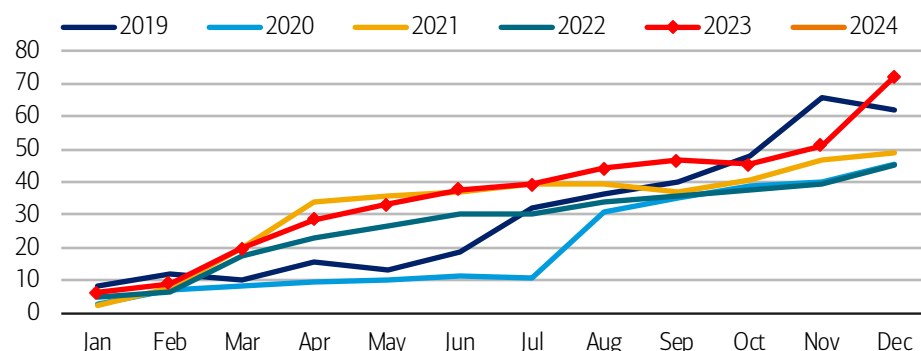


## FX Watch

## Japan BoP: Signs of acceleration in Japan's structural outflow

**Exhibit 1: Japan Inc.'s cumulative outward M&A announcements by calendar year\* (\$bn, net of disposition)**

Japan's outward M&amp;A accelerating



Source: BofA Global Research, Bloomberg

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**Basic BoP, accelerating outward M&A, new NISA**

On Jan 12, Japan's MoF released BoP data for Nov and a preliminary portfolio investment report for Dec.

- **Basic BoP rose but may normalize:** Japan's basic BoP rose in the fall but the surplus may fall as one-off factor dissipates and outward FDI reaccelerates.
- **Outward FDI may accelerate:** Japan Inc.'s outward M&A announcement accelerated in 4Q23, hinting at acceleration in Japan's outward FDI in 2024.
- **NISA to boost retail investment:** New NISA is likely to boost retail investors' outward investment based on early anecdotal evidence.

**JPY view: downside risk for JPY in 2H24**

We remain bearish on JPY vs consensus (year-end 142, Bloomberg consensus 135), but we also do not expect a strong rise in USD/JPY this year as the Fed-BoJ policy gap is likely to narrow. However, we see clear signs of reacceleration in Japan's structural outflow as Japanese firms' outward M&A announcement accelerated in December, ending 2023 with the highest volume since 2018, and as Japanese retail investors appear to be increasing their budget for NISA investment after the program's expansion has become effective in January.

We think USD/JPY would be driven by monetary policy convergence for now as evidenced by its move in Tokyo and NY trading (Exhibit 9), which has been led by the US-Japan yield spread (Exhibit 10), but JPY faces downside risk in 2H24 onward on structural outflow if the Fed's rate cuts are not more than priced by the market and once the market digests monetary policy convergence (see: [Liquid Insight: Phase 3 of JPY's structural decline in 2024? 28 June 2023](#)).

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: 11 January 2024 11:38PM EST

12 January 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

## Basic BoP has risen to surplus, but not sustainable

Japan's basic balance of payments, consisting of the current account and the FDI account, has risen to a surplus (an annualized ¥11.3tn surplus for the Sep-Nov period vs a ¥6.3tn deficit in the Jun-Aug period – see Exhibit 2). It may have contributed to USD/JPY's peak-out in the fall. The rise in the basic BoP has been led primarily by reduced net outward FDI from a very high level but also by a surge in the intellectual property (IP) balance in the Oct-Nov period (Exhibit 3, Exhibit 4).

We do not think this level of surplus is sustainable. As we explain in the next paragraph, we think Japan's outward FDI will accelerate in 2024. Moreover, the IP surplus in the Oct-Nov period seems to be a one-off and is likely to normalize. If we include rising outward investment by retail investors (see below), Japan's balance of payments would likely generate outflow in 2024.

## Outward FDI could accelerate in 2024

Japan's FDI account generated a ¥1.6tn deficit (net outward investment) in Nov (Exhibit 5), in line with the recent trend excluding the Jul-Aug period, which saw record high outflow (¥6.6tn in the two months). As we have argued, Japan's outward FDI appears structurally driven by Japan's aging demographics (see: [Liquid Insight: Japan's outward FDI behind yen's sticky weakness 22 May 2023](#)).

There is a clear sign of acceleration in outward investment based on the acceleration in outward M&A announcements by Japanese firms, which tend to lead FDI by several months (Exhibit 1). We think acceleration in M&A announcements may reflect a more aggressive stance by Japanese firms post-COVID. A Japanese firm typically drafts its medium-term management plan every 3-years. The ones drafted during COVID may have been conservative, which may have limited the budget for investment. As the firms renew their medium-term plans in the post-COVID era, they may increase their investment budgets.

As geopolitical considerations have become increasingly important for corporate decision-making, Japan's outward FDI should benefit USD, European currencies, and Asian currencies excluding CNY and HKD (Exhibit 6).

## NISA to boost retail investment in foreign equities

Japan's investment trusts continued to buy foreign equities in Dec with net ¥472bn purchases (Exhibit 24). For 2023, they bought ¥4.1tn in foreign equities. Interestingly, they also bought ¥313bn in foreign bonds in Dec and for the second month. The size is not large but whether retail money will also start to flow into foreign bonds will be interesting to monitor as yields remain high abroad.

We believe retail investors' outward investment will rise in 2024 thanks to new NISA (see: [Liquid Insight: Q&A on NISA and Japan's retail rebalancing 15 November 2023](#)). Anecdotal evidence and reports hint at increased inflow to foreign equity mutual funds, which would strengthen the trend in recent years (Exhibit 7):

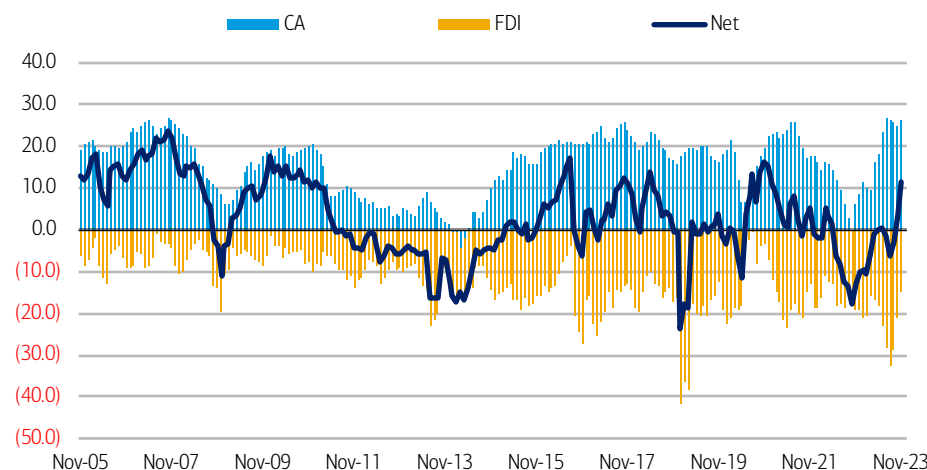
- Nikkei Shimbun reported on Dec 23 that the amount of monthly investment clients had subscribed for January through their tsumitate NISA accounts at major online brokers was JPY200bn, double the amount in recent months for all the brokers.
- Nikkei Shimbun reported on Jan 10 that a popular mutual fund (Mitsubishi UFJ Asset's eMAXIS Slim World Equity Index Fund) had daily inflow of JPY100bn just on Jan 9, around the same amount the fund attracted for the month of Dec '23. While inflow on that day was supposed to be bigger than other days due to the timing of transactions by credit card (Rakuten Securities, one of the biggest online brokers, offers clients to buy mutual funds by credit card transaction on the 1st and 8th day of month), the number is still significantly high.

- Japanese people are increasingly interested in NISA, according to Google Trends (Exhibit 8).

We will closely monitor January data with weekly statistics on outward investment by Japanese investors and monthly statistics, which will come out on Feb 8 and break down into investor type.

