The Japanese Fiscal Year No Longer Important

Repatriation Of Funds No Longer A Significant Factor

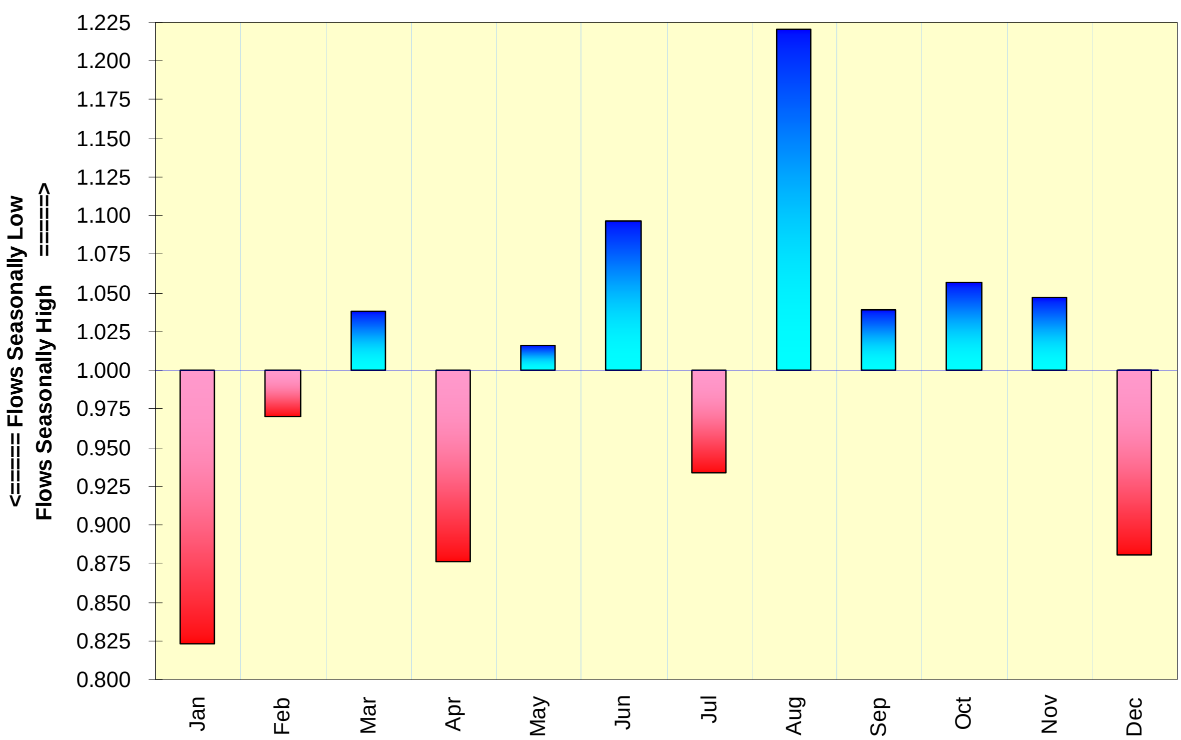
One of my recurring daydreams is one day I will be at the Retired Economists Home, to be located for sure on Alcatraz Island (For escape, we will assume we have a boat…) where I will regale visiting schoolchildren on their field trip from Hell with stories about, way back in the 1980s, bond traders feared the Japanese would sell all of their bonds and drive American interest rates skyward.

This was, of course, before we discovered how one day the U.S. government would find itself $15 trillion or so in hock and long-term interest rates would plunge in response. Live and learn, I say.

