-64	-84	-155
Oct-23	1,726	101	644	-312	299	25	114	-14
Nov-23	-27	-223	20	-38	-240	-304	43	-31
Dec-23	943	34	110	-2	17	4	261	-82

Source: BofA Global Research, MoF, Haver

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**Exhibit 17: Outward equity investment**

By investor type (¥bn)

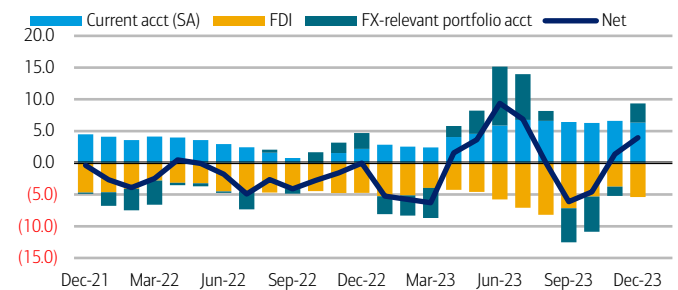


Source: MoF, BoJ, BofA Global Research, Preliminary figure for most recent month

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**Exhibit 14: Major components of Japan's BoP**

(rolling 3 months sum, ¥tn)



Source: BofA Global Research, MoF, Haver.

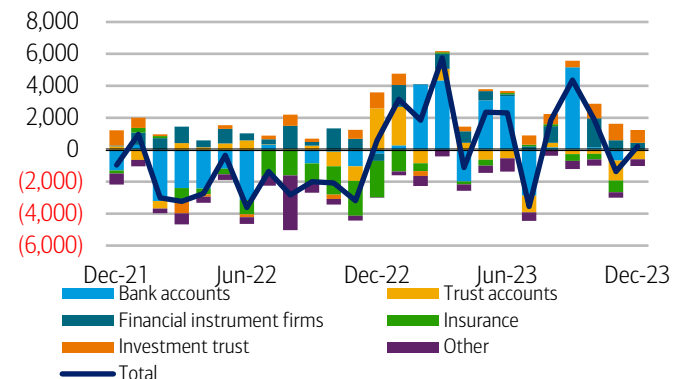
\*BBoP (Basic balance of payment = Current account + FDI account + FX relevant part of portfolio flow

\*FX relevant part of portfolio flow = equity flow, trust accounts' foreign bond investment, 1/3 of life insurers' foreign bond investment

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**Exhibit 16: Outward portfolio investment**

By investor type (¥bn)



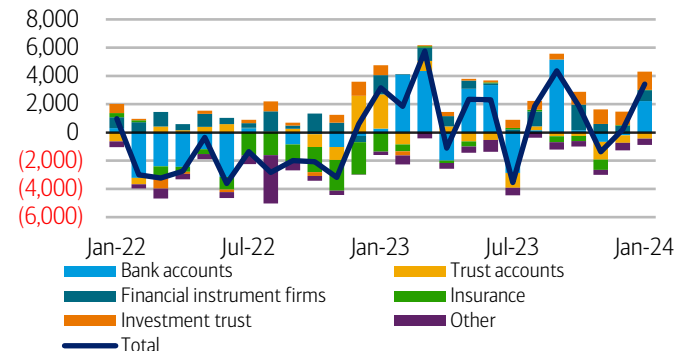
Source: BofA Global Research, MoF, Haver.

Preliminary figure for most recent month

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**Exhibit 18: Outward long-term debt investment**

By investor type (¥bn)



Source: MoF, BoJ, BofA Global Research,

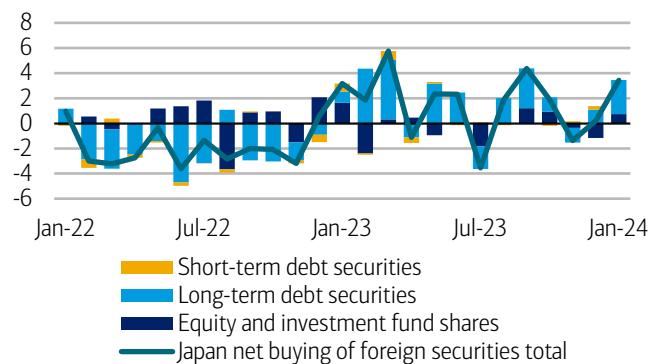
Preliminary figure for most recent month

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# Portfolio investment assets/liabilities

**Exhibit 19: Portfolio investment assets**

(net: trillion yen)

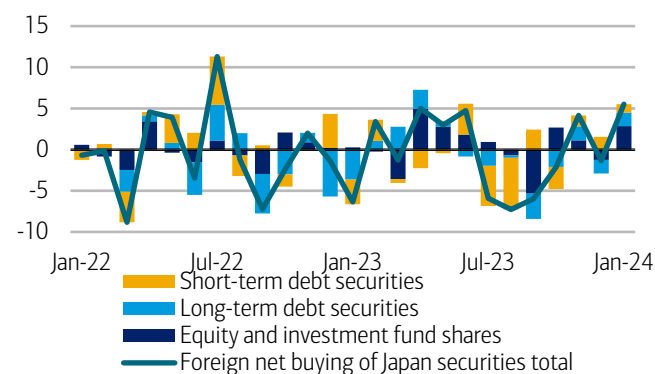


Source: MoF, BoJ, BofA Global Research

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**Exhibit 20: Portfolio investment liabilities**

(net: trillion yen)



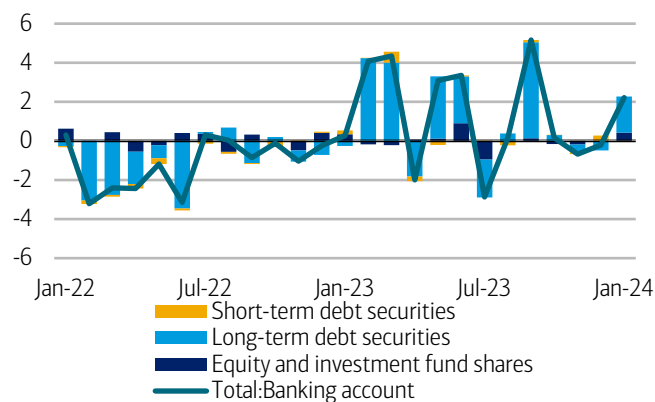
Source: MoF, BoJ, BofA Global Research

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## Portfolio investment assets by investor type

**Exhibit 21: Outward portfolio investment: Banks**

(net: trillion yen)