### Exhibit 2: Japan's basic balance of payments (annualized rolling 3m, ¥tn)

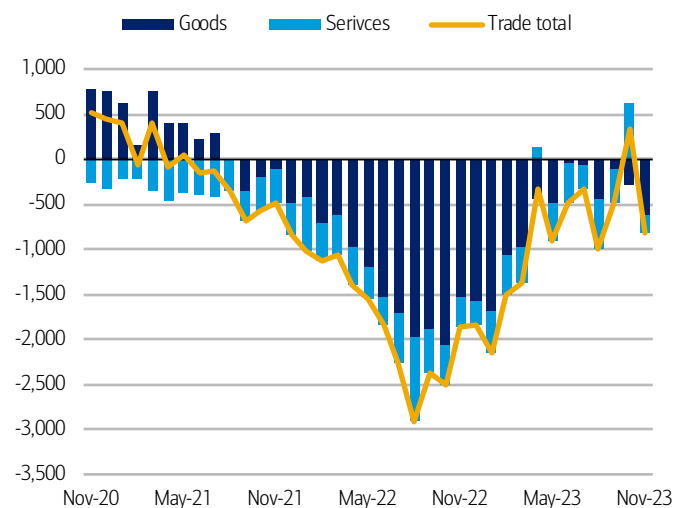
We expect the surplus to decline as one-off IP payment falls and outward FDI accelerates



Source: BofA Global Research, Haver  
BofA GLOBAL RESEARCH

### Exhibit 3: Japan monthly trade balance (¥bn)

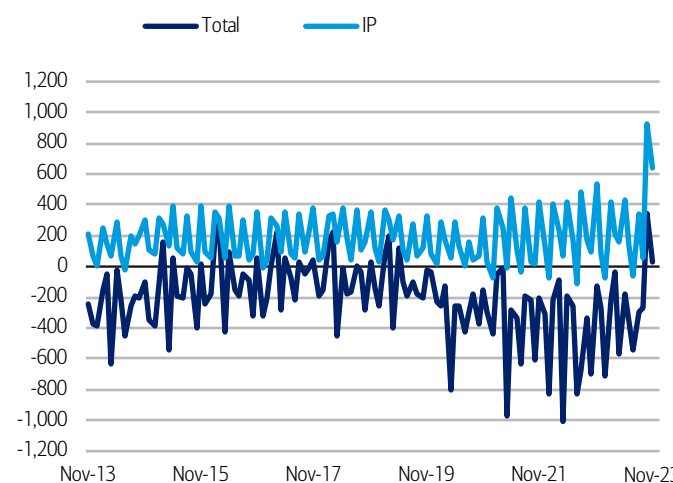
Trade balance recovery has run its course



Source: BofA Global Research, Haver  
BofA GLOBAL RESEARCH

### Exhibit 4: Japan monthly service balance – total and the intellectual property segment (¥bn)

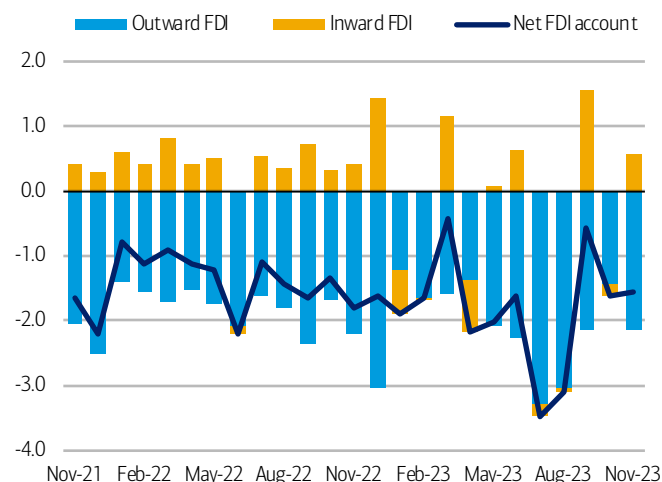
IP surplus surged in Oct-Nov, which may be one-off



Source: BofA Global Research, Haver.  
BofA GLOBAL RESEARCH

**Exhibit 5: Monthly FDI account balance (¥tn)**

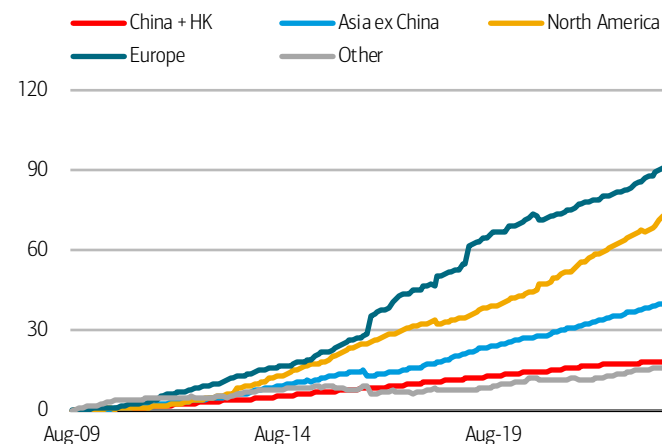
Outward FDI continues



Source: BofA Global Research, Haver  
BofA GLOBAL RESEARCH

**Exhibit 6: Japan cumulative outward FDI by destination (¥tn)**

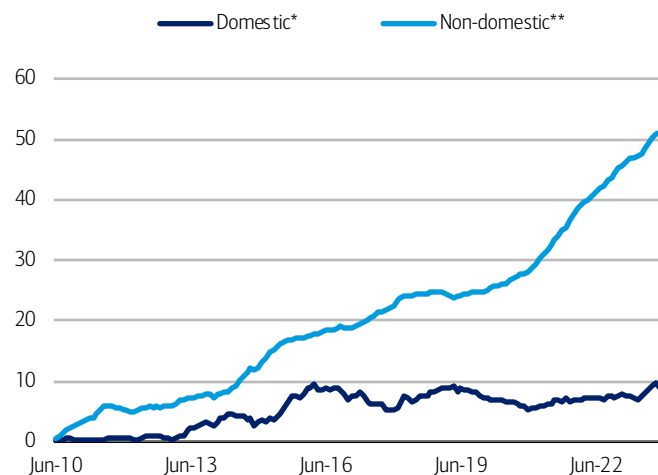
US and Europe absorbing Japan's FDI flow while Japan's investment in China has slowed



Source: BofA Global Research, Haver.  
BofA GLOBAL RESEARCH

**Exhibit 7: Cumulative net investment by Japanese investment trusts (¥tn)**

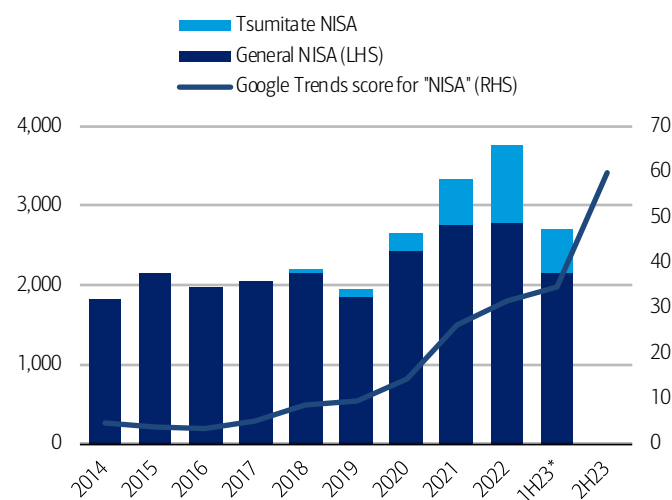
Foreign equities attracting Japanese retail money



Source: BofA Global Research, Haver  
\*Excluding BoJ's ETF purchase  
\*\* Global and international  
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**Exhibit 8: Annual investment volume in NISA accounts at brokers (\* only 1H data available for 2023, ¥tn) and average Google Trends Score for "NISA" (location = Japan)**

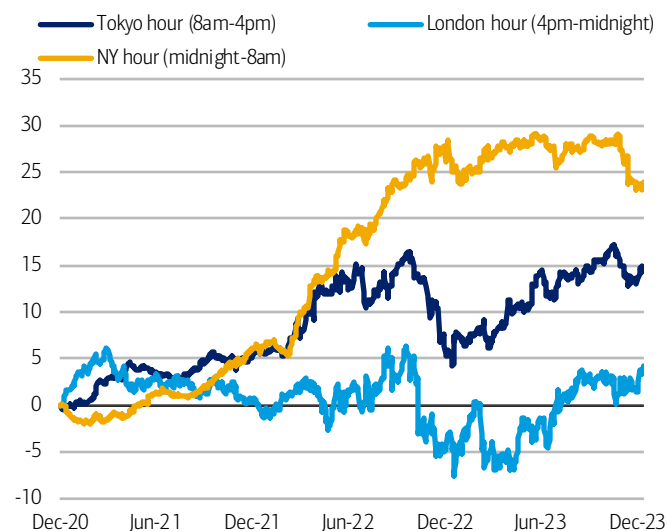
NISA related investment is likely to rise in 2024



Source: BofA Global Research, Google Trends, JSDA  
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**Exhibit 9: USD/JPY cumulative change by trading time zone**

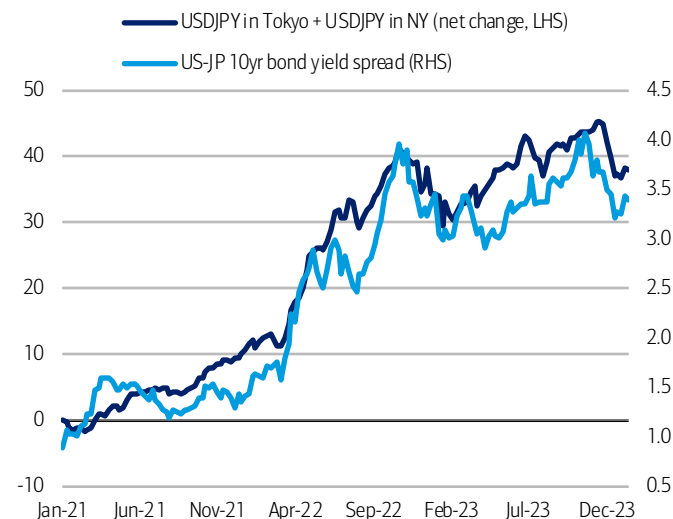
Recent USD/JPY correction occurred in Tokyo and New York trading



