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Top Fund Managers Pile Into Japan Banks on BOJ Tightening Bets

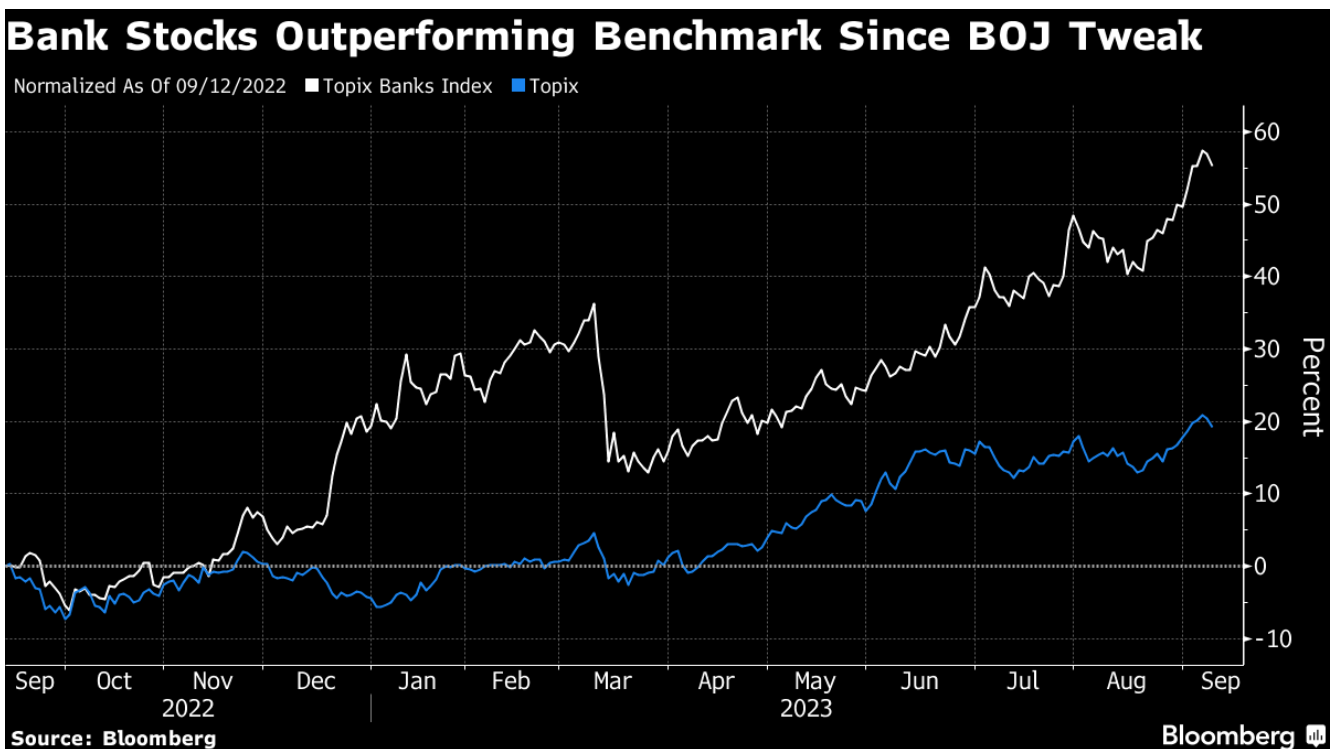
- Short-term rates may turn positive this year, Evarich says
- Bank shares look cheap based on price-to-book ratio: Atom

By Yasutaka Tamura

(Bloomberg) -- A top-ranked fund that keeps a fifth of assets in shares of Japanese lenders is ready to increase that position on the possibility the central bank is preparing to end its ultra-easy monetary policy.

Yutaka Uda, the president and chief investment officer of Evarich Asset Management in Tokyo, said the sector may double in value over the next 18 months as the Bank of Japan may scrap its yield-curve control and put an end to negative interest rates as early as this year. Evarich's Nippon Growth Fund has beaten 98% of its peers with a return of almost 38% this year on assets totaling ¥16 billion (\$108 million).

"We have room to increase our stake if needed," said Uda, who founded the firm in 2002. Wage hikes are going to be sustainable as Japan's economic growth remains strong, he said.



Banks have surged more than 50% over the past year on speculation gains in prices and wages will become sustainable enough for the BOJ to end years of rock bottom rates that have crushed their income.

