

S&P/JPX JGB VIX[®] Update October 2017

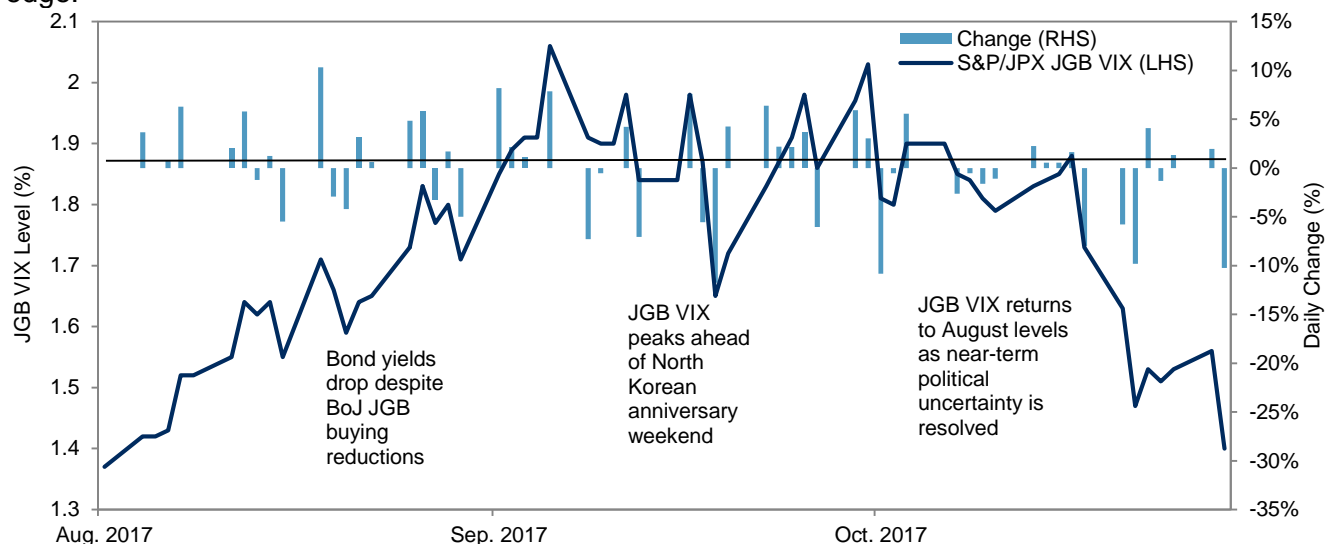
JGB VIX Drops After Election Results

The S&P/JPX JGB VIX came off the highs of the month (Oct. 3, 2017, close of 2.03) to finish at 1.40, as uncertainty around a possible change in Japan's overall political landscape and near-term lower house election results were resolved. Prime Minister Shinzo Abe's landslide victory on Oct. 22, 2017, suggests that he intends to serve in his current role until the autumn of 2021 at the latest. With the consumption tax hike from 8% to 10% in October 2019 now set to go ahead as planned, PM Abe will also continue to push forward with his reform-focused Abenomics policy agenda. In terms of geopolitical tensions, while strong rhetoric was witnessed coming from both the U.S. and North Korea, there were no new nuclear missile tests this month to put JGB investors on edge.

Volatility JGB VIX Versus TYVIX

	AUG. 2017	SEPT. 2017	OCT. 2017
JGB VIX	65%	88%	78%
TYVIX	65%	84%	54%

Source: Bloomberg, October 2017.



Source: S&P Dow Jones Indices LLC. Data as of Oct. 31, 2017. Chart is provided for illustrative purposes.

Upcoming Macro Events

2017

Nov: U.S. President Trump Asia Pacific trip

2018

March: BoJ Kuroda term ends (possible extension?)
Sept: LDP Presidential Election

2019

Oct: Consumption tax hike

Near-Term Market Uncertainties Increase

Despite a temporary sense of calm that has returned to the market, we expect a number of factors, both internal and external, to possibly drive the S&P/JPX JGB VIX off of recent lows. Firstly, U.S. President Donald Trump will be making his first trip to Asia since taking office, including stops in Japan, South Korea, and China. North Korea will be at the top of his agenda, so geopolitical tensions are likely to rise as a result. Next, domestic life insurers are considering scaling back buying of ultra-long JGBs, which could cause the Finance Ministry to cut issuance plans for next fiscal year, potentially affecting JGB yield curve shape and levels. Finally, PM Abe's election victory is likely to mean that Bank of Japan (BoJ) Governor Haruhiko Kuroda, known for surprising the market, will be appointed to another term, despite the recent BoJ downgrades on inflation outlook. Thus, the S&P/JPX JGB VIX will be a useful tool in gauging market anxiety heading into the end of the year.

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