Source: BofA Global Research, Bloomberg  
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**Exhibit 10: USD/JPY in Tokyo and NY trading vs yield spread**

USD/JPY tracks US-JP yield spread in Tokyo and NY trading



Source: BofA Global Research, Bloomberg  
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**Exhibit 11: 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 Jan 12(%)	Model portfolio (%)	Rebalancing to be done (¥bn)
Domestic bond*	26.4	25	-3,389
Domestic equity	24.7	25	595
Foreign bond (unhedged)	24.2	25	1,826
Foreign equity	24.6	25	968

AUM (bn JPY) 234,052

**3 Funds**

	Allocation estimate as of Jan 12(%)	Model portfolio (%)	Rebalancing to be done (¥bn)
Domestic bond*	24.7	25	201
Domestic equity	26.1	25	-765
Foreign bond (unhedged)	23.9	25	787
Foreign equity	25.3	25	-223

AUM (bn JPY) 70,366

**GPIF + 3 other public pension funds**

	Allocation estimate as of Jan 12(%)	Model portfolio (%)	Rebalancing to be done (¥bn)
Domestic bond*	26.0	25	-3,188
Domestic equity	25.1	25	-169
Foreign bond (unhedged)	24.1	25	2,613
Foreign equity	24.8	25	745

AUM (bn JPY) 304,418

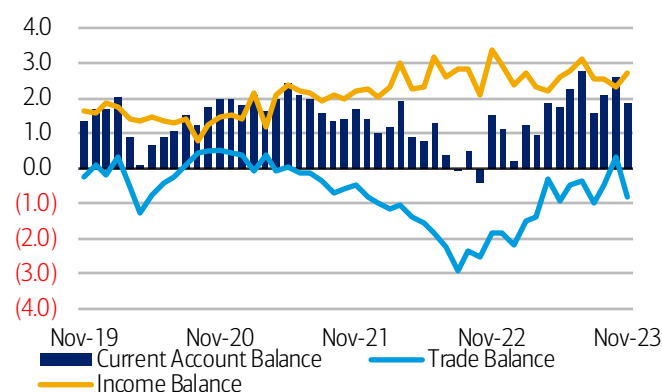
Source: BofA Global Research, Government Pension Investment Fund (GPIF), Chikyoren, KKR, Shigaku Kyosai

\*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 12: Japan's monthly current account balance**  
(seasonally adjusted, ¥tn)



Source: BofA Global Research, MoF, Haver

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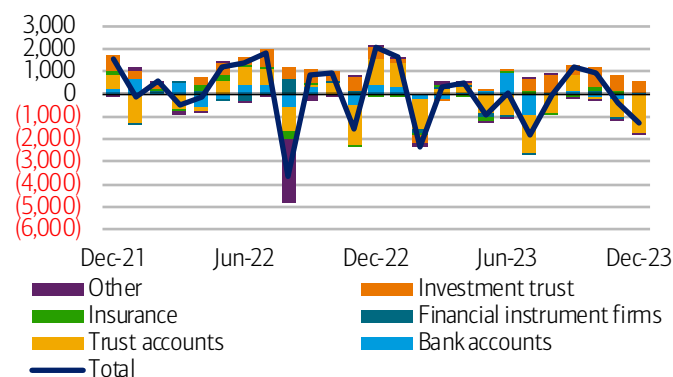
**Exhibit 14: Japan's outward investment**  
Country breakdown of sovereign bonds (Japan BoP, ¥bn)

	US	Australia	Germany	France	Italy	Netherlands	UK	Canada
Q4 '22	-1,817	-748	-542	-2,269	370	-166	79	-205
Q1 '23	9,419	-4	638	-614	213	-146	316	-224
Q2 '23	2,767	565	-993	824	-171	206	232	67
Q3 '23	3,574	143	-63	-191	-241	-64	253	-388
Dec-22	-461	-198	83	-703	-165	-50	98	74
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

Source: BofA Global Research, MoF, Haver

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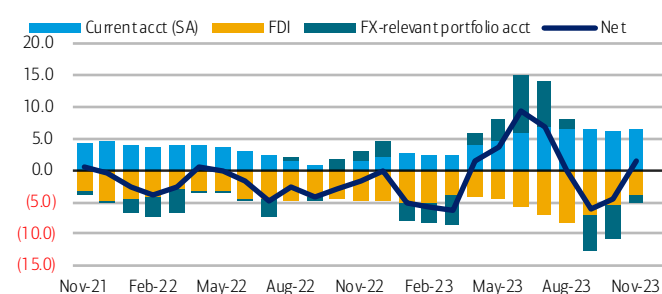
**Exhibit 16: Outward equity investment**  
By investor type (¥bn)



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

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**Exhibit 13: Major components of Japan's BoP**  
(rolling 3 months sum, ¥tn)



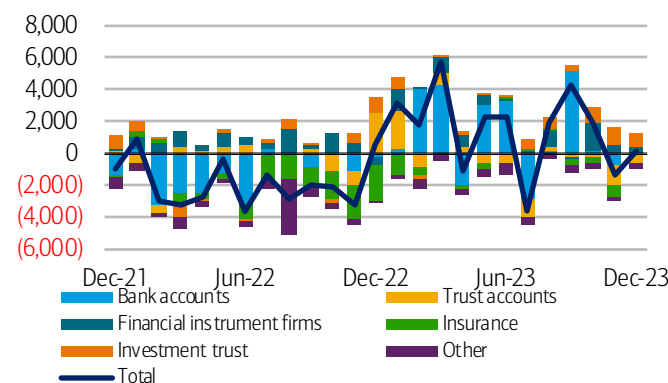
Source: BofA Global Research, MoF, Haver.

\*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 15: Outward portfolio investment**  
By investor type (¥bn)

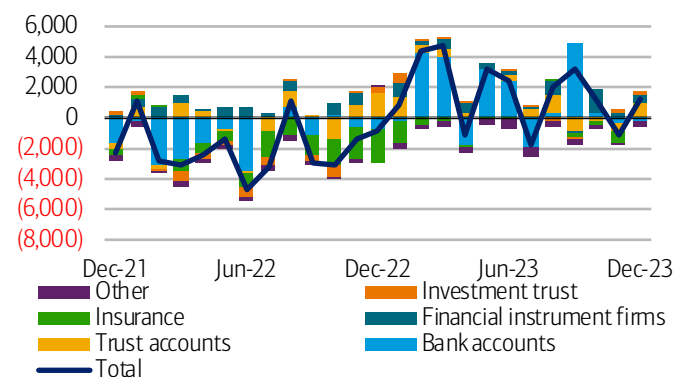


Source: BofA Global Research, MoF, Haver.

Preliminary figure for most recent month

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**Exhibit 17: Outward long-term debt investment**  
By investor type (¥bn)



Source: MoF, BoJ, BofA Global Research,

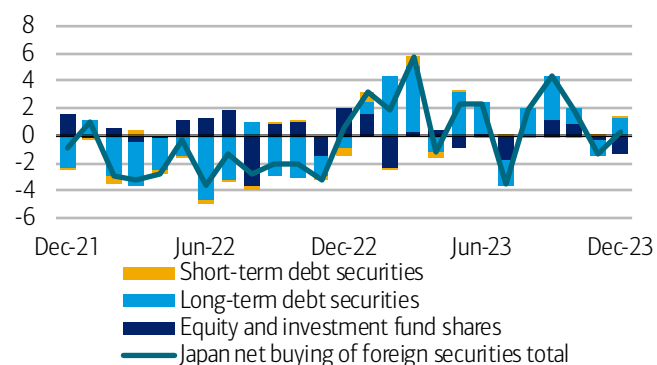
Preliminary figure for most recent month

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# Portfolio investment assets/liabilities

**Exhibit 18: Portfolio investment assets**

(net: trillion yen)

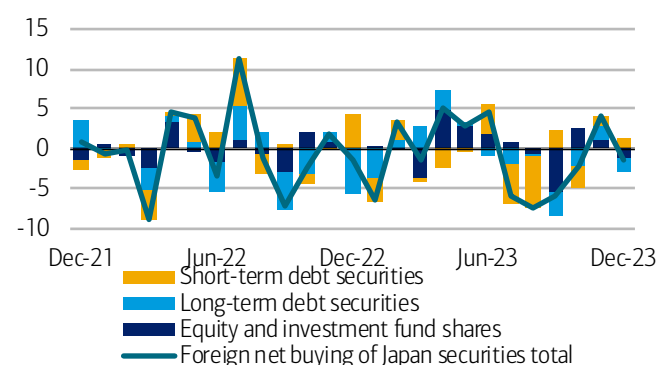


Source: MoF, BoJ, BofA Global Research

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**Exhibit 19: Portfolio investment liabilities**

(net: trillion yen)