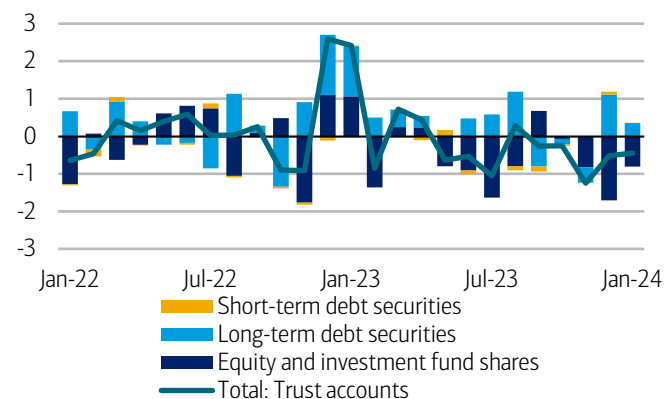


Source: MoF, BoJ, BofA Global Research

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**Exhibit 22: Outward portfolio investment: Trust accounts**

(net: trillion yen)

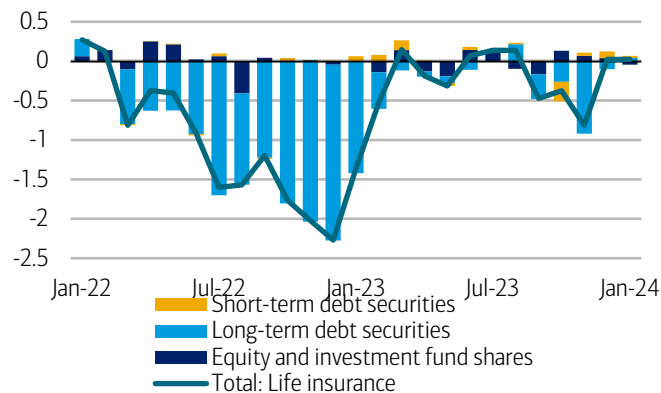


Source: MoF, BoJ, BofA Global Research

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**Exhibit 23: Outward portfolio investment: Life insurance companies**

(net: trillion yen)

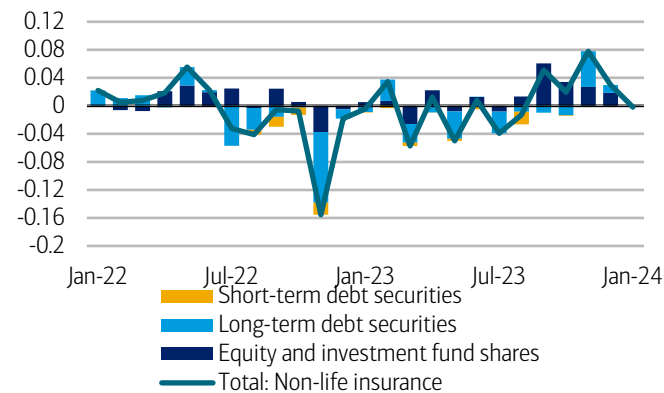


Source: MoF, BoJ, BofA Global Research

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**Exhibit 24: Outward portfolio investment: Non-life insurance companies**

(net: trillion yen)

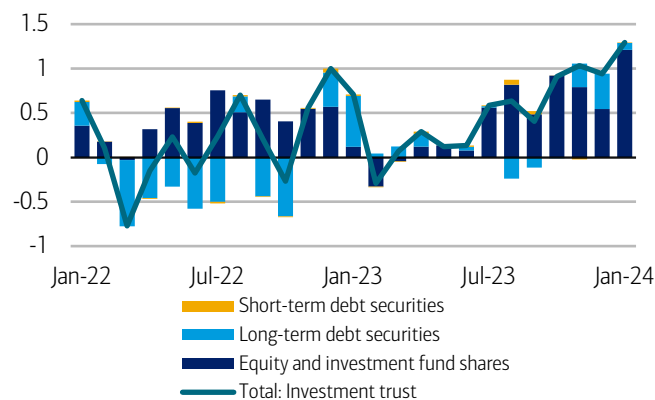


Source: MoF, BoJ, BofA Global Research

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**Exhibit 25: Outward portfolio investment: Investment trust management companies**

(net: trillion yen)

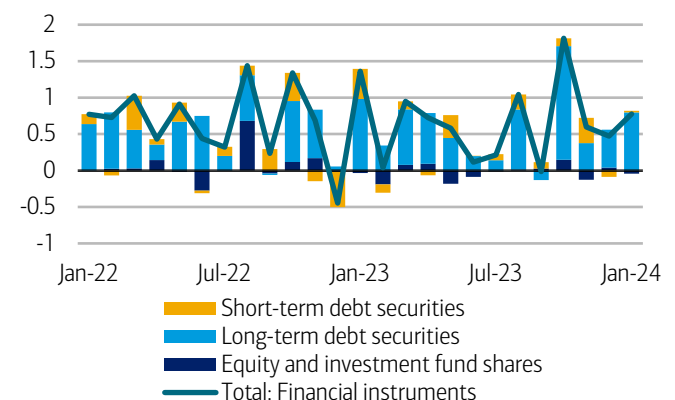


Source: MoF, BoJ, BofA Global Research

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**Exhibit 26: Outward portfolio investment: Financial instruments firms**

(net: trillion yen)

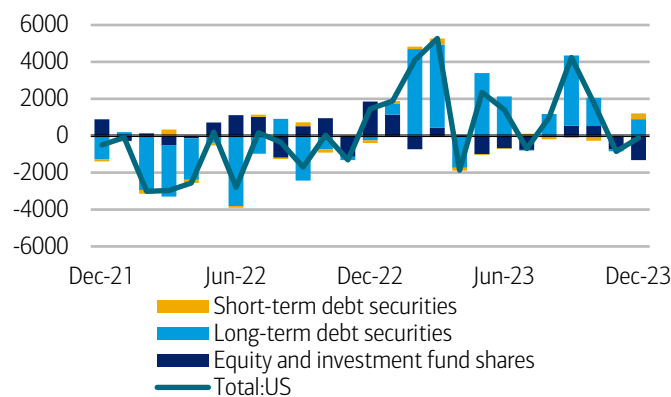


Source: MoF, BoJ, BofA Global Research

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**Outward portfolio investment, country breakdown****Exhibit 27: Outward portfolio investment: US**

(net: billion yen)

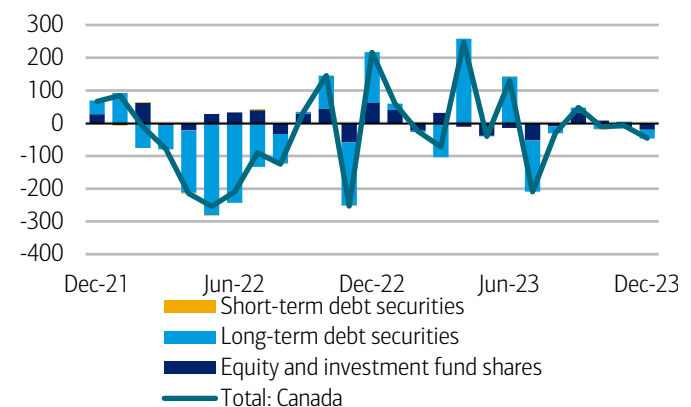


Source: MoF, BoJ, BofA Global Research

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**Exhibit 28 Outward portfolio investment: Canada**

