

Japan's Banks to the Rescue

September 22, 2008

Who would've guessed that the Japanese would come to the rescue in a U.S. banking crisis? The first inkling of this was Mizuho Financial Group's \$1.2-billion stake in Merrill Lynch in January. Back then, Mizuho execs caught a lot of flak for taking on too much risk and not getting a big enough stake to take control of Merrill.

On Sept. 22, Mitsubishi UFJ Financial Group, Japan's largest bank, said it's considering a multibillion dollar investment for up to 20% of Morgan Stanley. The news comes only a month after MUFG moved to beef up its U.S. presence with a \$3.5-billion purchase of the 35% of UnionBanCal that it didn't already own.

Separately, Nomura Holdings, Japan's biggest brokerage, confirmed today it will buy Lehman Brothers' Asia operations—absorbing the 3,000 employees in the Asia-Pacific region but not the trading assets or liabilities—for an undisclosed amount.

A decade ago, it would have been hard to imagine. Japan's banks were taking their sweet time getting rid of bad loans in real estate and companies after the 1980s asset bubble popped. In the late 1990s Japan's biggest financial institutions went through the motion of mergers to stay competitive on the global stage but critics saw the mergers as an excuse to put off the painful decision of cutting staff and jettisoning assets. They looked as though they might never regain their verve or attain the sophistication of the biggest western multinationals.

That's why this latest buying spree is significant.

Japanese financial institutions may finally be serious about growing beyond their home market, where the population is aging and the industry's prospects aren't all that promising. One reason they still have the resources is that they escaped the subprime U.S. mortgage implosion with barely a scratch. The 80s debacle had made them cautious, so they had steered clear of the reckless bets that got the U.S. banks in trouble.

What's ironic is that, in recent months, Japanese banks' shares have sustained as big—if not bigger—losses than their western counterparts. And since news of Lehman's bankruptcy and reports (notably from Credit Suisse, which estimated Japan's eight biggest banks' Lehman-related losses at around \$3 billion) of Japanese banks' exposure, things have actually started looking brighter. Mitsubishi UFJ's shares were above 1,200 in late 2007; today they ended shy of 900 (up 4% on the day). Nomura's 12-month high is near 3,500; after dropping as low as 1,500 it's clawed its way back above 2,500 (up 1.5% today).

Source: Scoop