# Cut in Japanese bond holdings 'not motivated by politics'

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By Zheng Yangpeng (China Daily USA)

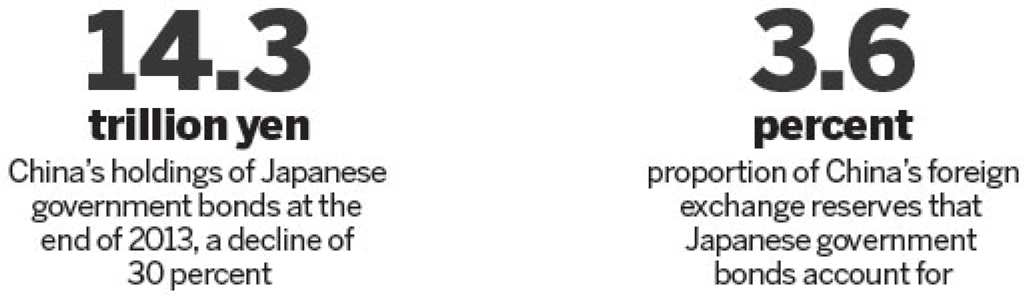
Decision to reduce made because of China's concerns over yen's continued depreciation, say economists

Yen depreciation fears prompted China to reduce its huge exposure to Japanese government bonds, Chinese economists said on Wednesday, dismissing suggestions that the move was politically motivated.

China cut its holding of JGBs by 6.2 trillion yen ($59.8 billion), or 30 percent, to 14.3 trillion yen by the end of 2013, the Nihon Keizai Shinbun reported on Monday, citing statistics from Japan's finance ministry.

The report went on to add that while it is understandable that Chinese monetary authorities would sell JGBs to protect the value of the country's foreign-currency reserves as the yen continued to weaken, there are reasons beyond that.

One reason, the newspaper guessed, is China could pressure Japan by threatening to dump vast, hidden holdings of JGBs. Such a move would send Japanese bond prices plummeting and long-term interest rates soaring.




Sino-Japanese relations have soured dramatically since 2012 over territorial disputes and other issues.

Xu Hongcai, an economist with the China Center for International Economic Exchanges, said that China's JGB holdings are far from substantial enough to pose a threat to Japanese bond prices.

China held 14.3 trillion yen of JGBs by the end of 2013, according to Japan's data. That made up about 1.43 percent of the 1 quadrillion yen worth of total JGBs. It also accounted for 3.6 percent of China's foreign exchange reserves by the end of last year.

Economists said that most of the Japanese bonds are snapped up by its domestic institutions such as the central bank.

China's decision to trim its JGB holdings is primarily out of concerns that the yen would depreciate further under Japanese Prime Minister Shinzo Abe's monetary policy easing.

Past actions are testimony to China's neutral stance on JGBs, they said. China increased JGB purchases in 2010 after concerns over the stability of the dollar surfaced in the wake of the global financial crisis.

China zoomed past the United Kingdom to become the largest overseas holder of JGBs then, the economists said.

The report said China's actual holdings of JGBs may be underestimated as a large portion of it is disguised under other accounts. It said that at the end of last year, Luxembourg had 12 trillion yen worth of JGBs, up nearly 50 percent from a year earlier, moving it ahead of the UK and the US to become the second-biggest holder of JGBs after China. Luxembourg's relaxed financial regulations makes it a haven for investors who want to keep their identities secret, the report said.

It also suggested that public opinion might have played a big role in China reducing its holdings of Japanese debt.

Ding Zhijie, dean of the Finance School at the University of International Business and Economics in Beijing, said concerns of direct exposure to the Japanese government's knowledge of its assets might explain why China hides part of its Japanese assets in other countries' accounts.

With bilateral tensions worsening, China is also apprehensive about the safety of its Japanese assets and wants to avoid any provocative action by the Japanese government, Ding said.

Both Ding and Xu denied reports that China was deliberately selling JGBs to maintain yields.

"China just reacted to the yen's depreciation and the reduced holding in itself is conducive for the yen's fall," Xu said.

zhengyangpeng@chinadaily.com.cn

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