(net: billion yen)

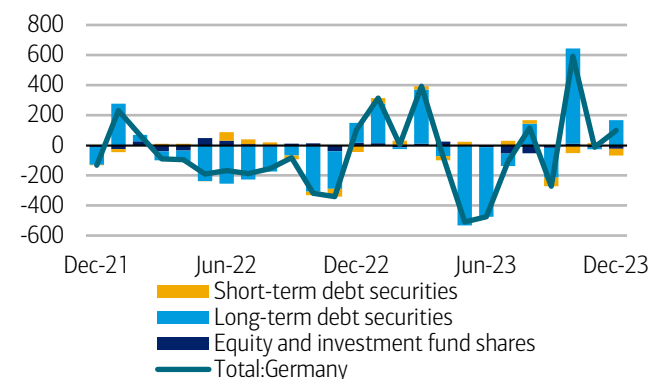


Source: MoF, BoJ, BofA Global Research

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**Exhibit 29: Outward portfolio investment: Germany**

(net: billion yen)

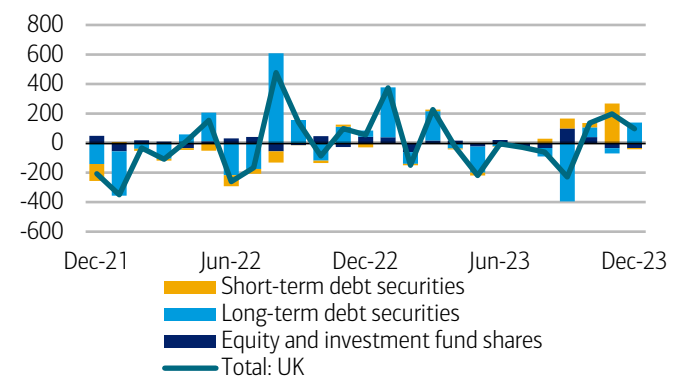


Source: MoF, BoJ, BofA Global Research

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**Exhibit 30: Outward portfolio investment: UK**

(net: billion yen)



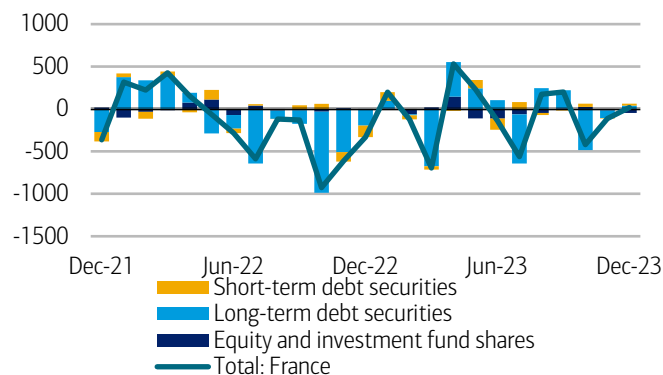
Source: MoF, BoJ, BofA Global Research

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**Exhibit 31: Outward portfolio investment: France**

(net: billion yen)

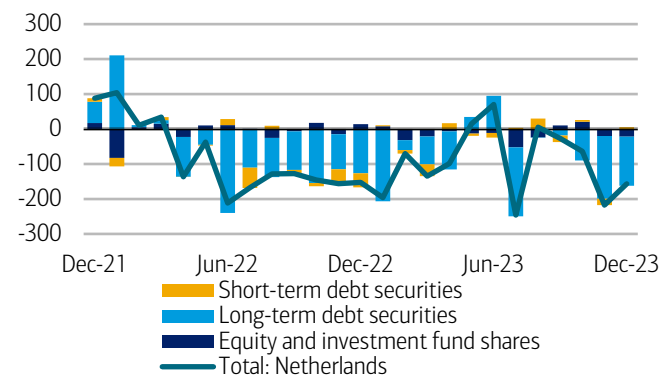


Source: MoF, BoJ, BofA Global Research

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**Exhibit 32: Outward portfolio investment: The Netherlands**

(net: billion yen)

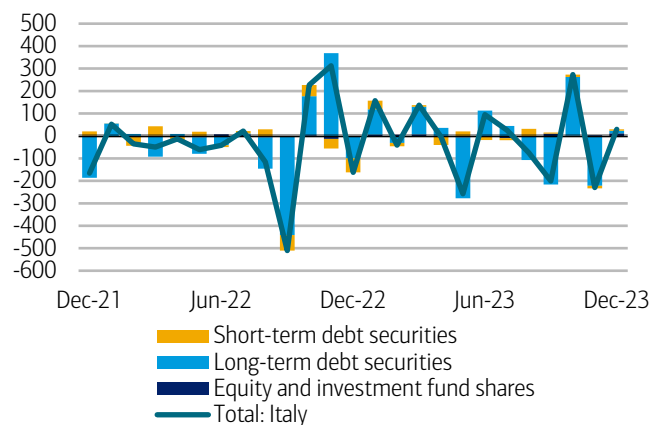


Source: MoF, BoJ, BofA Global Research

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**Exhibit 33: Outward portfolio investment: Italy**

(net: billion yen)

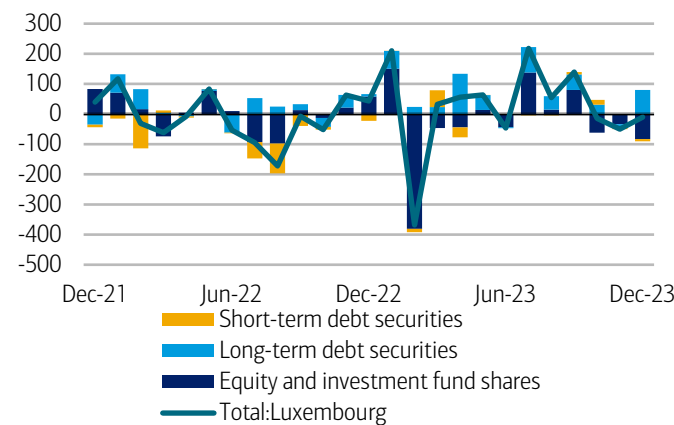


Source: MoF, BoJ, BofA Global Research

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**Exhibit 34: Outward portfolio investment: Luxembourg**

(net: billion yen)

