

S&P/JPX JGB VIX® Update March 2018

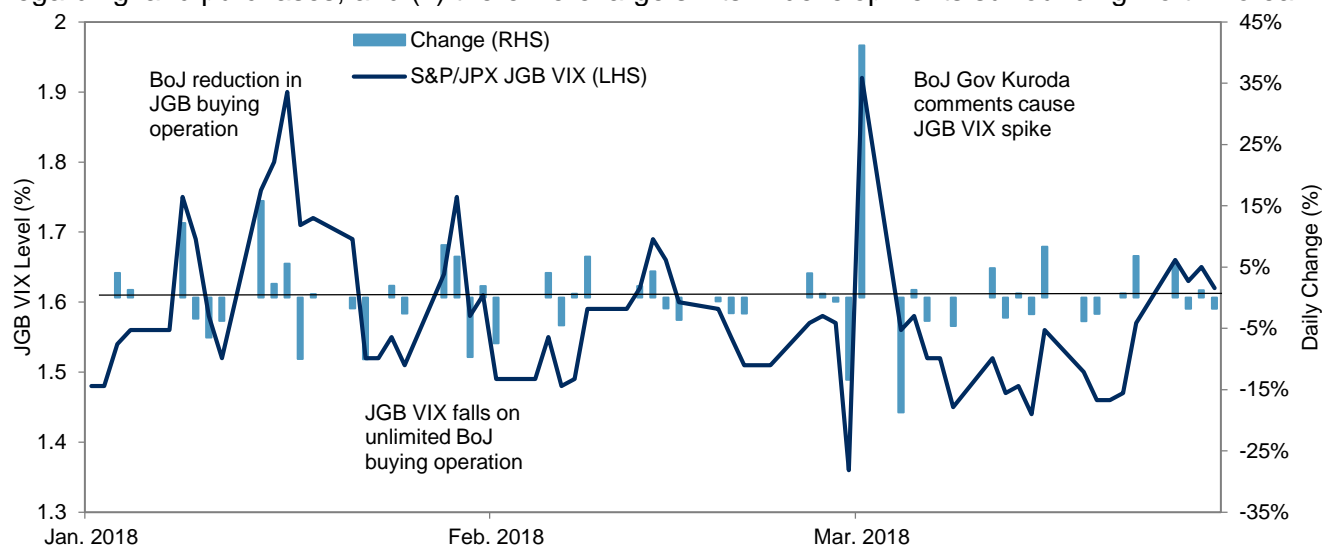
JGB VIX Spikes After BoJ Comments

The S&P/JPX JGB VIX started the month off with a jolt after Bank of Japan (BoJ) Governor Haruhiko Kuroda's comments regarding a possible exit from current monetary policy in fiscal year 2019, when the board expects inflation to hit its target of 2%. The S&P/JPX JGB VIX jumped over 40% (1.36 to 1.92; its highest level since October 2017) on the back of his comments, while local bond and currency markets plummeted on speculation about the earlier-than-expected action. Later, Gov. Kuroda softened his stance by adding that he had no intention of considering an early exit in fiscal year 2018 and, as a result, the S&P/JPX JGB VIX quickly came off its intra-month highs. That said, the S&P/JPX JGB VIX saw supportive elements heading into the end of the month as (1) Prime Minister Abe's approval ratings took a dive in the wake of a political scandal regarding land purchases, and (2) there were large shifts in developments surrounding North Korea.

Volatility JGB VIX Versus TYVIX

	JAN. 2018	FEB. 2018	MAR. 2018
JGB VIX	106%	53%	177%
TYVIX	70%	99%	66%

Source: Bloomberg, March 2018.



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

Upcoming Macro Events

2018

April: Abe-Trump meeting ahead of N. Korea talks
May: Possible U.S.-North Korea summit
Sept: LDP Presidential Election

2019

Oct: Consumption tax hike

JGB VIX to Be Key Market Gauge in the Months Ahead

With Gov. Kuroda's historic second term kicking off, focus will continue to be on how much longer the BoJ will be able to maintain current policy, despite recent dismissals of any changes in the coming fiscal year. One example of the negative market repercussions of current policy was seen on March 14, 2018, when there wasn't a single benchmark 10-year JGB traded during normal market hours. While this wasn't the first time trading activity had visibly slowed, the BoJ's ever increasing JGB market share (now estimated at around 40%) is only likely to worsen general market liquidity. In addition, U.S. President Donald Trump's recent agreement to meet directly with North Korea's Kim Jong-un has raised the stakes and uncertainty around current geopolitical tensions in the region. The S&P/JPX JGB VIX is likely to be a key barometer of anxiety in the Japanese market in the coming months.

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