

S&P/JPX JGB VIX[®] Update September 2018

JGB VIX Reflects High Anxiety Around BoJ Cut

While S&P/JPX JGB VIX absolute levels have decreased considerably since the spike at the end of July 2018, the jump this month after a surprise cut to buying operations by the Bank of Japan (BoJ)

highlights how sensitive market participants are to “stealth” tapering. This time, the BoJ unexpectedly reduced ultra-long purchases on Sept. 21, 2018, by JPY 10 billion at their scheduled announcement time (10:10 a.m.). Longer-dated yields increased on the news, with 40-year JGB yields moving above 1% for the first time since earlier this year. The S&P/JPX JGB VIX increased moments after the news and continued to rise the rest of the day. While levels settled back again in the sessions that followed, the moves higher heading into the scheduled release for October purchases illustrated that, regardless of the BoJ’s latest emphasis on maintaining flexibility, July’s market moves were not forgotten.

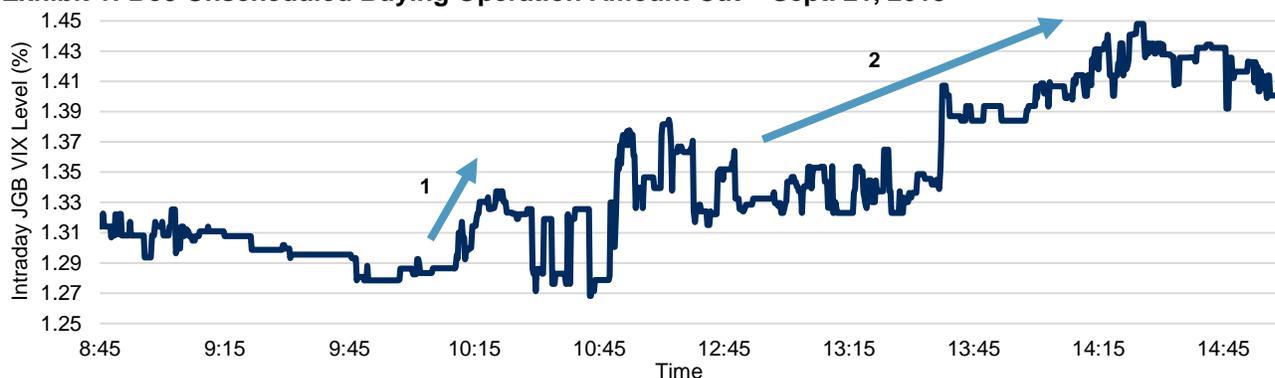
Note: Since we are currently evaluating the S&P/JPX JGB VIX as a real-time index, we wanted to share some examples of particularly interesting intraday movements this month. Exhibits 1 and 2 are purely for illustrative/educational purposes only. Please contact us for more details.

Volatility JGB VIX Versus TYVIX

	JUL 2018	AUG 2018	SEP 2018
JGB VIX	313%	126%	74%
TYVIX	60%	63%	57%

Source: Bloomberg, September 2018.

Exhibit 1: BoJ Unscheduled Buying Operation Amount Cut – Sept. 21, 2018

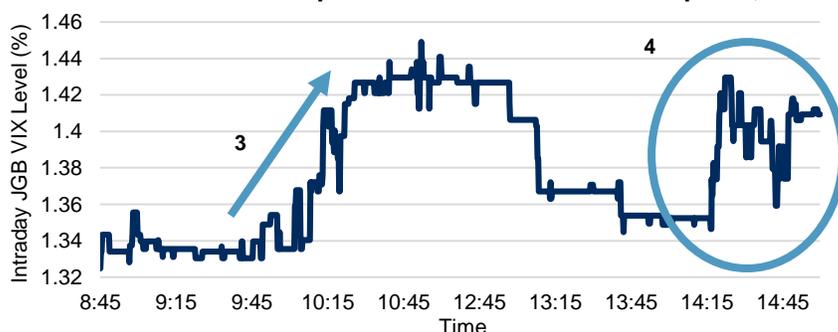


Source: S&P Dow Jones Indices LLC. Data as of September 2018. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