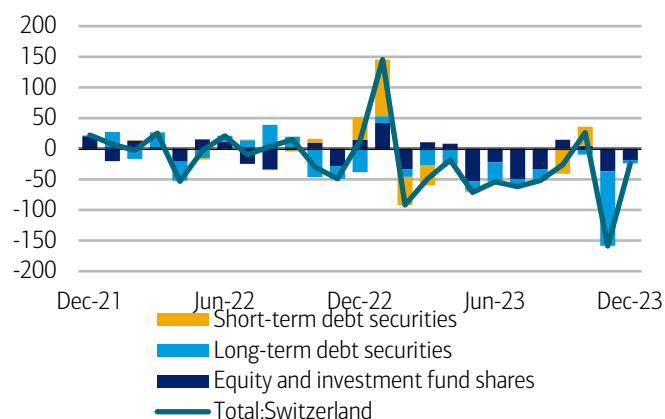


Source: MoF, BoJ, BofA Global Research

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**Exhibit 35: Outward portfolio investment: Switzerland**

(net: billion yen)

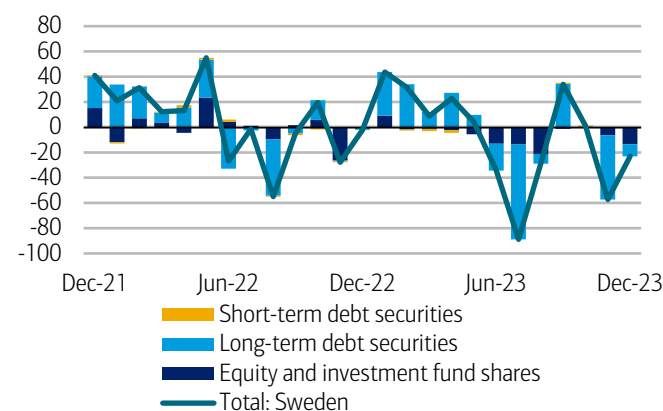


Source: MoF, BoJ, BofA Global Research

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**Exhibit 36: Outward portfolio investment: Sweden**

(net: billion yen)

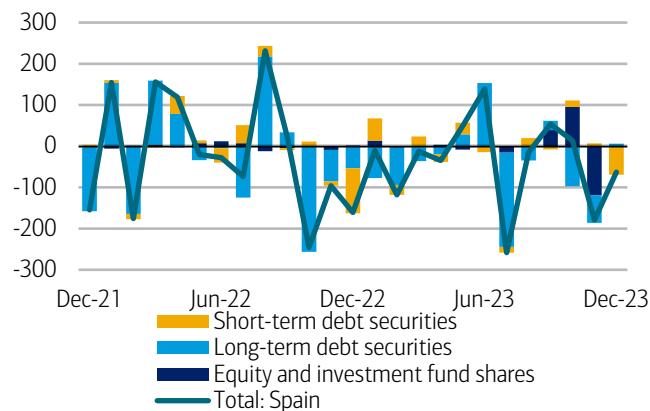


Source: MoF, BoJ, BofA Global Research

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**Exhibit 37: Outward portfolio investment: Spain**

(net: billion yen)

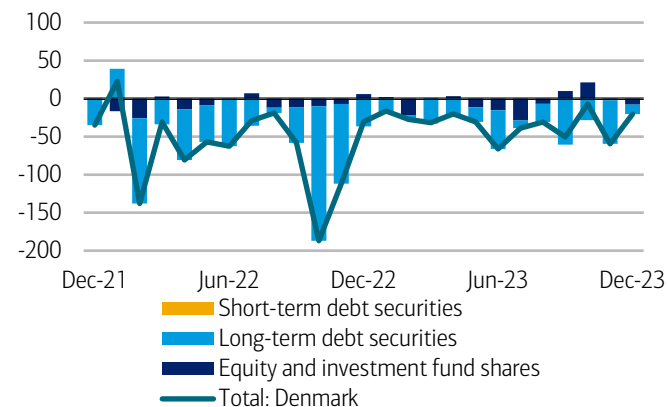


Source: MoF, BoJ, BofA Global Research

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**Exhibit 38: Outward portfolio investment: Denmark**

(net: billion yen)

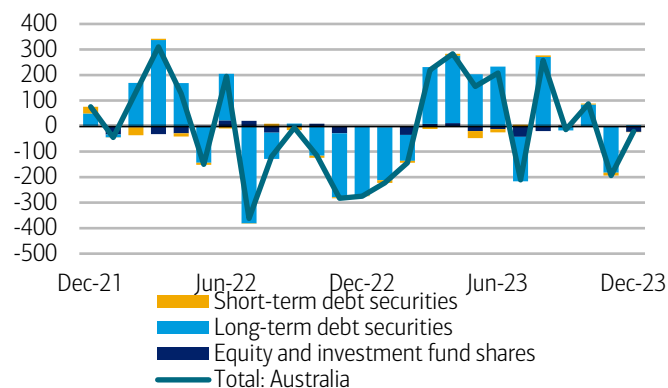


Source: MoF, BoJ, BofA Global Research

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**Exhibit 39: Outward portfolio investment: Australia**

(net: billion yen)

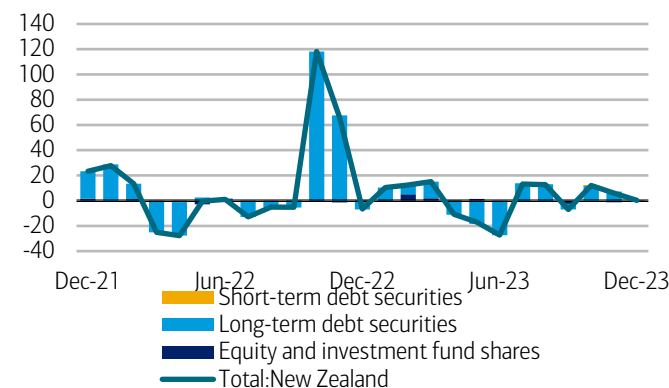


Source: MoF, BoJ, BofA Global Research

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**Exhibit 40: Outward portfolio investment: New Zealand**

(net: billion yen)

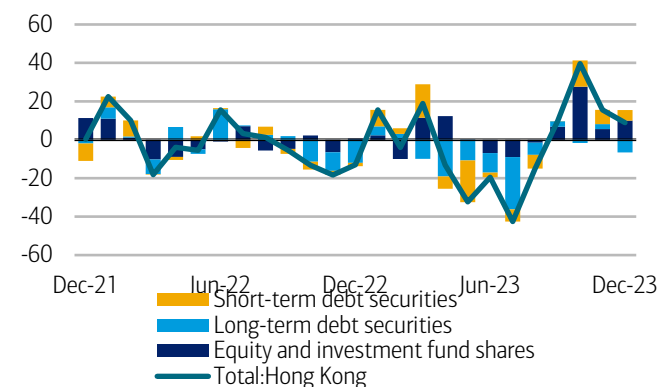


Source: MoF, BoJ, BofA Global Research

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**Exhibit 41: Outward portfolio investment: Hong Kong**

