

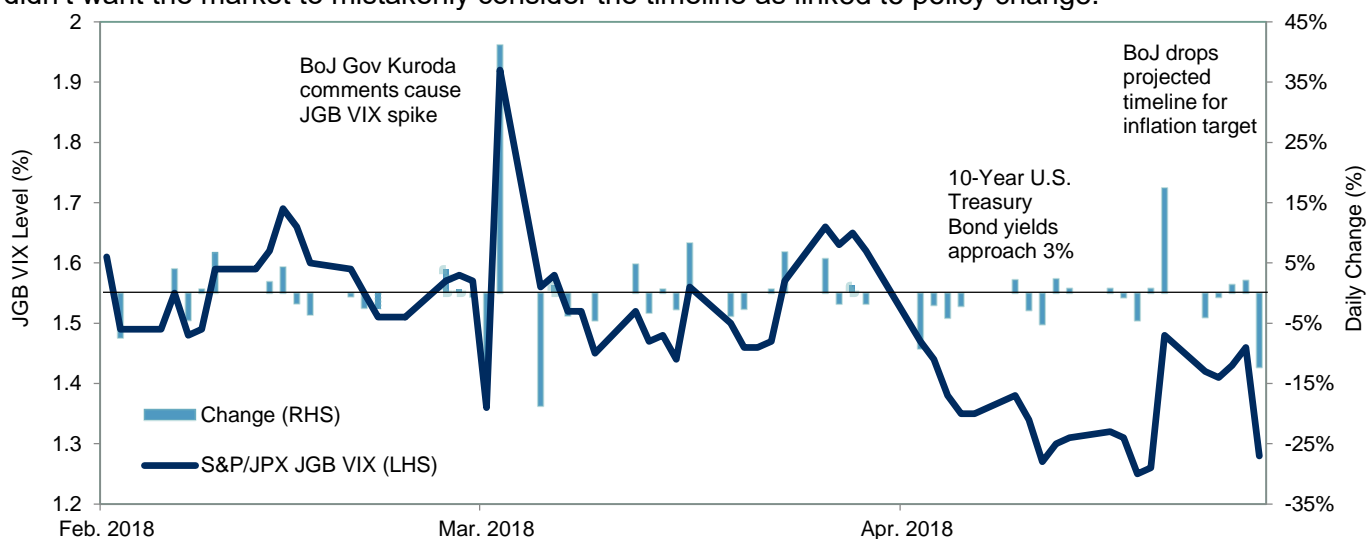
S&P/JPX JGB VIX[®] Update April 2018

JGB VIX Drops After BoJ Drops Timeline

Despite the general downtrend, the S&P/JPX JGB VIX got a strong intra-month boost (from 1.26 to 1.48), as 10-Year U.S. Treasury Bond yields approached the symbolic 3% level and global inflationary pressures caused JGBs to weaken. The move higher was short lived, however, as the index was quickly knocked lower on the last trading day of the month after a surprise shift from the Bank of Japan (BoJ). Volatility collapsed after the BoJ did away with its self-imposed target timeline of reaching 2% inflation by FY2019 at the conclusion of its regular April monetary policy meeting. While the BoJ had pushed back the target timeline a total of six times since Governor Haruhiko Kuroda first took the helm in 2013, this time it choose to abandon it altogether. Gov Kuroda emphasized later that this didn't represent a change in policy; rather, the BoJ didn't want the market to mistakenly consider the timeline as linked to policy change.

Volatility JGB VIX Versus TYVIX			
	FEB 2018	MAR 2018	APR 2018
JGB VIX	53%	177%	90%
TYVIX	99%	66%	64%

Source: Bloomberg, April 2018.



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

Upcoming Macro Events

2018

May: North Korean nuclear test site to close
 May/June: Possible U.S.-North Korea summit
 Sept: LDP Presidential Election

2019

Oct: Consumption tax hike

No Change in BoJ Outlook Doesn't Mean Smooth Sailing From Here

On the monetary policy front, while Gov Kuroda sought to reassure the market that the BoJ was not changing its outlook, it is clear that change is in fact afoot. BoJ outright purchases of JGBs continue to undershoot official buying targets, as market share approaches unsustainable levels. Political risks have also not dissipated, as Prime Minister Shinzo Abe's approval ratings continue to languish due to scandals plaguing his administration. Looking outside of Japan, regional geopolitical tensions are once again set to take center stage. The recent inter-Korean summit, while suggesting a sunny outlook, was notably heavy on symbolism, not substance. As the official meeting between U.S. President Donald Trump and North Korean Chairman Kim Jong-un approaches, the stakes will increase and any disappointment would likely rattle the markets. As such, the S&P/JPX JGB VIX should continue to be an important market gauge in the months ahead.

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