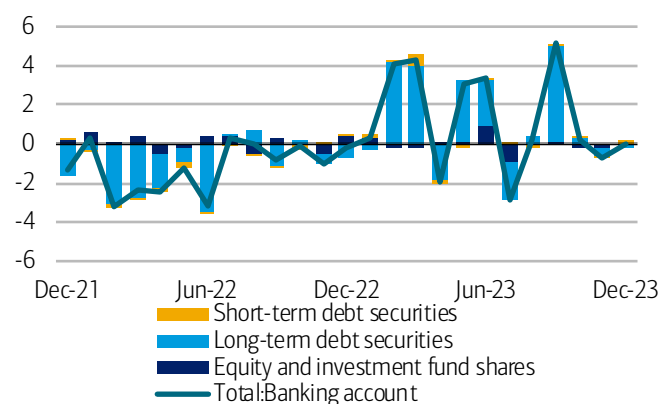
Source: MoF, BoJ, BofA Global Research

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## Portfolio investment assets by investor type

**Exhibit 20: Outward portfolio investment: Banks**

(net: trillion yen)

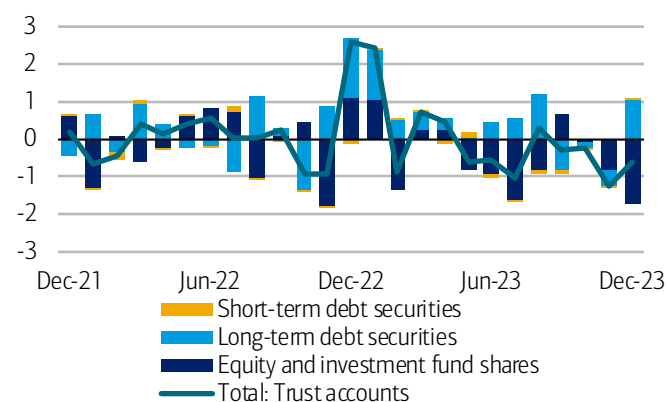


Source: MoF, BoJ, BofA Global Research

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**Exhibit 21: Outward portfolio investment: Trust accounts**

(net: trillion yen)

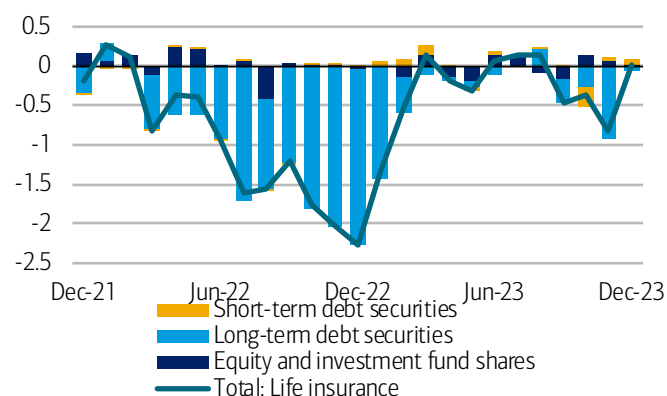


Source: MoF, BoJ, BofA Global Research

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**Exhibit 22: Outward portfolio investment: Life insurance companies**

(net: trillion yen)

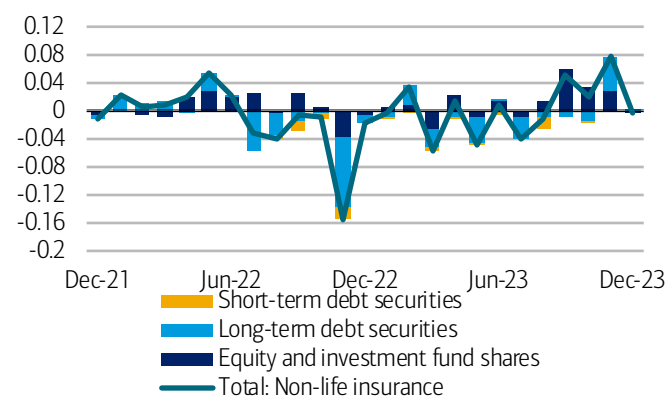


Source: MoF, BoJ, BofA Global Research

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**Exhibit 23: Outward portfolio investment: Non-life insurance companies**

(net: trillion yen)

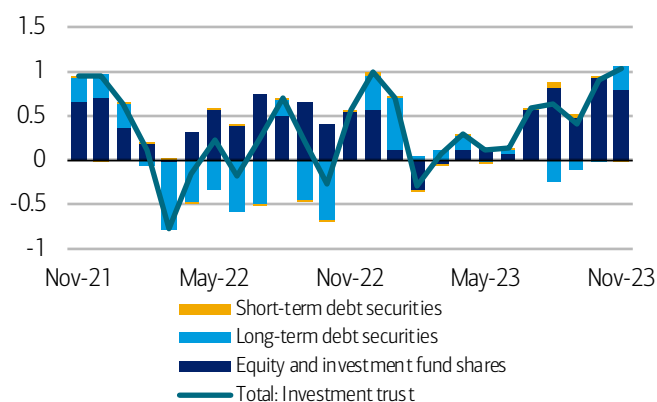


Source: MoF, BoJ, BofA Global Research

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**Exhibit 24: Outward portfolio investment: Investment trust management companies**

(net: trillion yen)

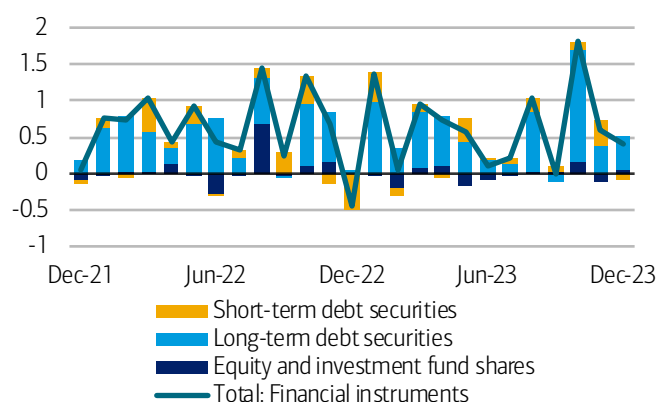


Source: MoF, BoJ, BofA Global Research

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**Exhibit 25: Outward portfolio investment: Financial instruments firms**

(net: trillion yen)

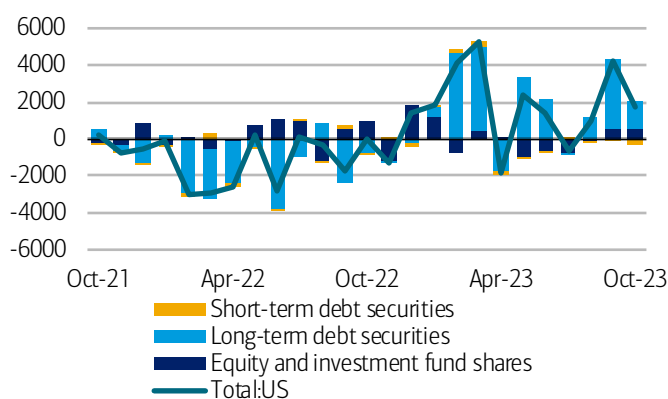


Source: MoF, BoJ, BofA Global Research

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**Outward portfolio investment, country breakdown****Exhibit 26: Outward portfolio investment: US**

(net: billion yen)

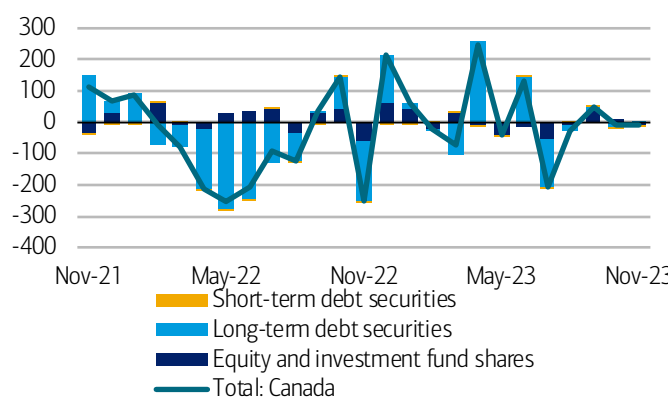


Source: MoF, BoJ, BofA Global Research

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**Exhibit 27: Outward portfolio investment: Canada**

(net: billion yen)

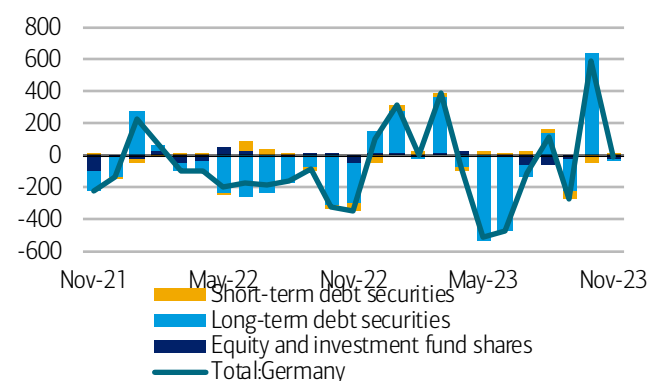


Source: MoF, BoJ, BofA Global Research

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**Exhibit 28: Outward portfolio investment: Germany**