(net: billion yen)

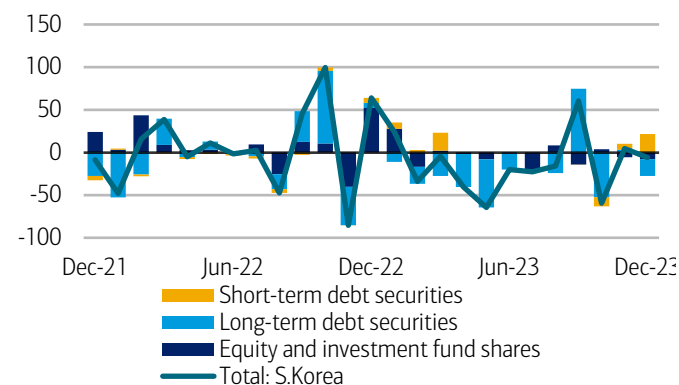


Source: MoF, BoJ, BofA Global Research

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**Exhibit 42: Outward portfolio investment: S. Korea**

(net: billion yen)

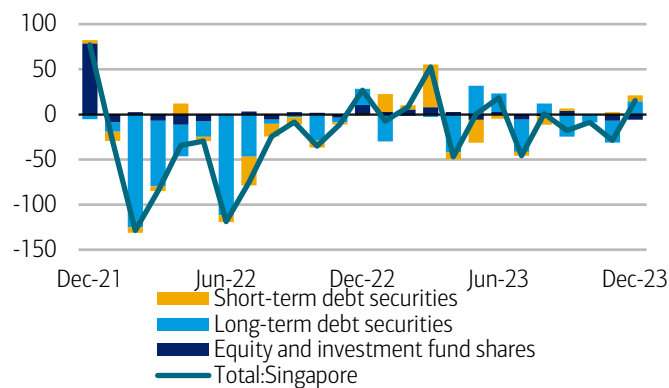


Source: MoF, BoJ, BofA Global Research

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**Exhibit 43: Outward portfolio investment: Singapore**

(net: billion yen)

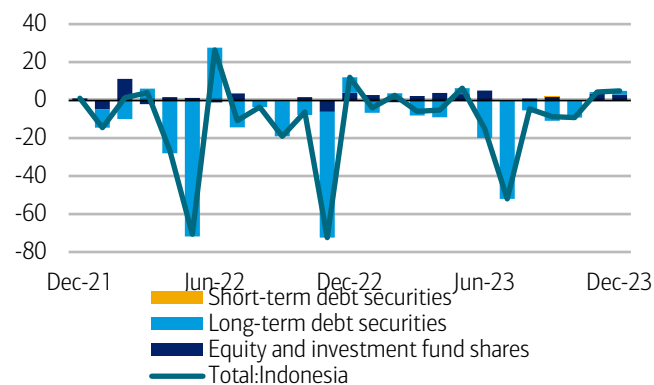


Source: MoF, BoJ, BofA Global Research

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**Exhibit 44: Outward portfolio investment: Indonesia**

(net: billion yen)

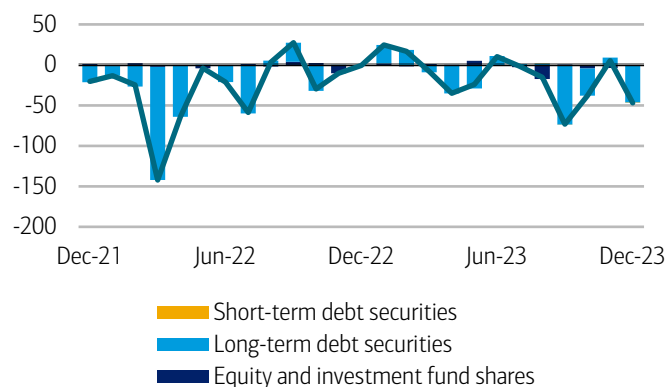


Source: MoF, BoJ, BofA Global Research

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**Exhibit 45: Outward portfolio investment: Mexico**

(net: billion yen)

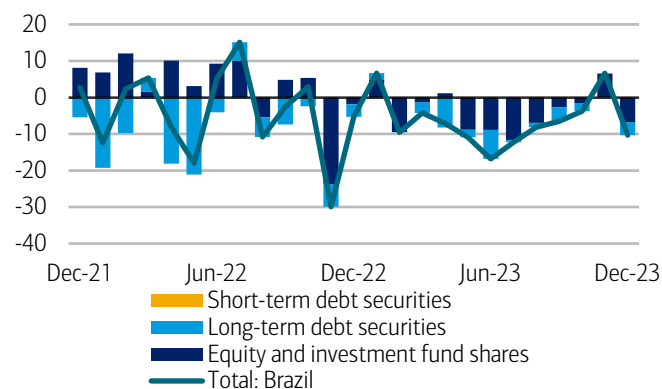


Source: MoF, BoJ, BofA Global Research

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**Exhibit 46: Outward portfolio investment: Brazil**

(net: billion yen)

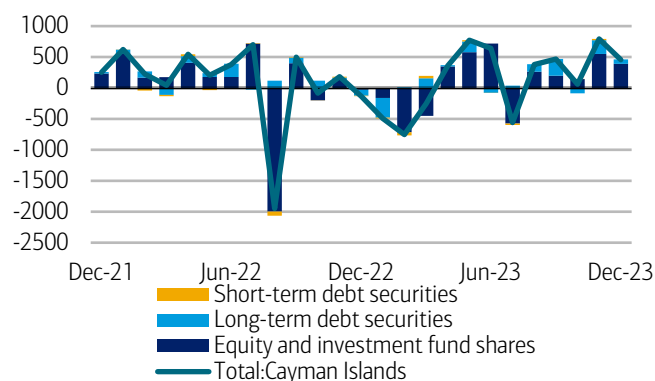


Source: MoF, BoJ, BofA Global Research

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**Exhibit 47: Outward portfolio investment: Cayman Islands**

(net: billion yen)

