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Abstract
This study investigates the trading dynamics between institutional, foreign and retail investors during QE and post-QE exit in the Japanese stock market. A theoretical framework is developed to classify all transactions into trading, short-selling or information flow. Using weekly data from 2014 to 2015, our results show: Firstly, during QE tapering, there is short-selling by foreign retail investors. There is also information flow from Foreign Retail Sales to Local Institutional Sales as well as Foreign Retail Purchases to Local Retail Purchases. Net buyers are local and foreign institutional investors; Secondly, in post-QE exit, there is short-selling by foreign institutional investors. Moreover, Foreign Institutional Purchases is found to precede Local Retail Purchases. Net sellers are local and foreign retail investors. Hence, it can be concluded that foreign investors are dominant player during QE tapering and post-QE period. As a policy suggestion, both local and foreign investors should be provided with more incentive to trade in the local bourse. The regulator should also ensure timely disclosure of material public information by listed firms to ensure a level playing field for all market participants.

Keywords Quantitative easing · Foreign investors · Short-selling · Market microstructure · Japan

JEL Classification G12 · G14 · G23

1 Introduction

The stock market is essential for the economic growth of a country. However, the performance of the stock market is highly dependent on the movement of the funds among the trading participants. The outflow of funds will drag down the stock