

## S&P/JPX JGB VIX<sup>®</sup> Update November 2017

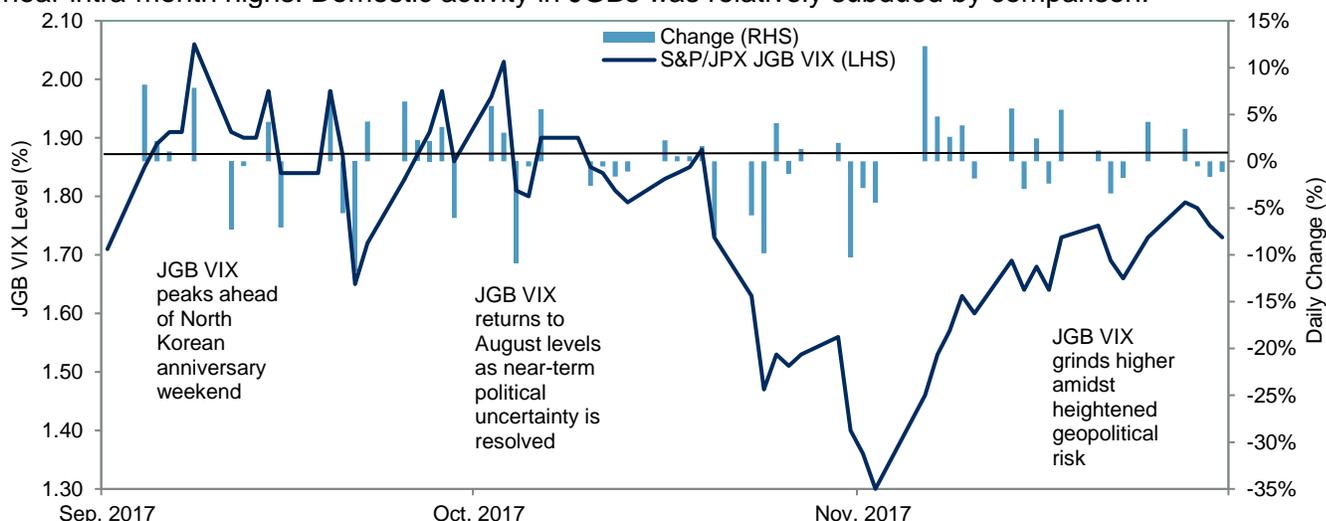
### JGB VIX Rises on the Back of Geopolitical Risk

The S&P/JPX JGB VIX started November off at near-term lows (Nov. 2, 2017, close of 1.30) to rise over 30% over the course of the month. Lows coincided with Prime Minister Shinzo Abe's re-election in parliament and reappointment of his cabinet after his ruling coalition's strong electoral win in October. However, the S&P/JPX JGB VIX started to rise thereafter, as U.S. President Donald Trump's visit to the region kicked off more intense rhetoric from various leaders with regard to the evolving situation on the Korean Peninsula. With Trump officially reinstating North Korea on the list of state-sponsored terrorist nations, the escalating tension culminated in North Korea's first ballistic missile test in over two months, with the S&P/JPX JGB VIX near intra-month highs. Domestic activity in JGBs was relatively subdued by comparison.

Volatility JGB VIX Versus TYVIX

	SEPT. 2017	OCT. 2017	NOV. 2017
JGB VIX	88%	78%	65%
TYVIX	84%	54%	56%

Source: Bloomberg, November 2017.



Source: S&P Dow Jones Indices LLC. Data as of Nov. 30, 2017. Chart is provided for illustrative purposes.

### Upcoming Macro Events

2017

Dec.: Fiscal Year 2018 JGB Issuance Plan

2018

March: BoJ Kuroda term ends (possible extension?)

Sept.: LDP Presidential Election

2019

Oct.: Consumption tax hike

### Near-Term Catalysts for Upward Pressure on JGB VIX

As expected in last month's update, geopolitical tensions took center stage and were the main drivers of macro-related investor anxiety. It appears that the tensions will unlikely be resolved anytime soon, so there should be continued upward pressure on the S&P/JPX JGB VIX in the months ahead. The Ministry of Finance is currently sounding out JGB dealers regarding next year's issuance calendar. While market participants do not expect any surprises here, larger-than-forecasted reductions to ultra-long supply could cause disruptions to the current supply/demand balance. In addition, the Bank of Japan's Governor Haruhiko Kuroda continues to cautiously test the water with regards to possible refinements to current yield curve control policy. While Japan is still quite far from the BoJ's 2% inflation target, recent comments from Governor Kuroda suggest the central bank is wary of potential damage to financial institutions from prolonged low interest rates.

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