(net: billion yen)

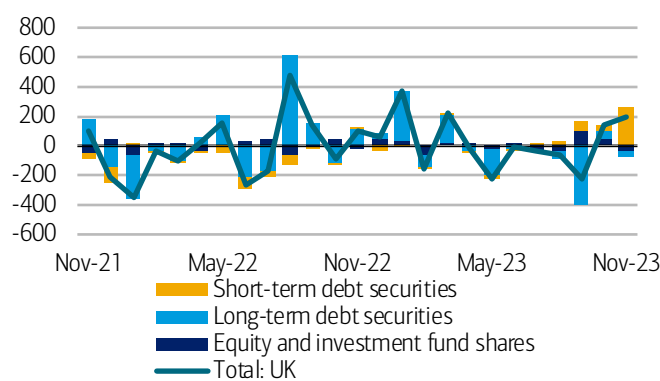


Source: MoF, BoJ, BofA Global Research

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**Exhibit 29: Outward portfolio investment: UK**

(net: billion yen)



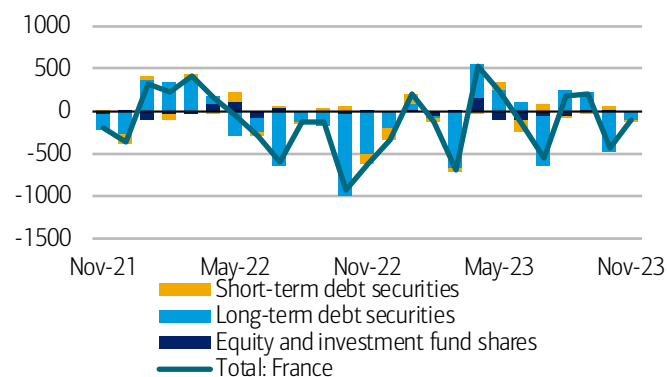
Source: MoF, BoJ, BofA Global Research

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**Exhibit 30: Outward portfolio investment: France**

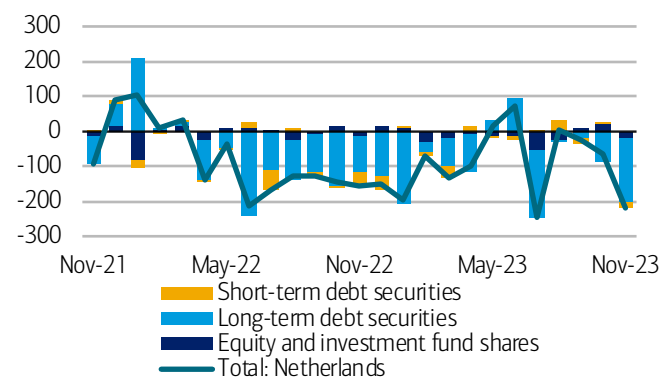
(net: billion yen)



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**Exhibit 31: Outward portfolio investment: The Netherlands**

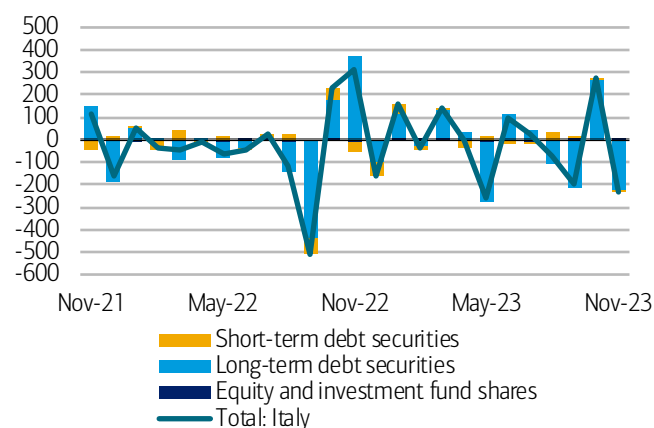
(net: billion yen)



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**Exhibit 32: Outward portfolio investment: Italy**

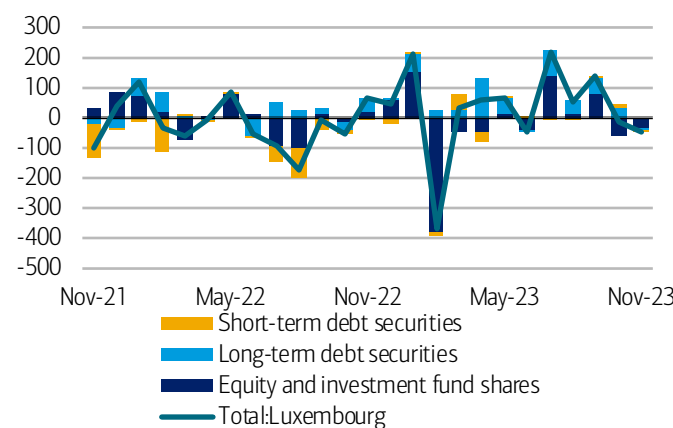
(net: billion yen)



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**Exhibit 33: Outward portfolio investment: Luxembourg**

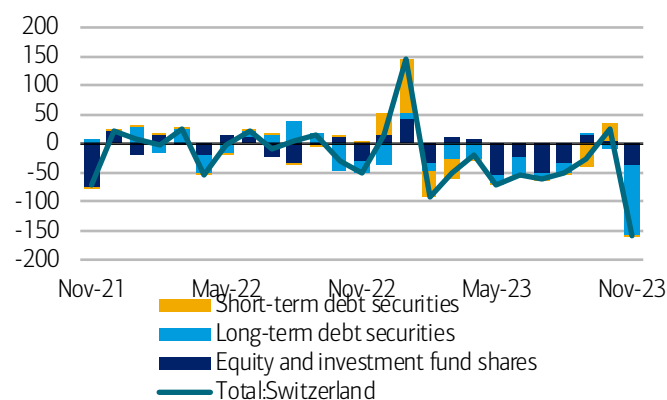
(net: billion yen)



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**Exhibit 34: Outward portfolio investment: Switzerland**

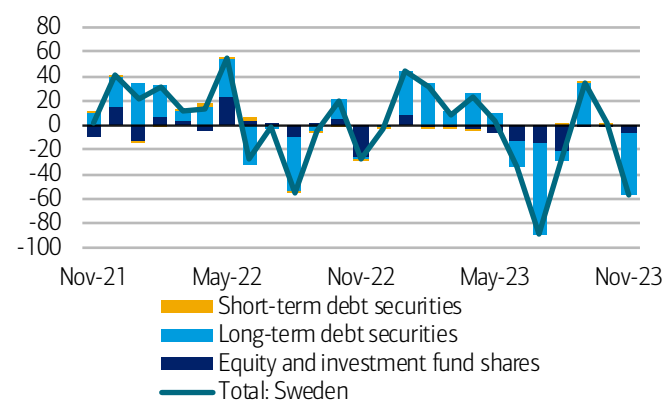
(net: billion yen)



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**Exhibit 35: Outward portfolio investment: Sweden**

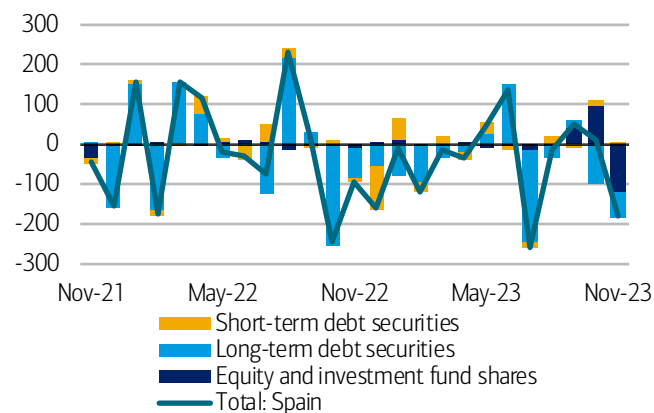
(net: billion yen)



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**Exhibit 36: Outward portfolio investment: Spain**

(net: billion yen)

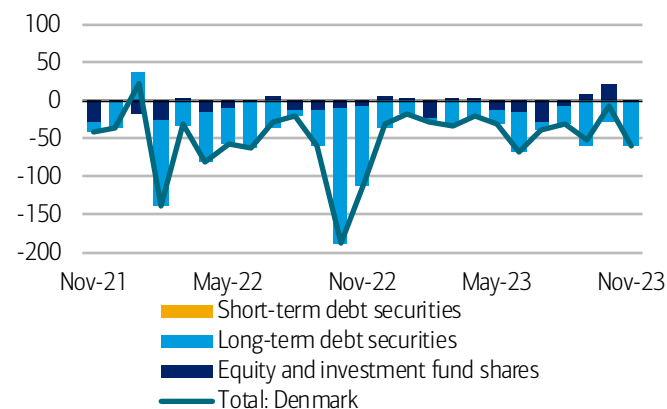


Source: MoF, BoJ, BofA Global Research

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**Exhibit 37: Outward portfolio investment: Denmark**

