

Daiwa's View

FICC Research Dept

New anomaly in new NISA era?

- Yen selling towards Tokyo middle rate on second business day of every month

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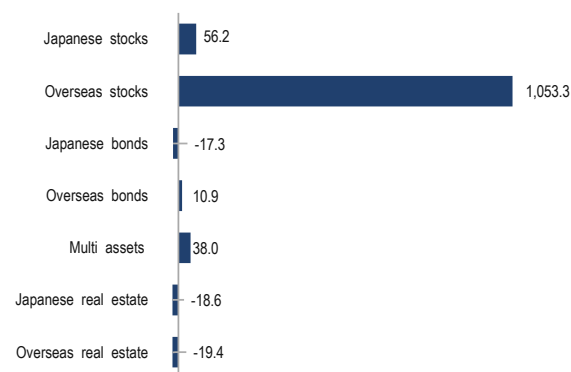
Daiwa Securities Co. Ltd



One month has passed since the start of the new Nippon Individual Savings Account (new NISA) system. Investment money from households appears to have flowed into overseas stocks to a greater extent than initially expected. Looking at investment trends in publicly-offered investment trusts since the beginning of this year, we found that the inflow of funds to overseas investment trusts has been surging. According to estimates by the Nomura Research Institute, the amount of cumulative net inflow into overseas investment trusts reached Y1,053.3bn, far in excess of that for other asset classes (Chart 1).

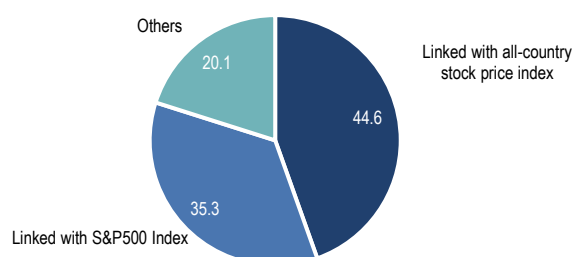
Investment trusts linked with indices such as the all-country stock price index and the US stock price index (S&P500) are particularly popular products. According to QUICK Asset Management Research Center, the total inflow into these two products accounts for about 80% of the total inflow into investment trusts (Chart 2). All of the products ranked top in terms of fund inflows since the beginning of the year are eligible for purchase through the new NISA system. Purchases via new NISA accounts appear to account for a very high percentage.

On 23 December 2023, *Nikkei* reported that the total amount booked for cumulative investments in the new NISA at five online securities companies came in at the Y200bn/month level. More specifically, it was reported that the amount booked until 20 December stood at Y230bn/month, exceeding the approximately Y100bn in monthly purchases in cumulative investment NISA accounts at securities companies, as estimated based on Japan Securities Dealers Association materials. The article presented the top three products in terms of the amount booked, reporting that (1) they were linked with the all-country stock price index or the US stock price index (S&P500) and (2) the amount booked was Y149.9bn, accounting for 65.2% of the total.

Chart 1: Amount of Funds Flowing into Publicly-offered Investment Trusts Since Beginning of 2024 (Y bn)

*As of 30 Jan 2024

Source: Nomura Research Institute, Reuters; compiled by Daiwa.

Chart 2: Ratio of Inflow of Funds by Type (through 18 Jan)

Source: QUICK Asset Management Research Center; compiled by Daiwa.

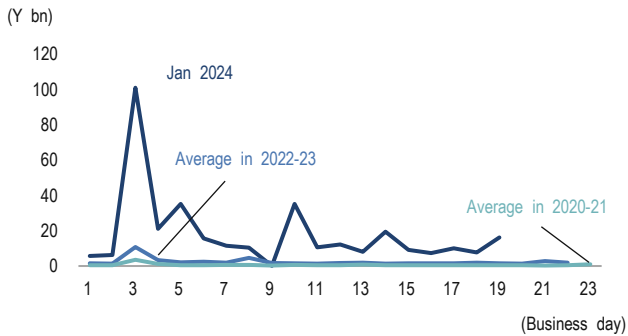
Assuming monthly purchases of Y230mn and the market share of the five online securities companies remaining unchanged at 60%, the total can be calculated at about Y383.3bn/month and Y4.6tn/year. This investment is limited by the cumulative investment quota (up to Y1.2mn/year). There is a separate growth investment quota (up to Y2.4mn/year), so it wouldn't feel odd to see the inflow of funds exceed the Y1tn mentioned at the beginning of this report.

