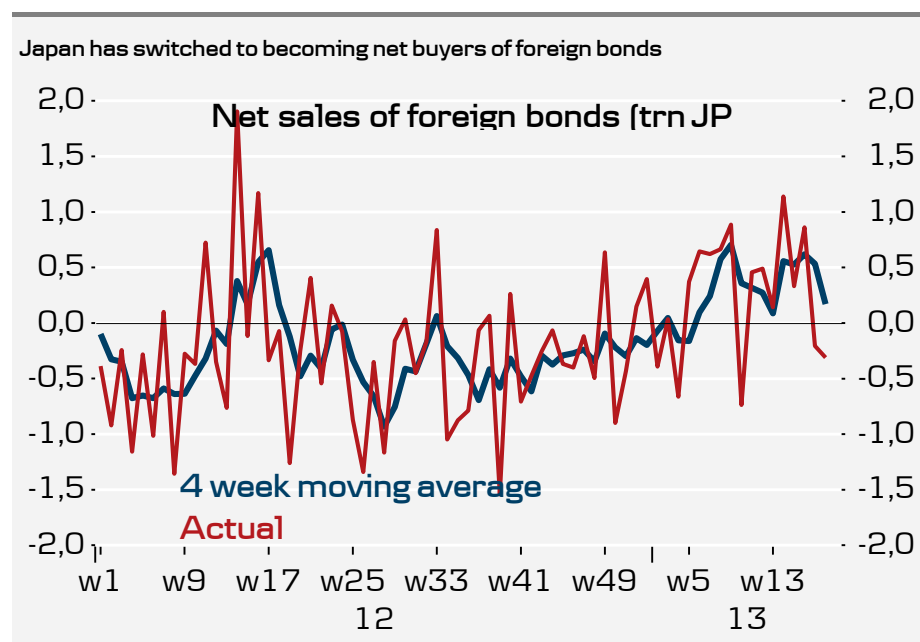


Monitor

Japanese investor flows

- A central market theme remains concerning the potential spill-over effect of the aggressive Japanese quantitative easing programme. It is still early days for the BoJ programme and it will take time before a clear pattern is established. Given the magnitude of the BoJ intervention, we expect it to have a positive effect on European government bond markets over the coming quarters.
- Data released overnight shows that over the past two weeks Japanese investors have switched to now being net buyers of foreign bonds. Last week they bought a net JPY310bn of foreign bonds and JPY204bn the week before. Japanese investors were also net buyers of foreign bonds last year.
- One explanation for the net sales of foreign bonds during Q1 13 could be the need to rebalance portfolios ahead of the fiscal year-end. Remember the weaker JPY implies that Japanese investors' funds have *ceteris paribus* increased the share of foreign securities in the investment portfolios.
- Note also that the most recent detailed data from the Japanese Ministry of Finance (March) confirms that Japanese investors remained net buyers of euro area government bonds in March and net sellers of US Treasuries. It was, in particular, French government bonds that were popular among Japanese investors last year, although this share has been decreasing recently while purchases of bonds from the Netherlands and Austria have increased.
- Japanese investors' net purchases of peripherals up until March were very limited. Note that investors have switched from being net sellers to broadly neutral.

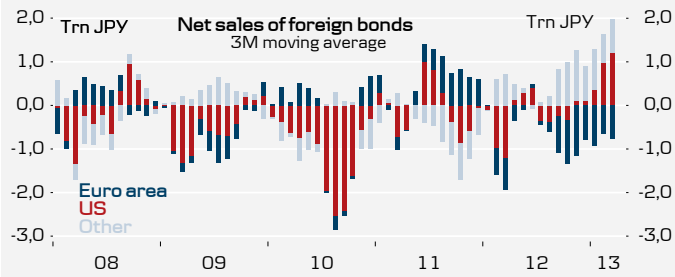


Source: Reuters EcoWin, Danske Bank Markets

Senior Analyst
Flemming Jegbjærg Nielsen
+45 45 12 85 35
flemm@danskebank.dk

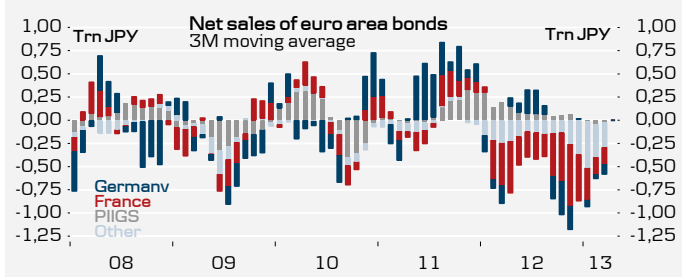
Senior Analyst
Anders Møller Lumholtz
+45 45 12 84 98
andjrg@danskebank.dk

Japanese have been net sellers of US Treasuries but net buyers of euro area bonds (last observation is March)