(net: billion yen)

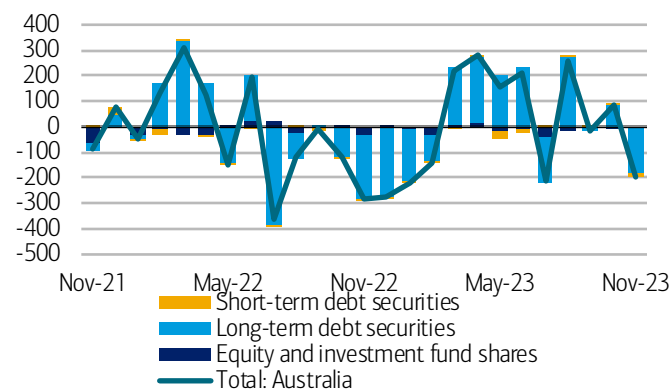


Source: MoF, BoJ, BofA Global Research

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**Exhibit 38: Outward portfolio investment: Australia**

(net: billion yen)

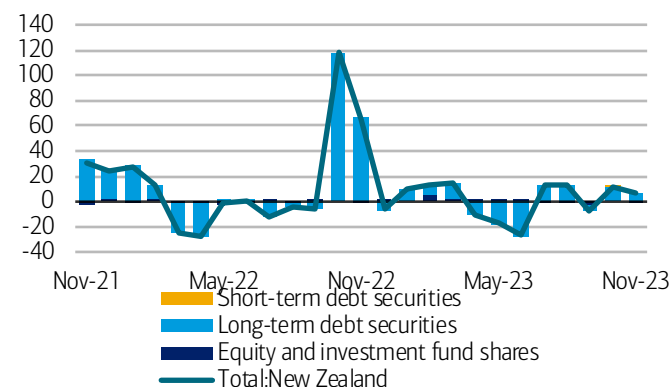


Source: MoF, BoJ, BofA Global Research

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**Exhibit 39: Outward portfolio investment: New Zealand**

(net: billion yen)

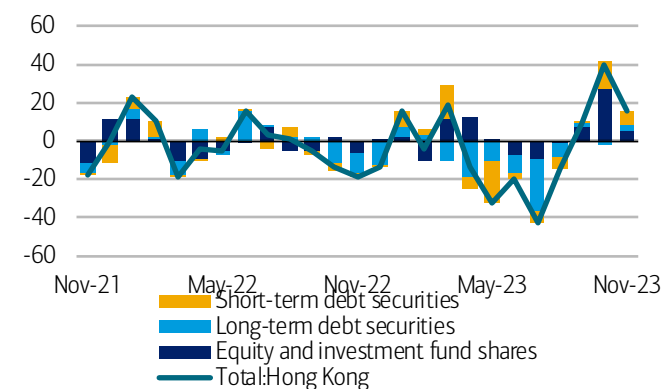


Source: MoF, BoJ, BofA Global Research

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**Exhibit 40: Outward portfolio investment: Hong Kong**

(net: billion yen)

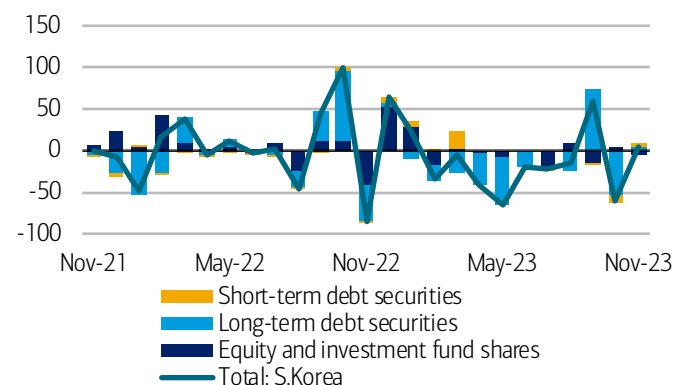


Source: MoF, BoJ, BofA Global Research

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**Exhibit 41: Outward portfolio investment: S. Korea**

(net: billion yen)

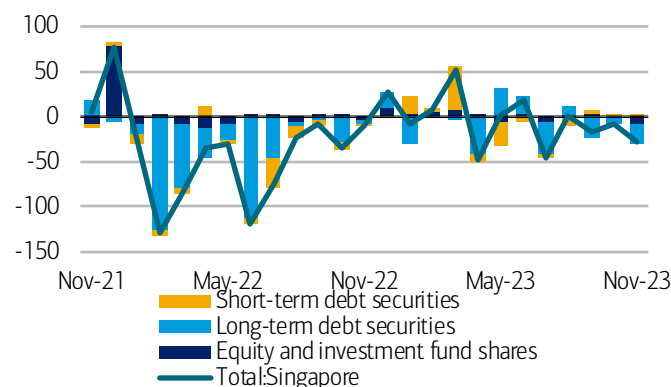


Source: MoF, BoJ, BofA Global Research

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**Exhibit 42: Outward portfolio investment: Singapore**

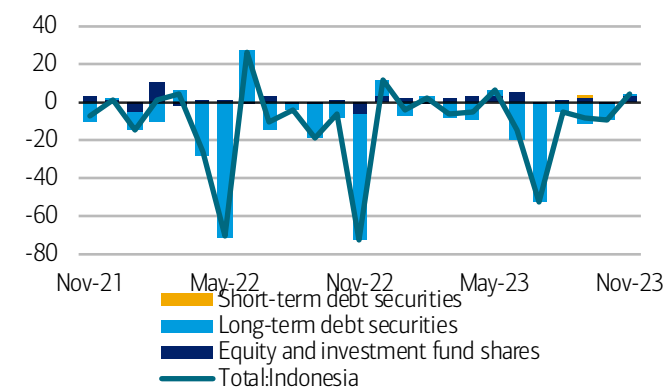
(net: billion yen)



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**Exhibit 43: Outward portfolio investment: Indonesia**

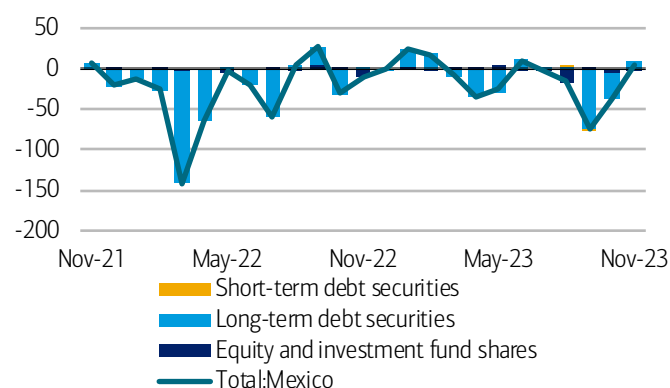
(net: billion yen)



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**Exhibit 44: Outward portfolio investment: Mexico**

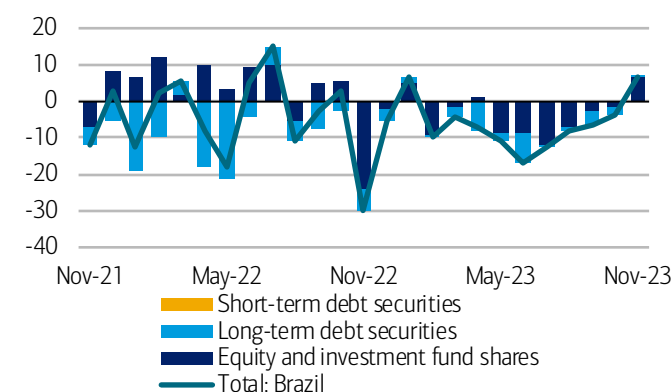
(net: billion yen)



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**Exhibit 45: Outward portfolio investment: Brazil**

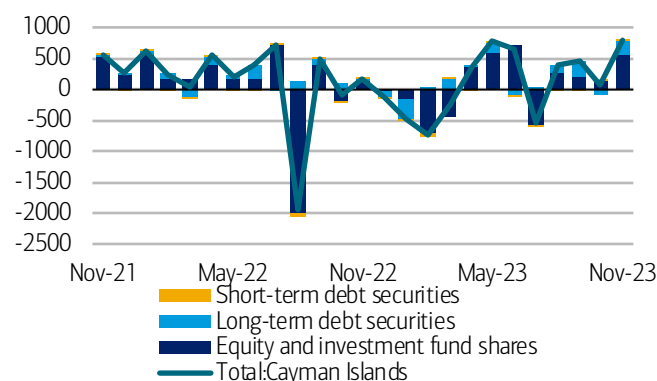
(net: billion yen)



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**Exhibit 46: Outward portfolio investment: Cayman Islands**

