S&P/JPX JGB VIX® Update
May 2019

JGB VIX Intraday Moves Highlight Anxiety

The S&P/JPX JGB VIX made a U-turn in May, as the index started near intra-month highs to kick off the Reiwa era. Despite coming off a historically long market closure (10 straight days, including 6 full trading sessions—the longest since World War II), JGBs quickly stabilized (see Exhibit 2) and settled into a quiet groove, touching intra-month lows just a few weeks later. However, the calm markets were jolted with anxiety when U.S.-China trade war tensions increased and caused a flight-to-quality rally in global bond markets, JGBs included. JGB futures jumped and 10-year JGB yields once again reached -0.10%, matching levels from late March, which at the time had not been seen since 2016 (see Exhibit 1). As a result, the S&P/JPX JGB VIX bounced back and finished out the month near where it had opened up.

Note: Since we are currently evaluating the S&P/JPX JGB VIX as a real-time index, we wanted to share some examples of particularly interesting intraday movements this month. Exhibits 1 and 2 are purely for illustrative/educational purposes only. Please contact us for more details.

Exhibit 1: U.S.-China Trade War Tensions Spark Flight-to-Quality Bond Rally – May 29, 2019

Source: S&P Dow Jones Indices LLC. Data as of May 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

JGB VIX Real-Time Movements:

1. JGB market remains stable throughout the morning session.
2. Anxiety spikes into the close and JGBs rally on the back of trade war tensions.
3. Opening price discovery after the market’s long holiday break.
4. Trading activity stabilizes quickly as shown by the JGB VIX.

Exhibit 2: First Trading Session of the Reiwa Era – May 7, 2019

Source: S&P Dow Jones Indices LLC. Data as of May 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.
Recession Fears Could Escalate

As equity markets trend lower and safe-haven assets catch a bid across the board, longer-term impact from the U.S.-China trade war will likely continue to cast a shadow over the global economy. Japan is in an especially tricky spot since the government is still planning to hike the consumption tax rate this October (from 8% to 10%), having recently dismissed rumors that it was considering a postponement. While the government is trying to cushion the potentially negative impact, fiscal stimulus measures alone are unlikely to prevent economic damage. In addition, the BoJ is still far from its 2% inflation target rate despite the sustained ultra-loose monetary policy. If the economy worsens, the BoJ might be forced to ease again; though what remaining options it has are unclear. As uncertainty increases (like it did toward the end of May), the S&P/JPX JGB VIX will be the key barometer for monitoring Japanese macro-related investor anxiety.
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