

The BOJ's ETF Purchases and Its Effects on Nikkei 225 Stocks*

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Abstract

This paper examines the impacts of the Bank of Japan's (BOJ) exchange-traded funds (ETFs) purchasing program that has been conducted since December 2010; this program is a part of the BOJ's unconventional monetary policy and has accelerated after the introduction of the Quantitative and Qualitative Easing in April 2013. In this study, the influence of underlying stocks is assessed by comparing the performance of stocks those included in the Nikkei 225 and others using a difference-in-difference analysis. We also separate morning and afternoon returns to control the fact that the BOJ tends to purchase ETFs when performance of the stock market is not great in the morning session. We find that the Nikkei 225 component stocks' afternoon returns are significantly higher than those of non-Nikkei 225 stocks when the BOJ purchases ETFs. In addition, the subsample analysis demonstrates that the impact on Nikkei 225 stock returns becomes smaller over time despite the growing purchase amounts. Overall, our results indicate that the cumulative treatment effects on the Nikkei 225 are around 20% as of October 2017.

Keywords; Exchange Traded Funds, Unconventional Monetary Policy, Stock Market Intervention, Difference in Difference

JEL classification: E52, E58, G10

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