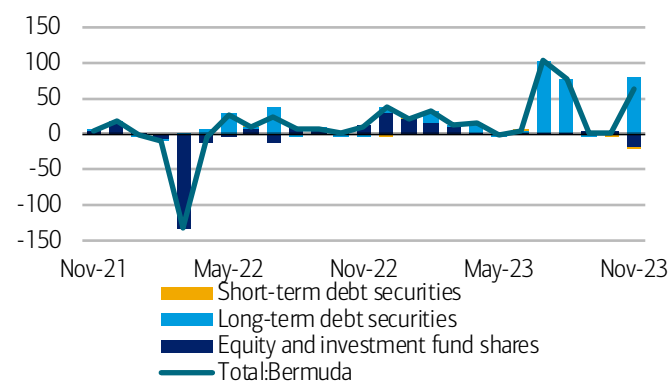
(net: billion yen)



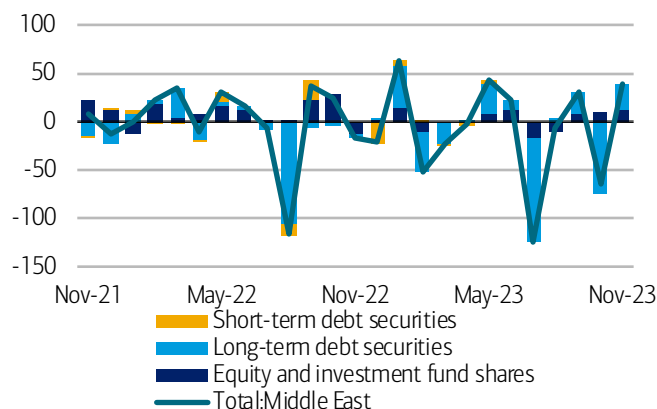
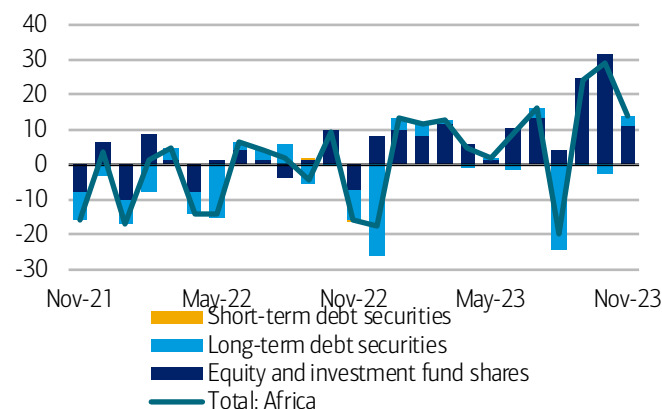
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**Exhibit 47: Outward portfolio investment: Bermuda**

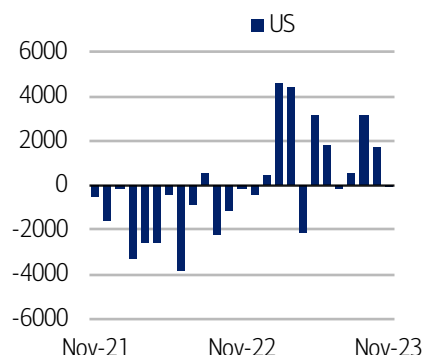
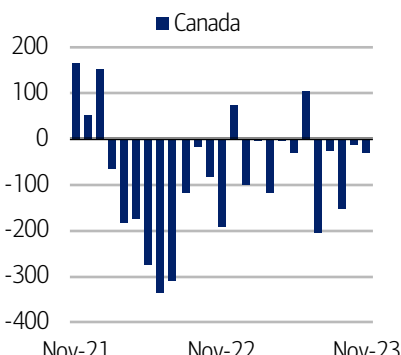
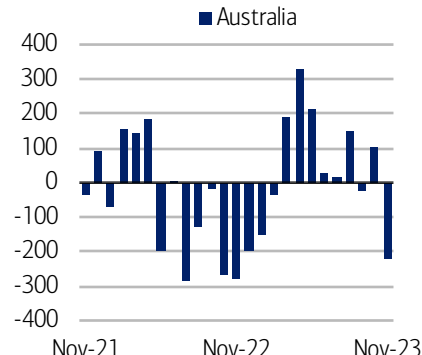
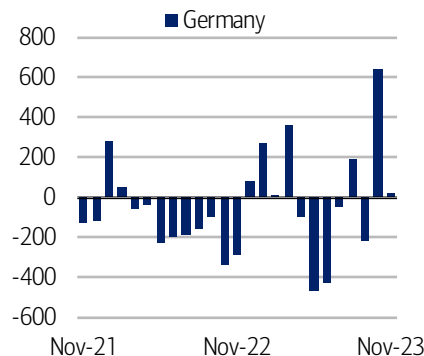
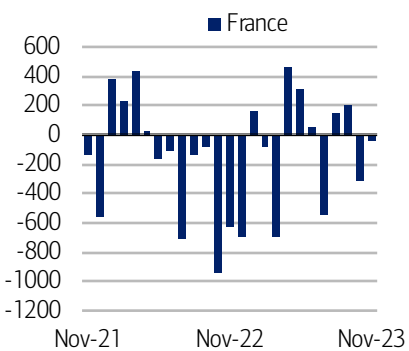
(net: billion yen)



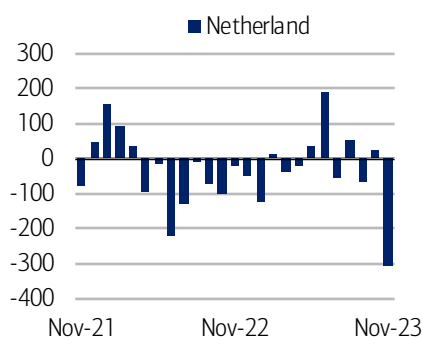
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**Exhibit 48: Outward portfolio investment: The Middle East**  
(net: billion yen)**Exhibit 49: Outward portfolio investment: Africa**  
(net: billion yen)

## Portfolio investment assets, country breakdown of sovereign bonds

**Exhibit 50: Sovereign bonds: US**  
(net: billion yen)**Exhibit 51: Sovereign bonds: Canada**  
(net: billion yen)**Exhibit 52: Sovereign bonds: Australia**  
(net: billion yen)**Exhibit 53: Sovereign bonds: Germany**  
(net: billion yen)**Exhibit 54: Sovereign bonds: France**  
(net: billion yen)**Exhibit 55: Sovereign bonds: Italy**  
(net: billion yen)

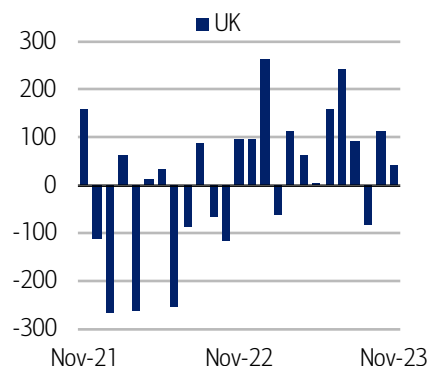
**Exhibit 56: Sovereign bonds: The Netherlands**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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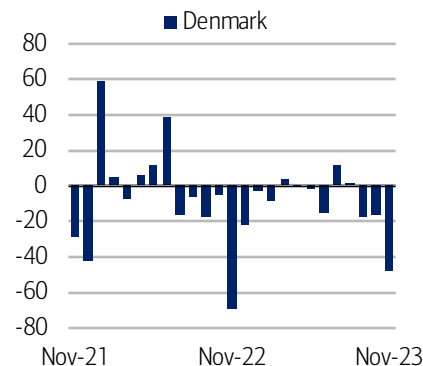
**Exhibit 57: Sovereign bonds: The UK**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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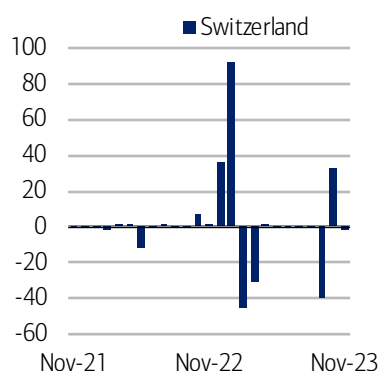
**Exhibit 58: Sovereign bonds: Denmark**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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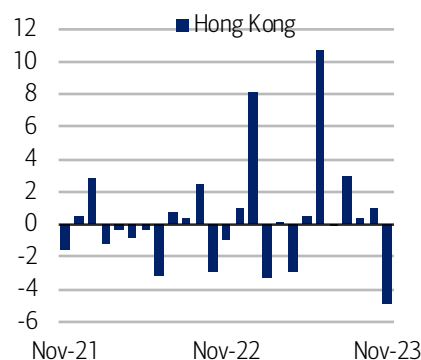
**Exhibit 59: Sovereign bonds: Switzerland**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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**Exhibit 60: Sovereign bonds: Hong Kong**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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**Exhibit 61: Sovereign bonds: Sweden**  
(net: billion yen)

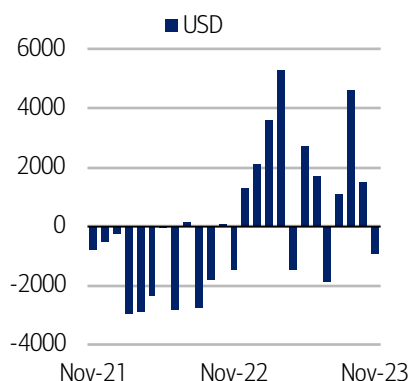


Source: MoF, BoJ, BofA Global Research

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## Outward portfolio investment by quotation currency

