

S&P/JPX JGB VIX[®] Update January 2018

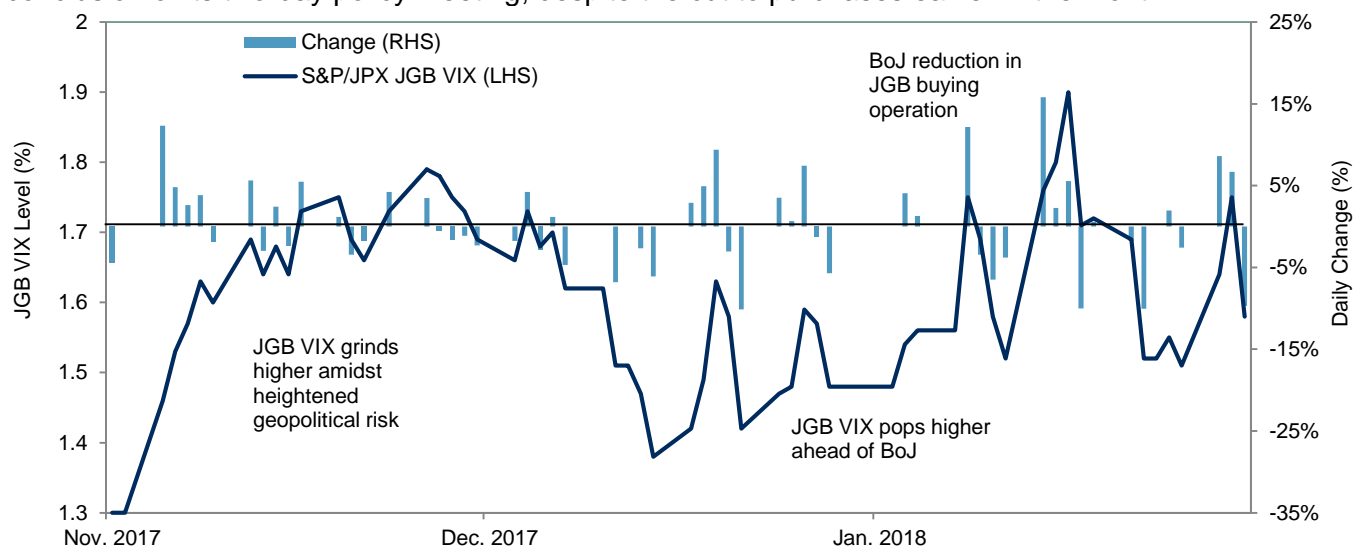
JGB VIX Gets a Boost From the BoJ

The S&P/JPX JGB VIX jumped higher during the month on the back of a surprise reduction by the Bank of Japan (BoJ) in its regular long-dated JGB buying operations. Some market participants considered the move a signal of forthcoming BoJ monetary policy tightening and, as a result, currency markets also saw USD/JPY tumble over half a yen in the minutes following the announcement. Days later, the S&P/JPX JGB VIX reached an intra-month high of 1.90 (a level not seen since October 2017) after the release of stronger-than-expected economic data (November Japan core private sector Machinery Orders) and the resulting softer local bond markets. Despite the upward move, S&P/JPX JGB VIX levels came down quickly heading into month's end as JGB markets stabilized. In addition, the BoJ maintained the status quo at the conclusion of its two-day policy meeting, despite the cut to purchases earlier in the month.

Volatility JGB VIX Versus TYVIX

	NOV. 2017	DEC. 2017	JAN. 2018
JGB VIX	65%	77%	106%
TYVIX	56%	57%	70%

Source: Bloomberg, January 2018.



Source: S&P Dow Jones Indices LLC. Data as of January 2018. 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 Ahead of BoJ Governor Appointment

Alongside the increasing anxiety around the BoJ's next policy changes and potential tapering moves, market participants still remain in the dark regarding BoJ Governor Haruhiko Kuroda's future, with his term ending in just a few months. He offered no hints at his regularly scheduled post-meeting press conference on Jan. 23, 2018, though the cabinet is expected to make an official decision and announcement in February. While most expect Gov. Kuroda to become the first to be reappointed to the post in over 50 years, other candidate names continue to be floated. Regardless of the ultimate outcome, any increase in uncertainty should be reflected in higher S&P/JPX JGB VIX levels as we approach the formal announcement.

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