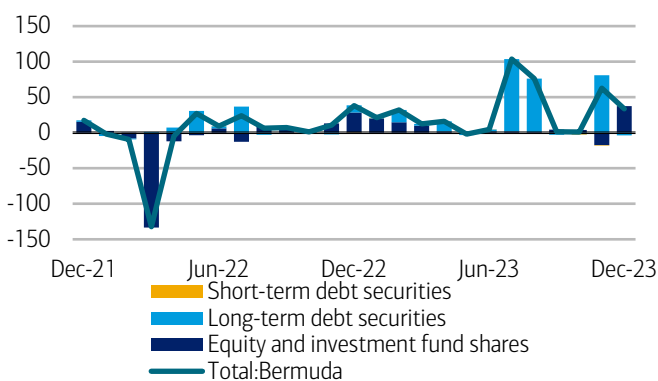


Source: MoF, BoJ, BofA Global Research

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**Exhibit 48: Outward portfolio investment: Bermuda**

(net: billion yen)

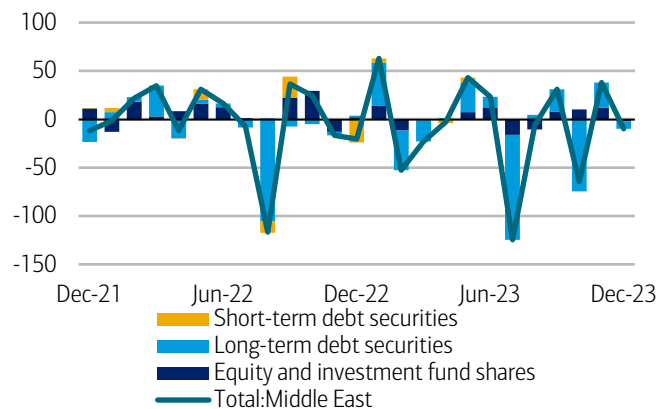


Source: MoF, BoJ, BofA Global Research

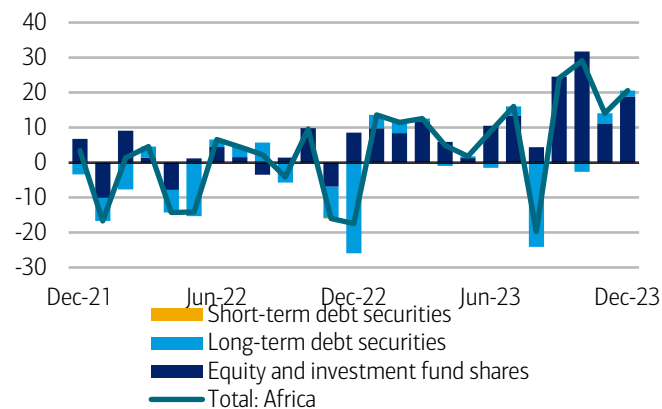
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**Exhibit 49: Outward portfolio investment: The Middle East**

(net: billion yen)

**Exhibit 50: Outward portfolio investment: Africa**

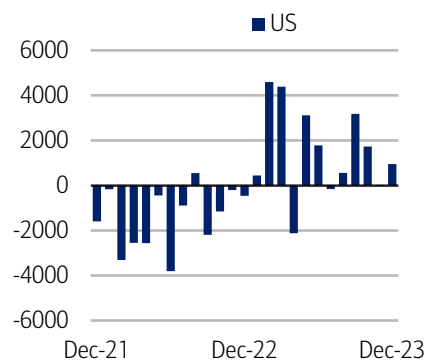
(net: billion yen)



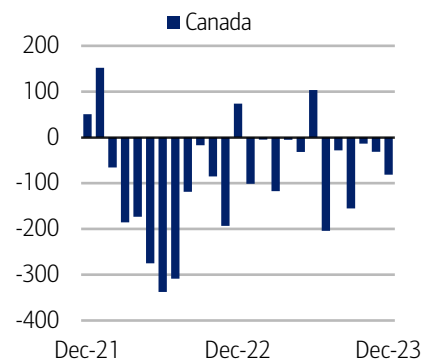
## Portfolio investment assets, country breakdown of sovereign bonds

**Exhibit 51: Sovereign bonds: US**

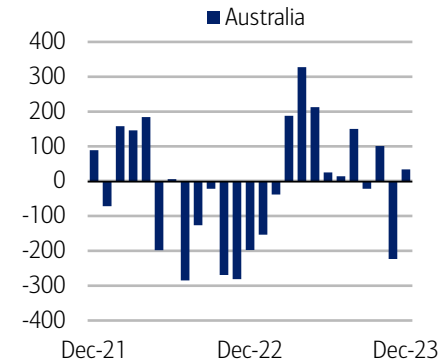
(net: billion yen)

**Exhibit 52: Sovereign bonds: Canada**

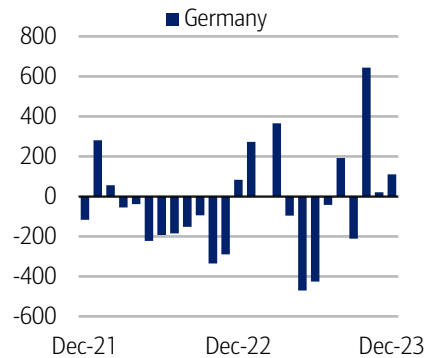
(net: billion yen)

**Exhibit 53: Sovereign bonds: Australia**

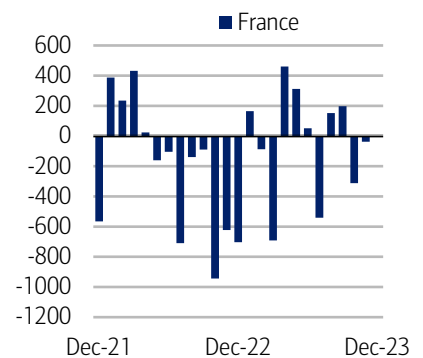
(net: billion yen)

**Exhibit 54: Sovereign bonds: Germany**

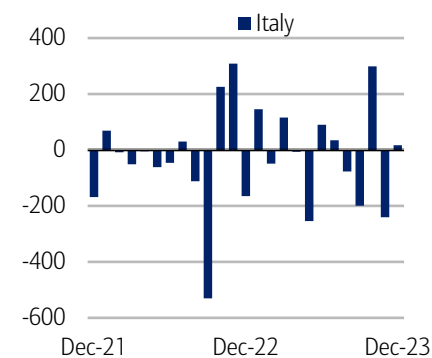
(net: billion yen)

**Exhibit 55: Sovereign bonds: France**

(net: billion yen)

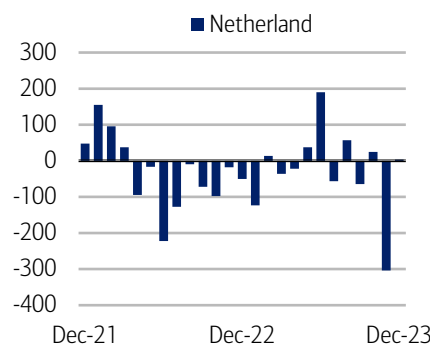
**Exhibit 56: Sovereign bonds: Italy**

(net: billion yen)