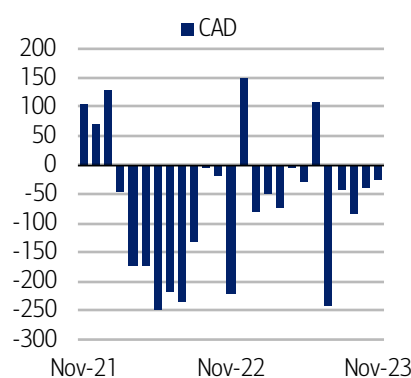
**Exhibit 62: Outward portfolio investment: USD**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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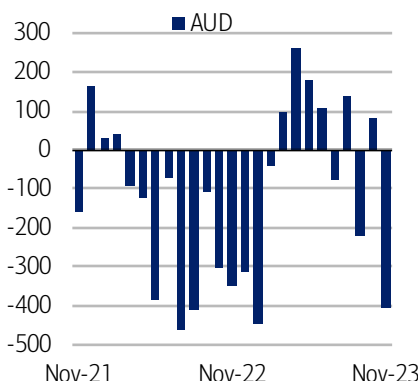
**Exhibit 63: Outward portfolio investment: CAD**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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**Exhibit 64: Outward portfolio investment: AUD**  
(net: billion yen)

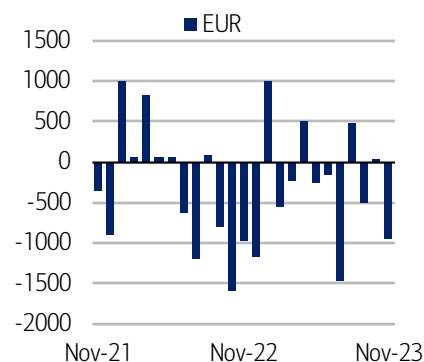


Source: MoF, BoJ, BofA Global Research

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**Exhibit 65: Outward portfolio investment: EUR**

(net: billion yen)

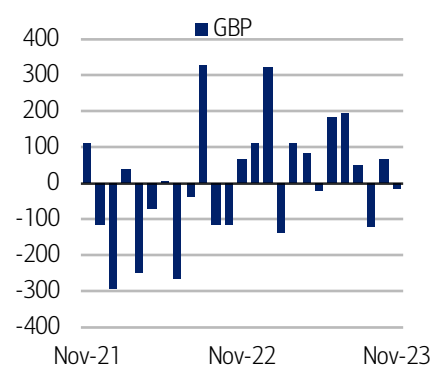


Source: MoF, BoJ, BofA Global Research

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**Exhibit 66: Outward portfolio investment: GBP**

(net: billion yen)

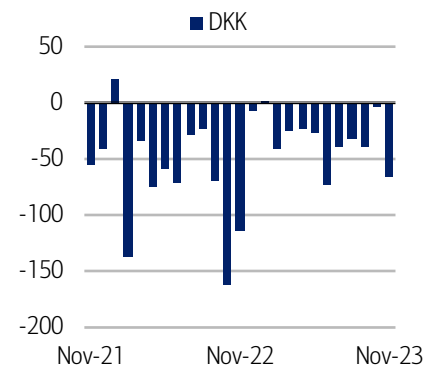


Source: MoF, BoJ, BofA Global Research

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**Exhibit 67: Outward portfolio investment: DKK**

(net: billion yen)

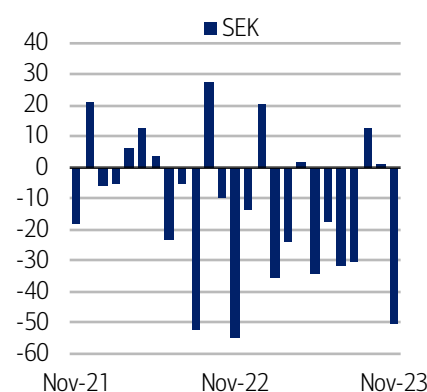


Source: MoF, BoJ, BofA Global Research

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**Exhibit 68: Outward portfolio investment: SEK**

(net: billion yen)

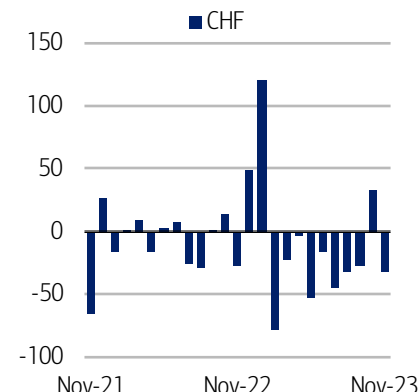


Source: MoF, BoJ, BofA Global Research

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**Exhibit 69: Outward portfolio investment: CHF**

(net: billion yen)

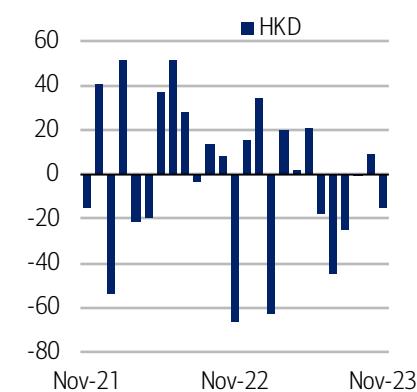


Source: MoF, BoJ, BofA Global Research

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**Exhibit 70: Outward portfolio investment: HKD**

(net: billion yen)

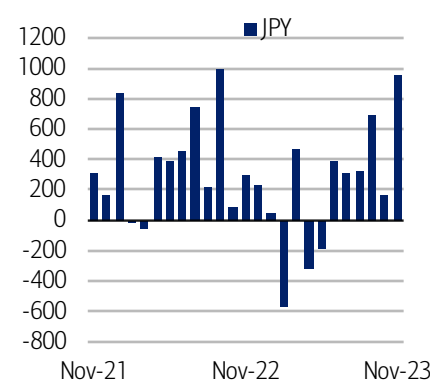


Source: MoF, BoJ, BofA Global Research

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**Exhibit 71: Outward portfolio investment: JPY**

(net: billion yen)

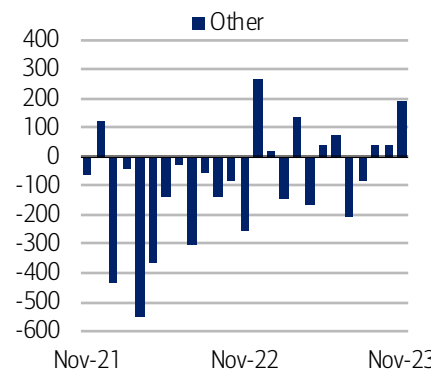


Source: MoF, BoJ, BofA Global Research

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**Exhibit 72: Outward portfolio investment: Other**

(net: billion yen)

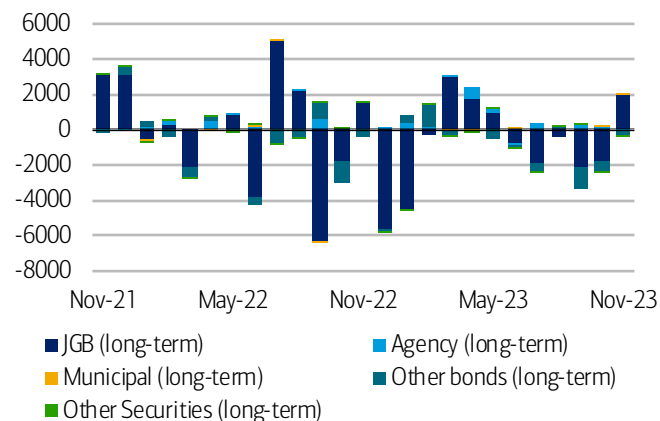


Source: MoF, BoJ, BofA Global Research

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# Portfolio investment liabilities by type of debt security

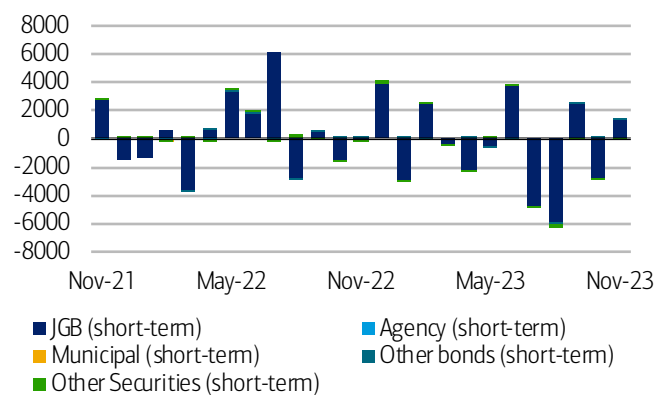
**Exhibit 73: Portfolio investment liabilities: Long-term debt**  
(net: billion yen)



Source: MoF, BoJ, BofA Global Research

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



Source: MoF, BoJ, BofA Global Research

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