JGB VIX Real-Time Movements:

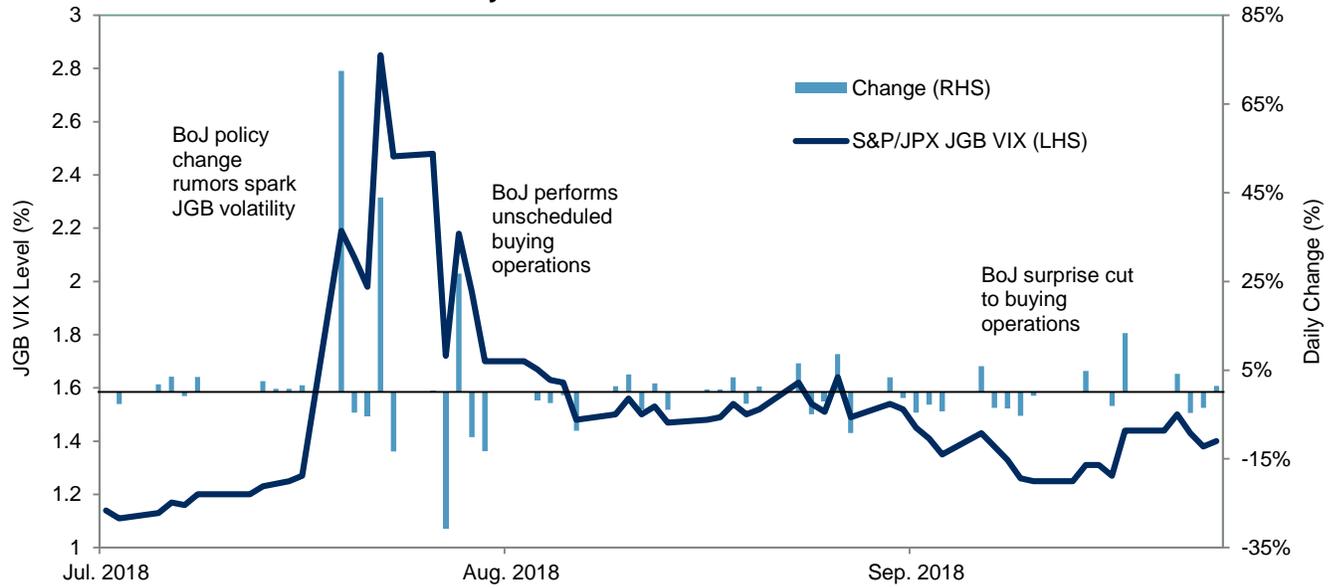
1. Moves immediately higher after announcement.
2. Continues to increase as market digests implications.
3. Month-end flows cause push higher.
4. Anxiety increases ahead of release of BoJ October buying schedule.

Exhibit 2: BoJ October Operation Announcement – Sept. 28, 2018



Source: S&P Dow Jones Indices LLC. Data as of September 2018. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 3: JGB VIX Three-Month History



Source: S&P Dow Jones Indices LLC. Data as September 2018. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Upcoming October Events

Scheduled JGB Purchases

- Oct. 3, 12, 17, 26, 30 (1-5 years)
- Oct. 3, 10, 17, 24, 26 (5-10 years)
- Oct. 5, 12, 19, 24, 30 (10+ years)

Major JGB auctions

- Oct. 2 (10-year)
- Oct. 11 (30-year)
- Oct. 16 (5-year)
- Oct. 18 (20-year)
- Oct. 25 (2-year)

BoJ Monetary Policy Meeting

Oct 30-31

Changes to Buying Amounts to Be Monitored Closely

With global bond yields once again moving higher, similar pressures are expected to spill over into the JGB market and could cause problems for the BoJ. While the BoJ may continue to try to strategically reduce buying operations in different sectors, if 10-year bond yields rise too quickly, then they might be forced to act again. We would expect the S&P/JPX JGB VIX to continue to reflect market anxiety around any buildup to these sorts of events.

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