The product ranked top in terms of the inflow of funds since the beginning of the year was an investment trust linked with the all-country stock price index managed by a major Japanese fund management company. On 9 January alone, the amount of inflow exceeded Y100bn, approximately equal to the amount of monthly inflow in December 2023, which attracted market attention. According to my estimates, the inflow of funds in January amounted to Y342.8bn, more than triple that of the previous month. The second-ranked product also belongs to a series of funds linked with the US stock price index (S&P500), with the inflow of funds to this product being up more than 2.5-fold m/m (up Y207.9bn).

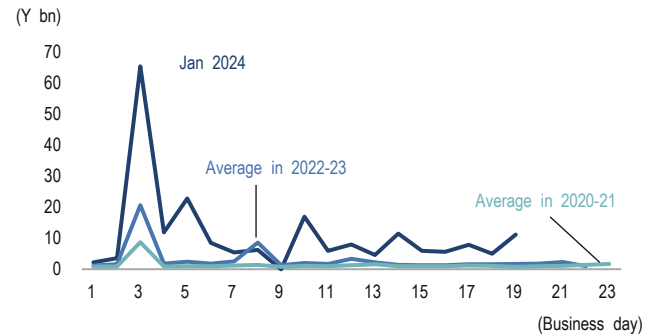
Charts 3 and 4 show monthly trends in the inflow of funds by business day regarding these overwhelmingly popular index funds. Looking at these, we found that the inflow of funds on the third business day of every month is remarkably large. This unevenness is observed because the purchase date for cumulative investment trusts via credit card settlement is set at the beginning of the month in many cases. We can confirm that this trend has been somewhat less uneven recently because of certain measures, such as switching over to setting the purchase date to other times besides the beginning of the month. However, despite this, the overwhelming number of purchases currently occur at the beginning of the month. In January 2024, the inflow of funds on the third business day was more than triple that on days that saw a large amount of purchases but that were not at the beginning of the month.

Generally, with investment trusts that include overseas assets, the execution date is the next business day following the application date. The reference price when executed is calculated by multiplying the closing price on the previous day of the execution date by the currency exchange rate (middle rate) on the execution date. In the case of purchases, net assets increase on the next business day following the execution date, when funds transfer from the sales company to the fund management company. Therefore, around the time of the announcement of Tokyo's middle rate on the second business day, we see the impact of the fund flow related to purchases of investment trusts at the beginning of the month on the forex market.

At the beginning of the year, overseas investment and yen selling via the new NISA became a hot topic. We should note whether this becomes a regular monthly anomaly. If the amount were about Y200bn, we do not think that this would have a strong impact that could change JPY rate trends, given the entire size of the forex market. That said, if many market participants were to believe in the anomaly and sell the yen in line with the spread of the anomaly, this could serve as a short-term fluctuation factor.

Chart 3: Amount of Funds Flowing into eMAXIS Slim All-country Stocks


Source: Mitsubishi UFJ Asset Management; compiled by Daiwa.
 Note: Amount of inflow of funds estimated by Daiwa.

Chart 4: Amount of Funds Flowing into eMAXIS Slim US Stocks


Source: Mitsubishi UFJ Asset Management; compiled by Daiwa.
 Note: Amount of inflow of funds estimated by Daiwa.

Data from February onwards will enable us to more accurately grasp the scale of funds flowing into overseas investment trusts, which will be observed mechanically every month. This is because it appears that some individual investors who have enough cash on hand made lump-sum investments at the beginning of the year by using the growth investment quota, which may have exaggerated the amount of the inflow of funds in January. It is also important to confirm to what extent “yen selling by households” has changed, based on ongoing flows from the former NISA and people switching over from regular securities accounts. As stable yen buyers have now disappeared in the absence of a trade surplus, [a change in household investment behavior could drastically alter supply and demand with the JPY rate](#), which warrants attention.

For reference, the former NISA did not allow reuse of the tax-free investment quota after selling. However, the new NISA allows reuse of the tax-free investment quota after selling in the following year. Therefore, this makes it easier to sell compared to the former NISA, meaning that when there is a plunge in global stock prices, selling may increase, with repurchasing of the yen. In that sense, they are not necessarily strong “outright” transactions in which offsetting transactions do not occur as much as trade-related flows. That said, such movement is expected to happen only once in a decade, so the new rule is likely to constantly create depreciation pressure on the medium-term yen trend.

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