

S&P/JPX JGB VIX[®] Update June 2018

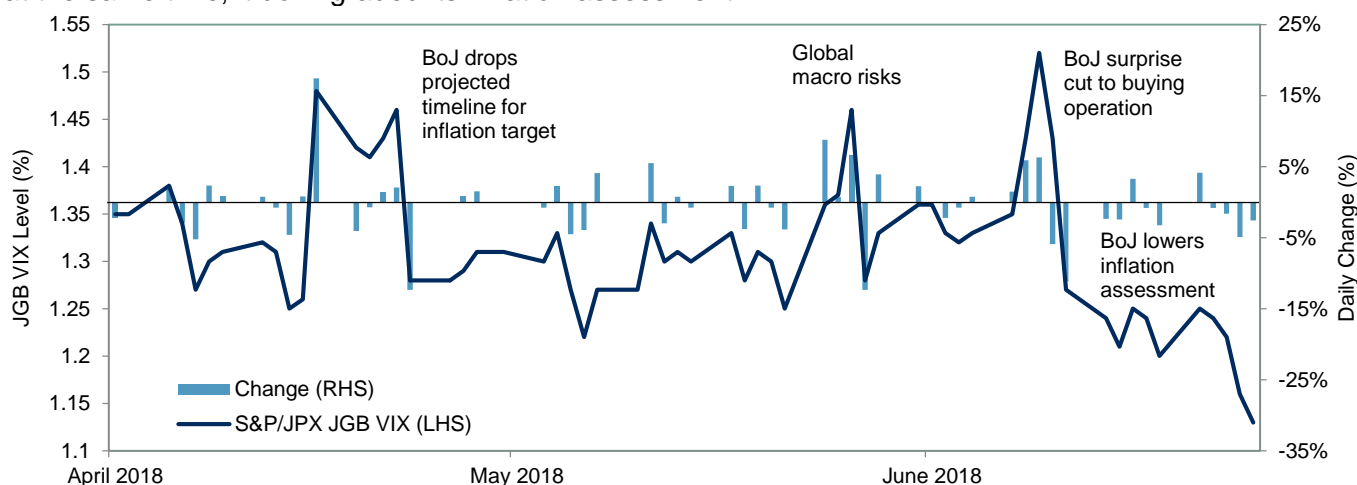
JGB VIX Finishes Month at Historic Lows

The S&P/JPX JGB VIX continued to break new ground on the downside in June and finished the month at an all-time low level (June 29, 2018, close of 1.13), a leading indicator that the Bank of Japan's (BoJ) quest to stamp out volatility has so far been successful. Trading activity has also slowed. As the BoJ continued to drain liquidity from the JGB market, the 10-year benchmark JGB did not trade at all during two trading sessions in June and, heading into month-end, it stayed unchanged at 0.03% for six straight trading sessions. As of June 29, 2018, the BoJ's market share stood near 42% of all JGBs and, on the surface, there appeared to be little indication of any changes coming. At the conclusion of its regularly scheduled two-day monetary policy meeting (June 14-15, 2018), the BoJ maintained its ultra-loose yield curve control policy, while at the same time, it downgraded its inflation assessment.

Volatility JGB VIX Versus TYVIX

	APR 2018	MAY 2018	JUN 2018
JGB VIX	90%	69%	65%
TYVIX	64%	134%	75%

Source: Bloomberg, June 2018.



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

Upcoming Macro Events

2018

July: BoJ monetary policy decision/inflation and economic growth projections

Sept: LDP Presidential Election

2019

Oct: Consumption tax hike

JGB VIX Key Gauge for Continued Stealth Tapering and Geopolitical Instability

Despite all of the signs indicating that the BoJ is nowhere near a shift in current policy, changes are already starting to become visible. For example, the BoJ unexpectedly cut outright JGB purchases three times in June. While the market was slow to react to this "stealth tapering," given the more dominant themes mentioned above, it is worth keeping in mind in the months ahead. The S&P/JPX JGB VIX could start to see upward moves around future cuts to outright purchases, possibly indicating that investor concerns are increasing and that market participants could be bracing for a more explicit change from the BoJ. These market factors coupled with other geopolitical developments, such as increasing signs of a possible U.S.-China trade war and mounting evidence of advancing nuclear capabilities in North Korea, make the S&P/JPX JGB VIX a key indicator to monitor going forward.

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