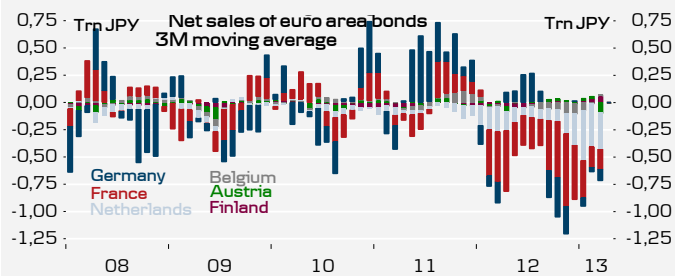
Source: Reuters EcoWin, Danske Bank Markets

Japan had a preference for French bonds in 2012. Recently Japanese investors have stopped selling peripherals



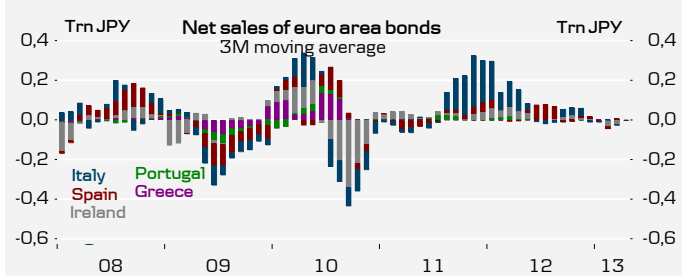
Source: Reuters EcoWin, Danske Bank Markets

Japanese investors like core and semi-core EGBs...



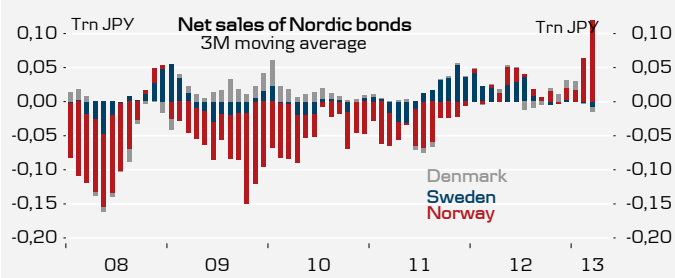
Source: Reuters EcoWin, Danske Bank Markets

...while net sales of peripherals have been broadly neutral



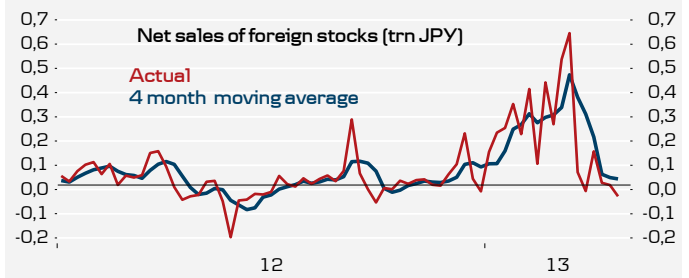
Source: Reuters EcoWin, Danske Bank Markets

Japan has been a net seller of Norway since the systemic euro risk has decreased (last observation March)



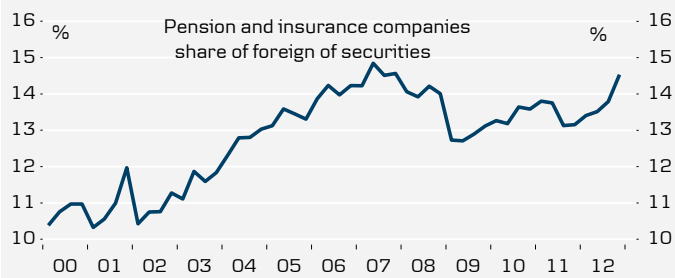
Source: Reuters EcoWin, Danske Bank Markets

Japanese investors are also net buyers of foreign stocks



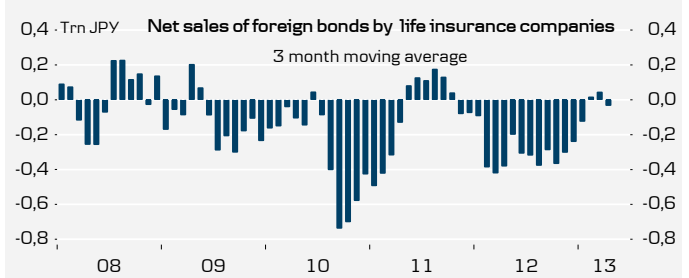
Source: Reuters EcoWin, Danske Bank Markets

Japanese pension and insurance companies share of foreign securities has been increasing (last observation Q4 12)...



Source: Reuters EcoWin, Danske Bank Markets

...as reflected by net purchases during 2012



Source: Reuters EcoWin, Danske Bank Markets

Disclosure

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of this research report are Flemming Jegbjærg Nielsen, Senior Analyst and Anders Møller Lumholtz, Senior Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Services Authority (UK). Details on the extent of the regulation by the Financial Services Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors upon request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.