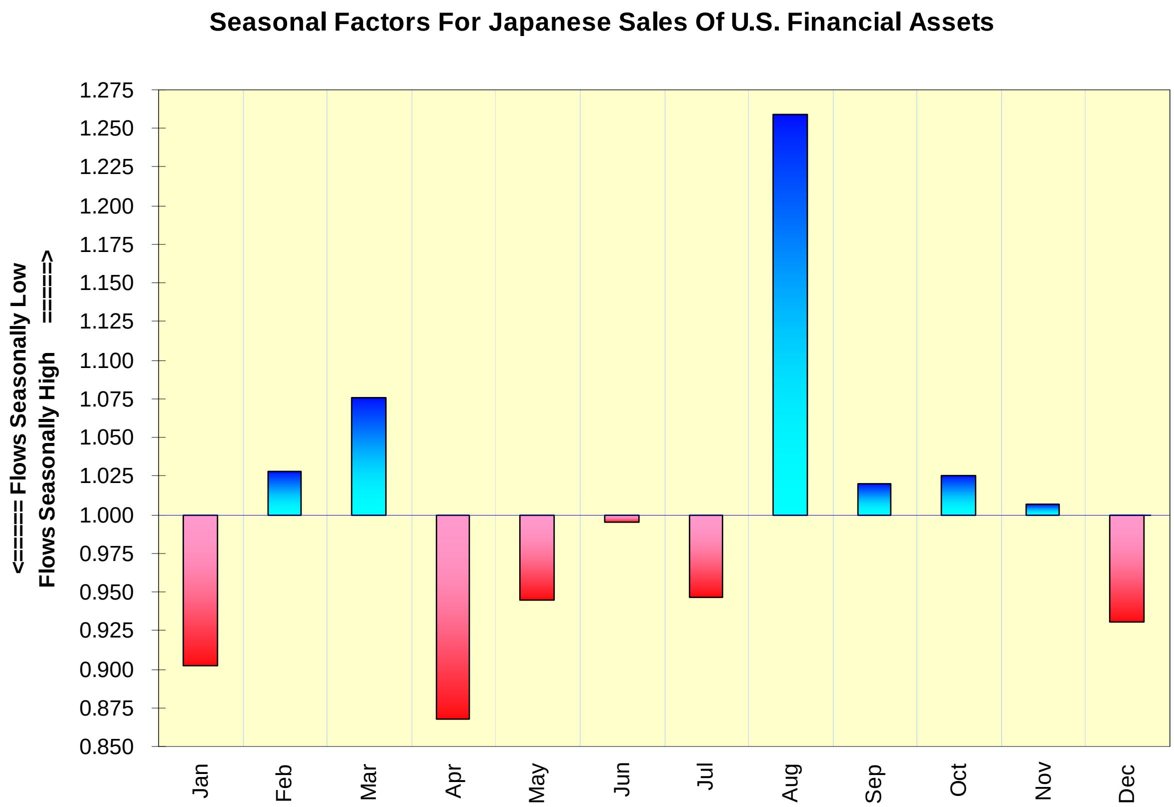
Sometimes the posited trigger for all of this would be the March 31st end of the Japanese fiscal year. I have no idea what the word for "window-dressing" is in Japanese, but I know they understand the concept. The idea was Japanese exporters and banks would sell dollars and buy yen to make their books all shiny and clean for year-end financial reporting purposes.

That was the theory, here are the facts since the January 1977 inception of the Treasury's International Capital Statistics Report designed to ferret out such things, albeit seven weeks later (this is government work at its finest). The seasonality of Japanese purchases of U.S. financial assets, including Treasuries, Agencies, corporate bonds and stocks is both erratic and yet statistically significant in its monthly pattern. The months shown in blue are seasonally strong; March is on this list, as are May, June and August – November.

Seasonal Factors For Japanese Purchases Of U.S. Financial Assets



What about the sales of those same assets? Here March is seasonally strong, as are February and August-November. What we see on both individual halves of the ledger are high degrees of overlap in activity; March is strong for both purchases and sales, as are August – November.



The net result, and I do mean net in this instance is a complete lack of statistically significant seasonality. If we combine the two seasonal patterns, we get mutual cancellation. The conclusion, therefore, is March is no different than any other month and there is no reason for you to glance nervously at the calendar as the days tick by except, perhaps, for that whole Ides thing.

Yield Seasonality

If you are wondering about the seasonality of ten-year Treasury yields themselves, the Federal Reserve's constant-maturity series going back to April 1953 is highly seasonal. Yields are higher between May and September and lower between October and April. In addition, the amplitude of these seasonal factors has increased markedly over the past five years as minor fluctuations in low yields affect the seasonal cycle in yields more.

Whatever happens in Treasury yields going forward is unlikely to be attributable to Japanese action, however. While they once dominated external financing of the U.S. deficits, they have lost relative importance to both China and to the Federal Reserve. If Japan buys less, the Federal Reserve can buy more, and apparently they need very little encouragement in this department.