**Exhibit 57: Sovereign bonds: The Netherlands**

(net: billion yen)

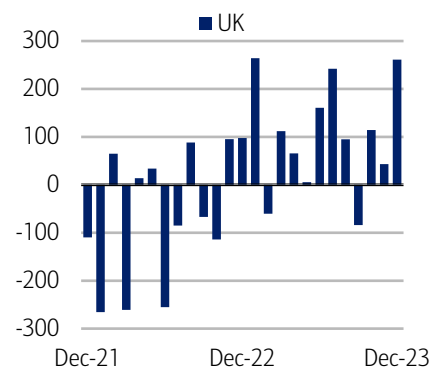


Source: MoF, BoJ, BofA Global Research

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**Exhibit 58: Sovereign bonds: The UK**

(net: billion yen)

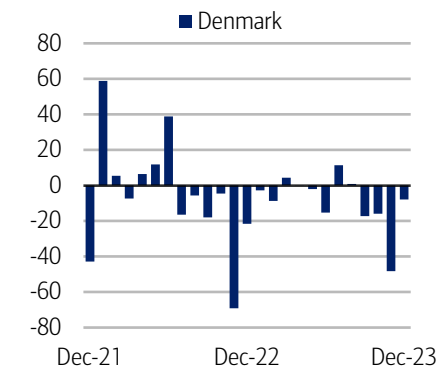


Source: MoF, BoJ, BofA Global Research

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**Exhibit 59: Sovereign bonds: Denmark**

(net: billion yen)

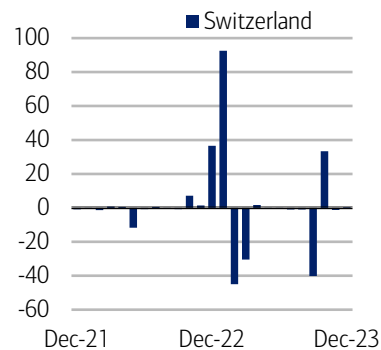


Source: MoF, BoJ, BofA Global Research

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**Exhibit 60: Sovereign bonds: Switzerland**

(net: billion yen)

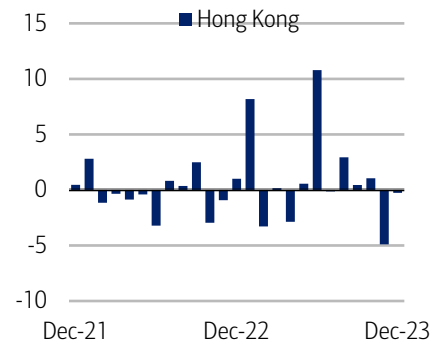


Source: MoF, BoJ, BofA Global Research

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**Exhibit 61: Sovereign bonds: Hong Kong**

(net: billion yen)

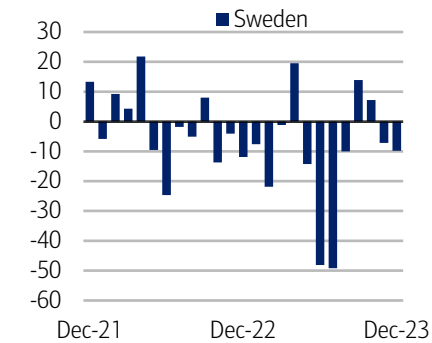


Source: MoF, BoJ, BofA Global Research

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**Exhibit 62: Sovereign bonds: Sweden**

(net: billion yen)



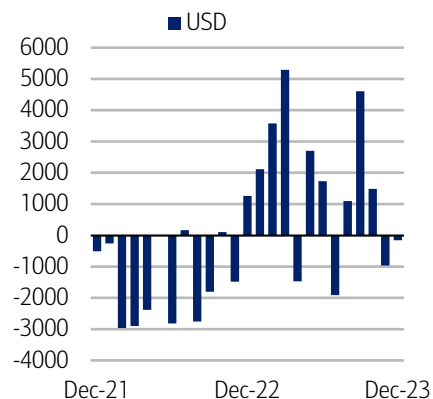
Source: MoF, BoJ, BofA Global Research

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## Outward portfolio investment by quotation currency

**Exhibit 63: Outward portfolio investment: USD**

(net: billion yen)

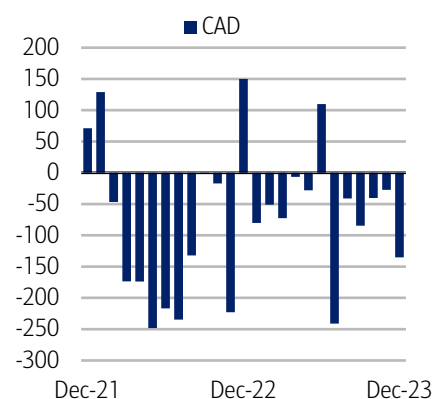


Source: MoF, BoJ, BofA Global Research

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**Exhibit 64: Outward portfolio investment: CAD**

(net: billion yen)

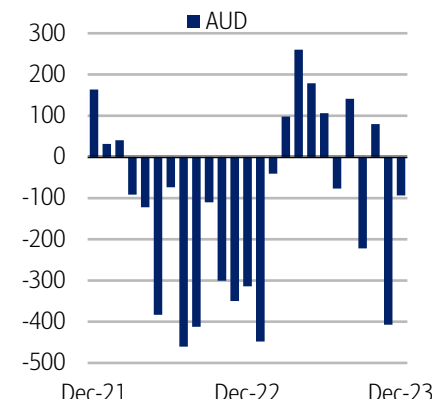


Source: MoF, BoJ, BofA Global Research

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**Exhibit 65: Outward portfolio investment: AUD**

(net: billion yen)

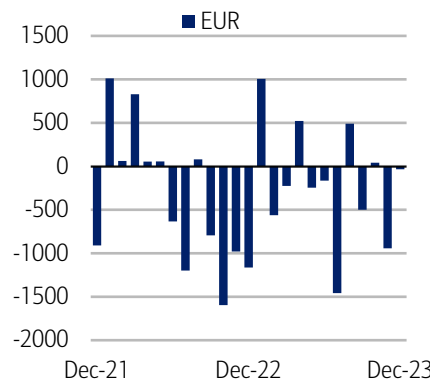


Source: MoF, BoJ, BofA Global Research

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**Exhibit 66: Outward portfolio investment: EUR**

(net: billion yen)

