

Strategist View

Japanese Equity Market Trends and Outlook

– Foreign Investors’ Investment Attitudes toward Japanese Equity

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Selling by foreign investors led the decline in Japanese stocks

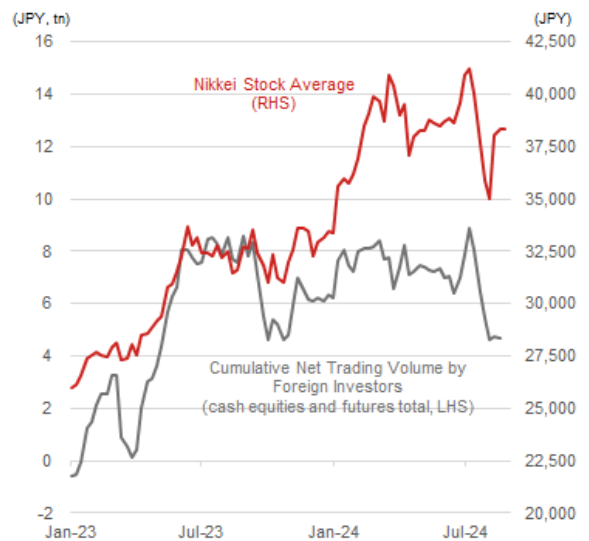
From mid-July to early August, the correction trend in the Nikkei Stock Average (Nikkei 225) intensified. This is believed to be due to overseas investors, who have a significant influence on the Japanese stock market, heavily selling Japanese stocks (Fig 1). At the end of July, Bank of Japan Governor Kazuo Ueda expressed a proactive attitude towards continuous interest rate hikes, which further strengthened the yen and raised concerns over Japanese companies' business performances, accelerating the selling of Japanese stocks by overseas investors. However, both Governor Ueda and Deputy Governor Shinichi Uchida of the Bank of Japan have softened their tone regarding interest rate hikes, and recently, movements in the yen have stabilized, which has started to ease the selling pressure from overseas investors (Fig. 1).

Focus on continuing progress against deflation and corporate reform

When dividing into cash equities and futures, the adjustment in Japanese stocks is primarily attributed to futures trading, which tends to reflect the activities of hedge funds and similar short-term investors (Fig. 2). Foreign investors sold about 3.5 trillion yen worth of futures over five weeks starting from the third week of July (turning to a net purchase of over 390 billion yen in the third week of August). On the other hand, cash equities transactions, which are said to reflect the actions of mid- to long-term investors, saw net selling of only around 680 billion yen during the same period. Notably, in the first week of August, when Japanese stocks plummeted, mid- to long-term investors were net buyers of nearly 500 billion yen worth of cash equities, indicating that their interest in Japanese equities remains intact.

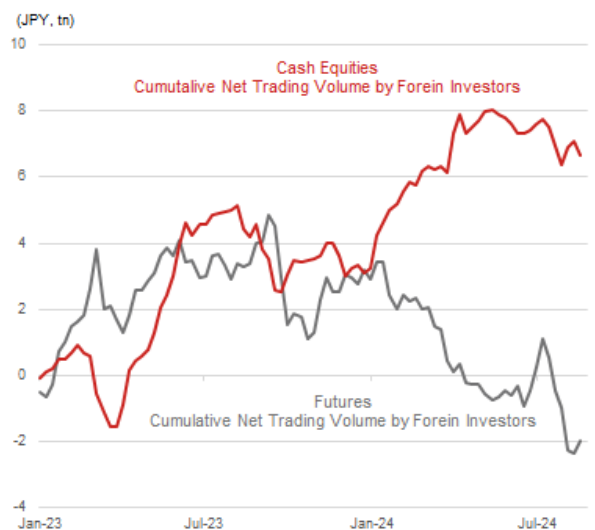
In fact, since the beginning of 2023, when the upward trend in Japanese stocks became clearer, the cumulative net purchase volume for cash equities has been maintaining a high level of about 6.7 trillion yen. In contrast, futures have recorded a net sell-off of about 2.0 trillion yen, indicating significant demand for future buybacks. As market turbulence appears to be subsiding, the key question is whether progress towards Japan's exit from deflation and towards corporate reform will continue, which could revive overseas investors' interest in Japanese stocks.

Figure 1. Nikkei 225 and Cumulative Net Trading Volume by Foreign Investors (cash equities and futures total since early 2023)



Period: (Nikkei 225) January 6, 2023 to August 29, 2024, weekly (Cumulative net trading volume between by foreign investors) January 1, 2023 to August 3, 2024, weekly · Futures are for Nikkei 225 Futures and TOPIX Futures, Large and Mini Source: Nomura Asset Management based on data from Bloomberg.

Figure 2. Cumulative Net Trading Volume of Cash Equities and Futures by Foreign Investors



Period: From the first week of January 2023 to the third week of August 2024, weekly. Source: Bloomberg by Nomura Asset Management

*This commentary is based on personal views of the author and does not necessarily represent Nomura Asset Management house view.

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