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APPLIED ACADEMICS

S&P/JPX JGB VIX® Update

February 2018

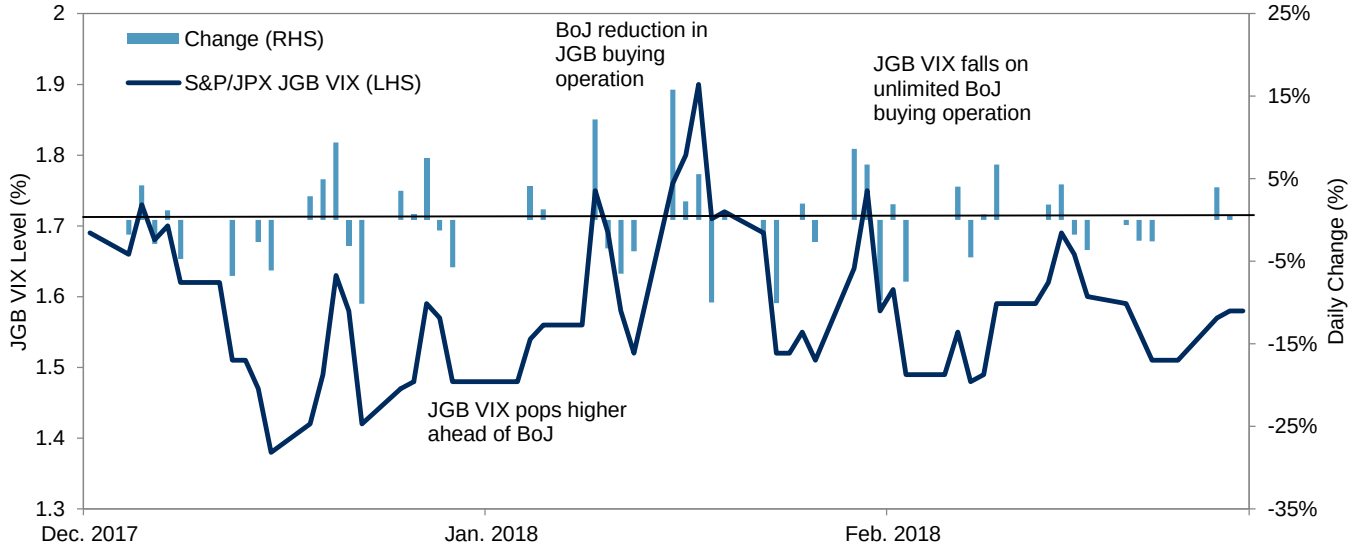
JGB VIX Stable After Reappointment Decision

Volatility JGB VIX Versus TYVIX

	DEC. 2017	JAN. 2017	FEB. 2018
JGB VIX	77%	106%	53%
TYVIX	57%	70%	99%

Source: Bloomberg, February 2018.

The S&P/JPX JGB VIX kicked off the month with a muted tone, as the Bank of Japan (BoJ) performed an unlimited fixed-rate buying operation on Feb. 2, 2018, to reverse the trend of rising longer-dated yields. With global interest rates rising steadily and putting pressure on JGBs, the BoJ's action was a symbolic show of force to the market and immediately kept 10-year sector yields from rising above 0.10%. As a result, the S&P/JPX JGB VIX trended lower due to the suppressed volatility. Mid-month, the index did see another increase ahead of uncertainty around the BoJ governor appointment. However, once the government confirmed that current Governor Haruhiko Kuroda would be nominated to a second five-year term, calm was once again restored to the markets, and the S&P/JPX JGB VIX came off intra-month highs and remained stable into month's end.



Source: S&P Dow Jones Indices LLC. Data as February 2018. Chart is provided for illustrative purposes.

Upcoming Macro Events

2018
March: New Trans-Pacific Partnership signing
April: BoJ Kuroda second term begins
Sept: LDP Presidential Election

2019
Oct: Consumption tax hike

JGB VIX to Indicate Choppy Conditions Ahead?

With 10-year JGB yields comfortably under 0.10% for the moment and BoJ Governor Kuroda set to serve a rare second term as governor (first time in almost 60 years), on the surface it appears that the JGB markets would be set for smooth sailing in the near-term. However, focus should quickly return to the central bank's next move and global inflationary pressures. Concerns around possible tapering scenarios could still loom in the background, given the government's continued reliance on the BoJ's easing policies. Additionally, the BoJ's JGB market share continues to rise (currently roughly 40%). As overseas equity markets settle down after the recent spikes in volatility and other central banks continue on their paths towards tighter policy, we would expect the S&P/JPX JGB VIX to increase as pressure for BoJ action mounts.

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