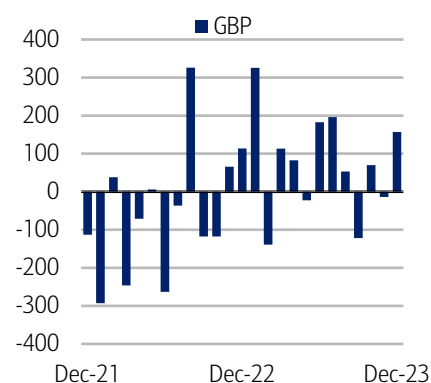


Source: MoF, BoJ, BofA Global Research

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**Exhibit 67: Outward portfolio investment: GBP**

(net: billion yen)

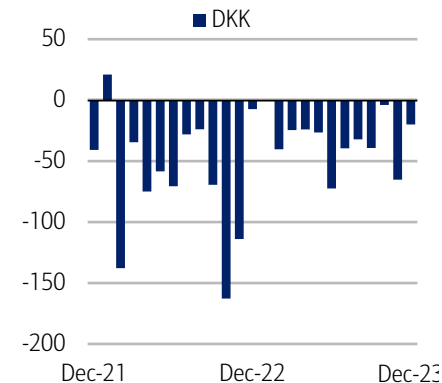


Source: MoF, BoJ, BofA Global Research

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**Exhibit 68: Outward portfolio investment: DKK**

(net: billion yen)

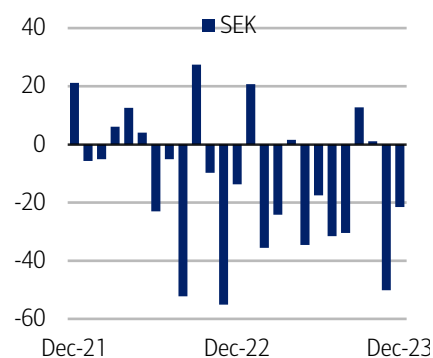


Source: MoF, BoJ, BofA Global Research

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**Exhibit 69: Outward portfolio investment: SEK**

(net: billion yen)

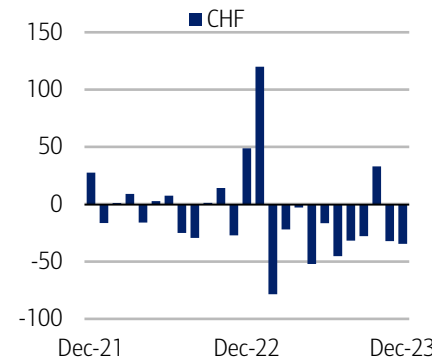


Source: MoF, BoJ, BofA Global Research

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**Exhibit 70: Outward portfolio investment: CHF**

(net: billion yen)

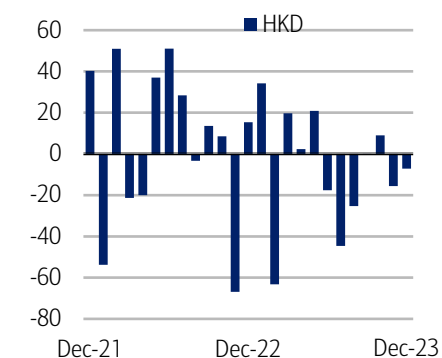


Source: MoF, BoJ, BofA Global Research

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**Exhibit 71: Outward portfolio investment: HKD**

(net: billion yen)

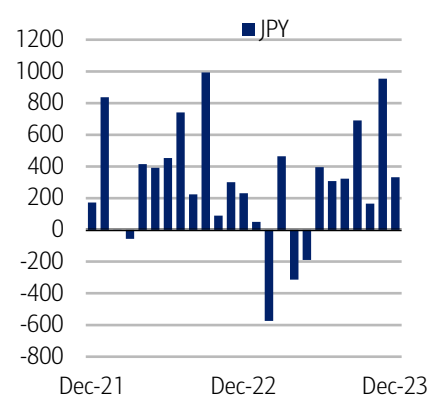


Source: MoF, BoJ, BofA Global Research

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**Exhibit 72: Outward portfolio investment: JPY**

(net: billion yen)

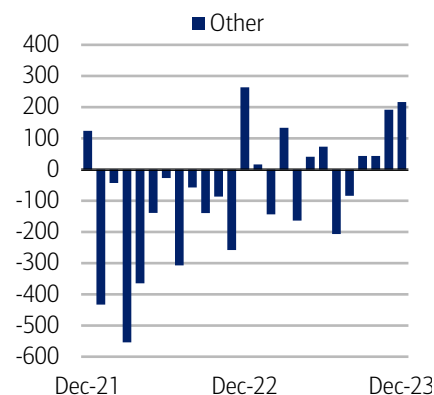


Source: MoF, BoJ, BofA Global Research

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**Exhibit 73: Outward portfolio investment: Other**

(net: billion yen)

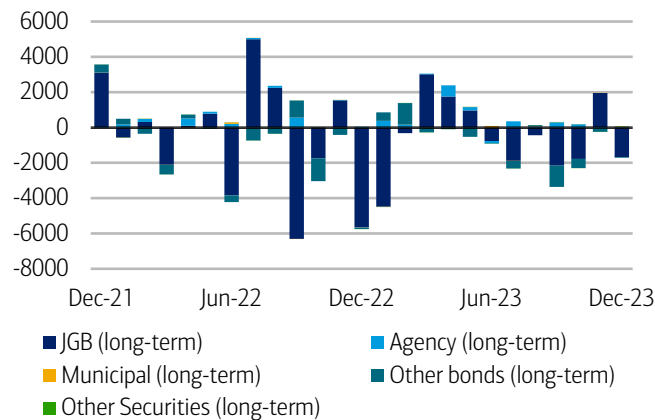


Source: MoF, BoJ, BofA Global Research

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# Portfolio investment liabilities by type of debt security

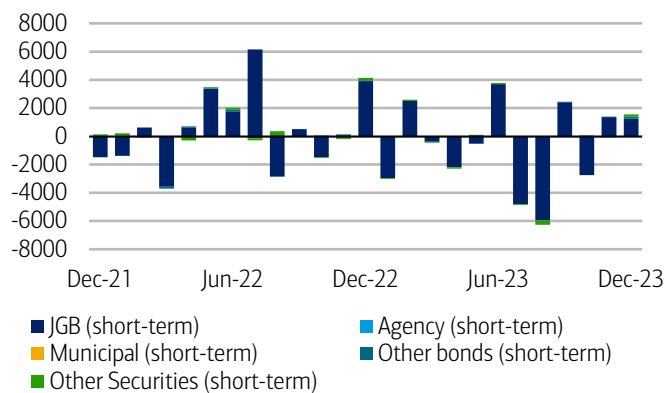
**Exhibit 74: Portfolio investment liabilities: Long-term debt**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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**Exhibit 75: Portfolio investment liabilities: Short-term debt**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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