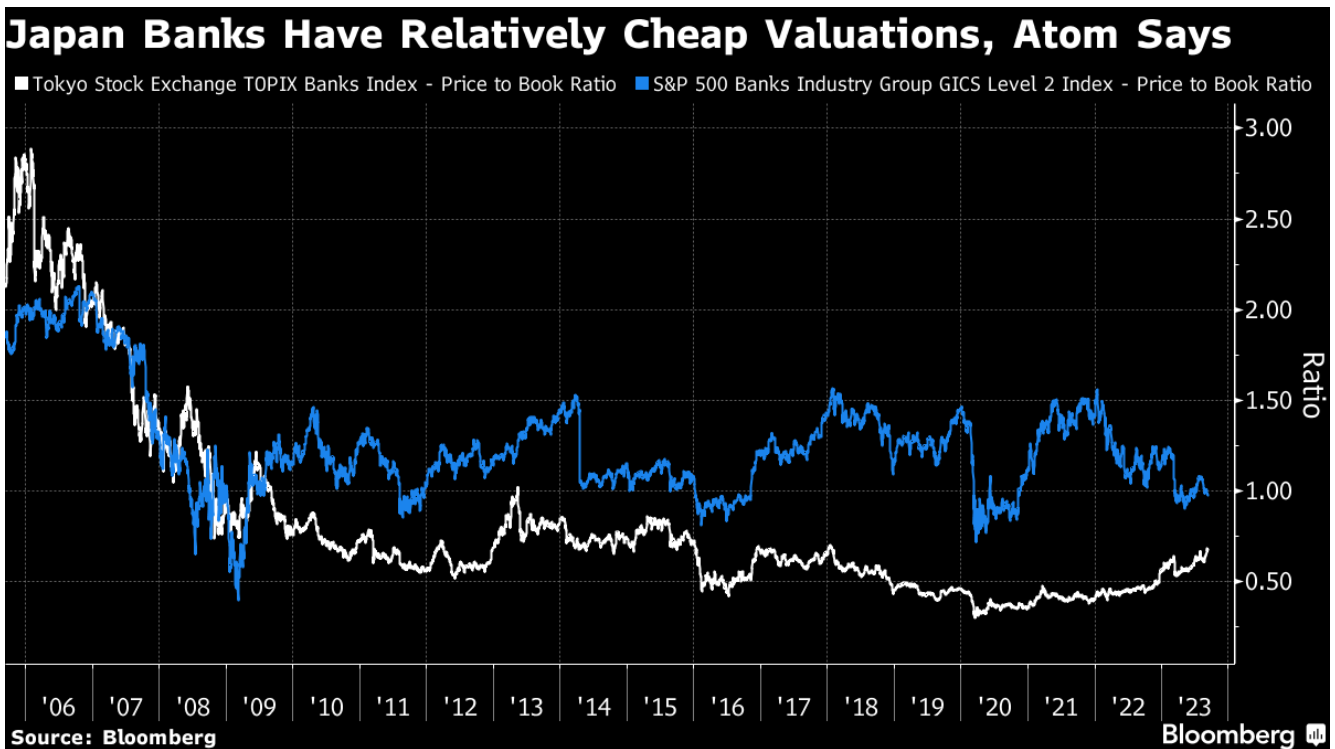
Lenders jumped Monday after a report that BOJ Governor Kazuo Ueda said it's possible there will be enough

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information by year-end to judge if wages will continue to rise, a condition for adjusting stimulus. The BOJ would need to judge that its 2% inflation target could still be achieved after lifting rates, he said.

Ueda's comments suggest an adjustment could come earlier than expected, said Atsuko Tsuchiya, the chief executive officer of Atom Capital Management Co. in Tokyo. Atom, which forecast that a tweak may happen next year, said banks could climb another 30% not only because of potential changes in policy, but also because price-to-book ratios are low. The firm uses a "bottom-up" strategy, analyzing financial ratios as well as analyst consensus.

The former Citadel fund manager said Atom bought bank shares in December when the BOJ surprised the market by doubling the cap on 10-year government bond yields. Tsuchiya also said Japanese stocks are enjoying an inflow of foreign funds as attention shifts away from China due to its faltering economy.



Higher yields are unlikely to pressure the capital ratios of Japan's largest banks, thanks to the low durations of their holdings of Japanese government bonds, Bloomberg Intelligence analysts Pri De Silva and Adrian Sim wrote in a note.

"It will become difficult to suppress inflation under 2% in the next three years," Evarich's Uda said. "Banks will double within one and a half years."

To read more on BOJ's market impact:

- Ueda Says BOJ May Know Enough About Wages by Year-End: Yomiuri
- Top Forecaster JPMorgan Sees Yen Sliding as Far as 155 to Dollar
- Canceled Bond Deals Stay at High Levels in Japan on BOJ Bets
- SMFG Market Head Sees New Era With Japan Yield as High as 2%

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To contact the reporter on this story:

Yasutaka Tamura in Tokyo at ytamura17@bloomberg.net

To contact the editors responsible for this story:

Brett Miller at bmiller30@bloomberg.net

Naoto Hosoda