

securities, buoying share prices and sending the yen downward. However, we have not put much emphasis on this point despite our consistent bearishness on the yen.

Let us consider a simple calculation. Banks and securities brokers have competed fiercely to attract NISA accounts, and applications for 3.58m accounts had been received as of 1 October. The government expects this to grow to 15m accounts and ¥25trn (¥1.67m per person) in the seven years to 2020. Let us assume that relatively active investors open 5m accounts worth ¥4trn (compared to maximum possible ¥5trn) next year.

Recent individual investor flows suggest that they prefer domestic stocks to foreign securities. If 25% of the NISA funds are allotted to foreign securities such as investment trusts, it will come to ¥1trn. This includes switching from other foreign securities. If half is new money, the total would be ¥500bn or a monthly average of over ¥40bn. It would be inappropriate to highlight a yen-weakening impact for this scale of investment.

Of course, if the environment continues to encourage risk-taking activity even without NISA, investors may invest more heavily and keenly in the NISA program. However, most Japanese investors including individuals have been net sellers of foreign securities and domestic stocks even amid the sharp drop in the yen and equity rally under the "Abe market" spurred by the economic policies of Prime Minister Shinzo Abe. We cannot imagine a 180-degree turnabout in investor behavior on the basis of NISA.

Our belief that the yen will decline in value is based on the strength of the US economy, the BoJ's "easing of a new dimension", overseas yen carry trades, and Japanese buying of foreign currencies on dips. Regardless of NISA, we reiterate our USD/JPY forecast of ¥115 at end-2014 and ¥120 at end-2015. Still, we do not want to be misunderstood. Setting aside the overheated speculation in the markets, we do not doubt that NISA will support a depreciation in the yen and rise in equity markets going forward.

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