S&P Dow Jones Indices
A Division of S&P Global

APPLIED ACADEMICS

S&P/JPX JGB VIX® Update

May 2018

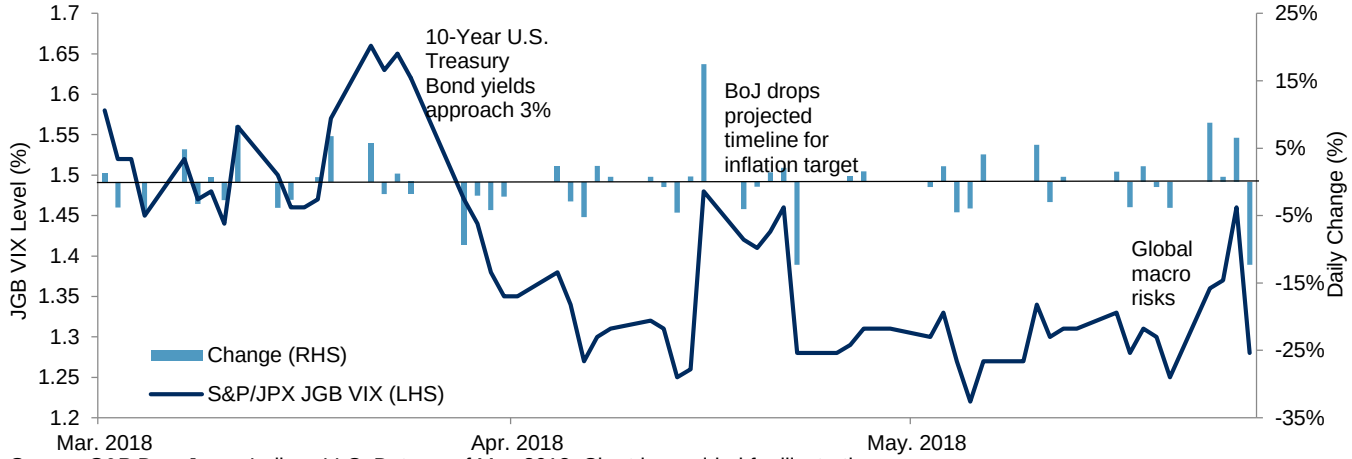
JGB VIX Spikes Heading Into Month's End

Volatility JGB VIX Versus TYVIX

	MAR 2018	APR 2018	MAY 2018
JGB VIX	177%	90%	54%
TYVIX	66%	64%	135%

Source: Bloomberg, May 2018.

The S&P/JPX JGB VIX began the month in a relatively tight range, as the underlying JGB market followed other global bond markets. Flow wise, Japanese banks were better sellers in long-dated paper, which added upward pressure on yields, though not enough to cause any jolts to volatility. However, sentiment began to shift mid-month, as doubts emerged regarding the upcoming Trump-Kim Jong-un summit (JGB VIX up 10%). Once the cancellation of the summit was announced on May 25, 2018, the following trading session saw JGB flows come to a standstill, as the benchmark 10-Year JGB went untraded for the day (first time since March 2018). Shortly thereafter, political risks in Europe and heightened tensions around trade sent global bond yields tumbling lower. That market move, coupled with the stronger-than-expected 40-year JGB auction (driven by expectations of large month-end extension demand), sent the JGB VIX spiking to intra-month highs (1.46 on May 30, 2018).



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

Upcoming Macro Events

2018
June: U.S.-North Korea summit
June: BoJ monetary policy meeting
Sept: LDP Presidential Election

2019
Oct: Consumption tax hike

Macro Risks to Stay in Focus and to Likely Keep the JGB VIX Elevated

With the official meeting between U.S. President Donald Trump and North Korean Chairman Kim Jong-un now taking place on June 12, 2018, as originally scheduled, the JGB VIX will be a key way to monitor what could possibly set off a chain reaction of geopolitical events, especially considering the enormous implications for Japan and the region. Following the historic summit just two days later, the Bank of Japan (BoJ) will kick off its regularly scheduled policy meeting, which is sure to be met with tremendous scrutiny. Market experts are increasingly calling for an adjustment to the BoJ's unsustainable yield curve control policy that locks long-term rates at about 0%. Any spikes in the JGB VIX ahead of the announcement could indicate that the market is bracing for a shift. This makes sense, since even the slightest change in the BoJ's tone would likely send JGB yields higher.

GENERAL DISCLAIMER

Copyright © 2018 by S&P Dow Jones Indices LLC, a part of S&P Global. All rights reserved. Standard & Poor's ®, S&P 500 ® and S&P ® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global. Dow Jones ® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Trademarks have been licensed to S&P Dow Jones Indices LLC. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, Dow Jones, S&P or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. All information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties. Past performance of an index is not a guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Dow Jones Indices keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Dow Jones Indices may have information that is not available to other business units. S&P Dow Jones Indices has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.