

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

JGB VIX Faced Year-End Downward Pressure

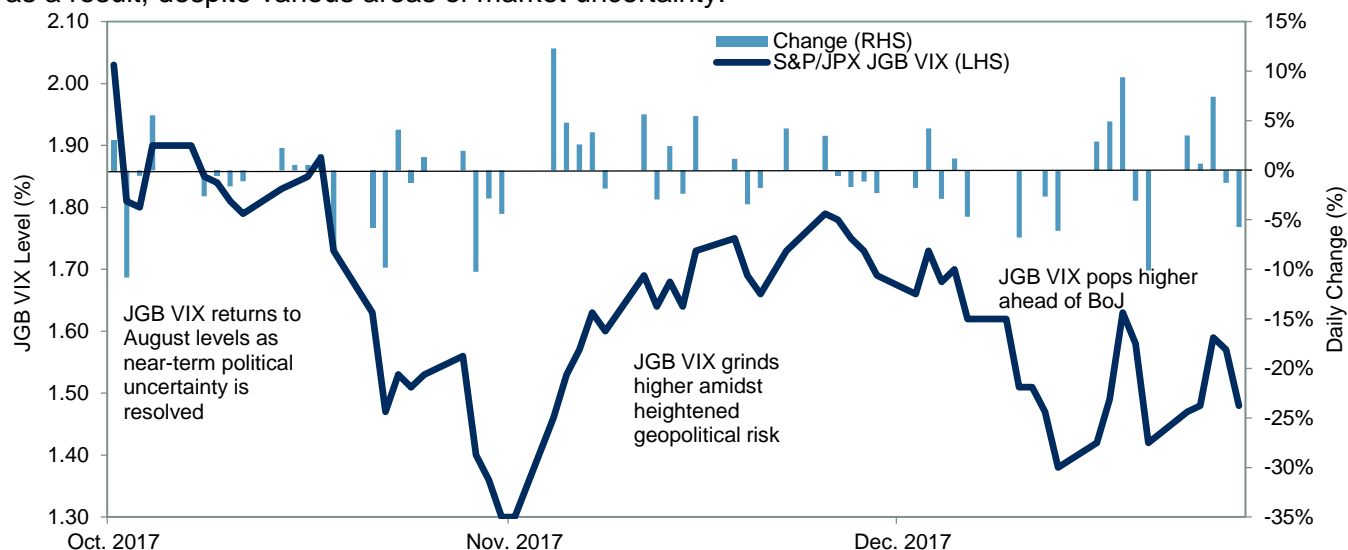
The S&P/JPX JGB VIX came off an intra-month low of 1.38 to jump almost 20% over three trading sessions, while 10-year JGB futures plummeted ahead of the Bank of Japan's (BoJ's) regularly scheduled monetary policy announcement on Dec. 21, 2017. However, opting not to offer any year-end surprises, the BoJ board voted to maintain current policy and the S&P/JPX JGB VIX dropped lower on the back of the decision. In addition, the Ministry of Finance confirmed this month they would be looking to decrease JGB issuance for fiscal year 2018 (with noticeable reductions in 30- and 40-year bonds) on the back of increases in tax revenues. This was in line with expectations and enough to add further downward pressure on the S&P/JPX JGB VIX as a result, despite various areas of market uncertainty.

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Volatility JGB VIX Versus TYVIX

	OCT. 2017	NOV. 2017	DEC. 2017
JGB VIX	78%	65%	77%
TYVIX	54%	56%	57%

Source: Bloomberg, December 2017.



Source: S&P Dow Jones Indices LLC. Data as Dec 2017. Chart is provided for illustrative purposes.

Upcoming Macro Events

2018

March: New Trans-Pacific Partnership signing
April: BoJ Kuroda term ends (possible extension?)
Sept: LDP Presidential Election

2019

Oct: Consumption tax hike

JGB VIX to Reflect Investor Anxiety

While BoJ Governor Haruhiko Kuroda offered no insight into any future adjustments to current policy at his press conference this month, questions still remain regarding policy plans for 2018 and, more importantly, his current term ending in April. Despite the BoJ still being far away from its intended 2% inflation target, recent data indicates that the economy is continuing to show signs of improvement. Regardless, we would expect uncertainty around monetary policy and central bank leadership to provide upward pressure on the S&P/JPX JGB VIX. In addition, geopolitical risks and regional tensions are expected to return to center stage once again, especially with the Winter Olympics in South Korea set to kick off in only a matter of weeks. The S&P/JPX JGB VIX is likely to move higher on any indications of increased hostilities or anxiety.

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