

S&P/JPX JGB VIX[®] Update August 2018

JGB VIX Drops as BoJ Tries to Regain Control

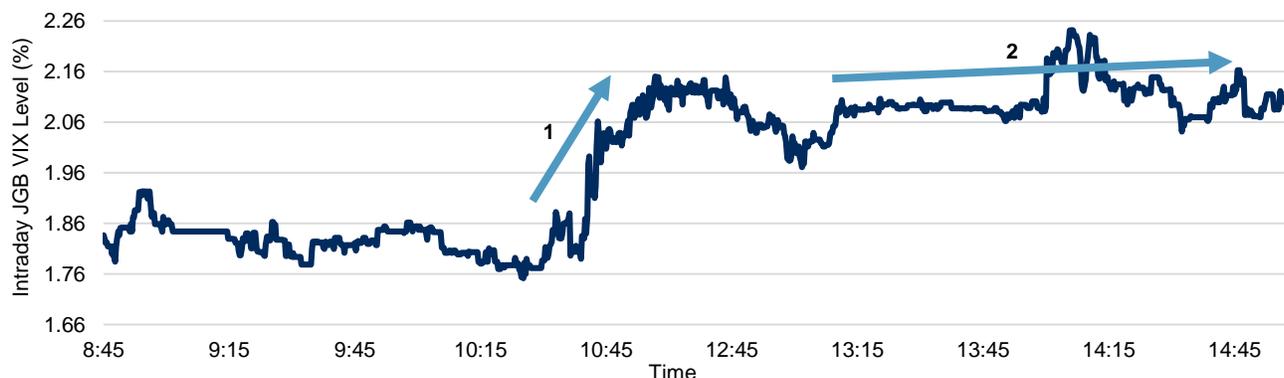
After last month's sudden upward jolt, the S&P/JPX JGB VIX kicked off August at intramonth high levels. The conclusion of the Bank of Japan's (BoJ) July meeting immediately sent the 10-year JGB yields tumbling lower, but they quickly started to rise again, as the market clearly wanted to test the central bank's comfort and willingness to let yields rise at a rapid pace. The BoJ's response was clear and prompt. After the 10-year yields touched highs not seen since early 2017, the BoJ responded by performing an unscheduled and unprecedented buying operation in the same sector on the same day as the 10-year JGB auction (Aug. 2, 2018). This quickly put the brakes on the upward pressure on yields and the S&P/JPX JGB VIX dropped as a result.

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			
	JUN 2018	JUL 2018	AUG 2018
JGB VIX	65%	313%	126%
TYVIX	75%	60%	63%

Source: Bloomberg, August 2018.

Exhibit 1: JGB 10-Year Yields Push Higher Case Study – Aug. 1, 2018

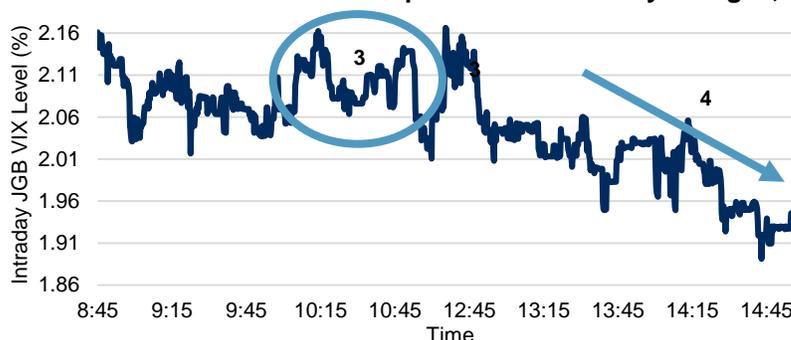


Source: S&P Dow Jones Indices LLC. Data as of August 2018. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

JGB VIX Real-Time Movements:

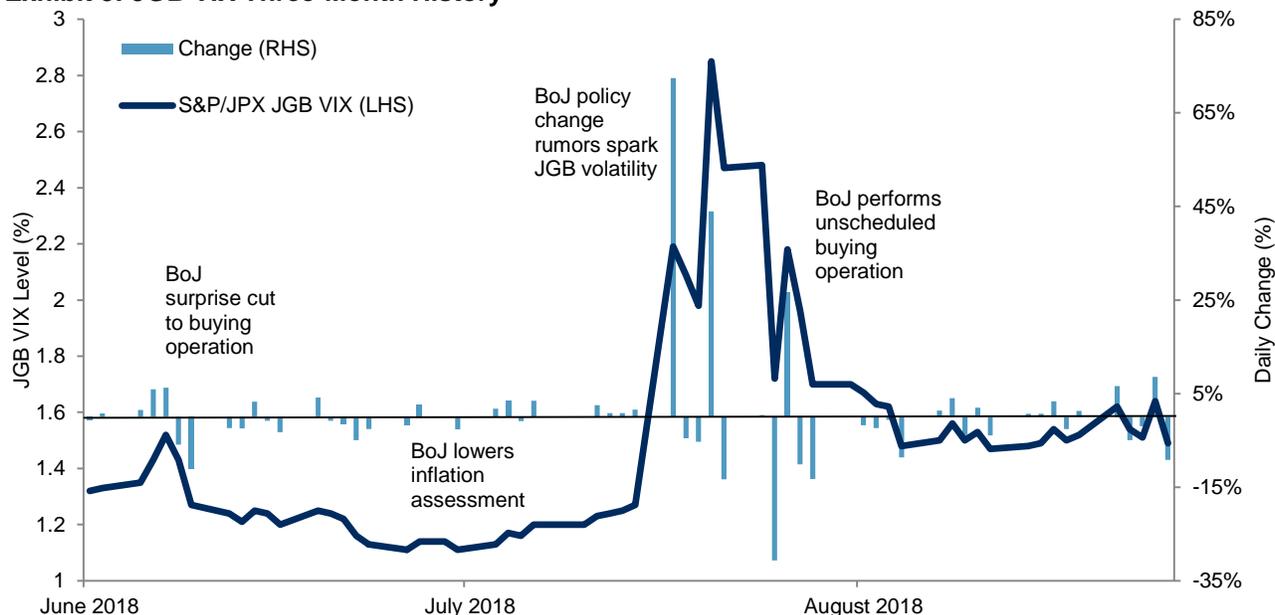
1. Moves upward rapidly as the 10-year yields begin to increase.
2. Stays elevated as market tests BoJ.
3. Choppy movement as BoJ announces unscheduled operation.
4. Starts to decrease as BoJ action sinks in.

Exhibit 2: BoJ's Unscheduled Operation Case Study – Aug. 2, 2018



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

Upcoming September Events

Scheduled JGB Purchases

- Sept. 1, (1-5 years)
- Sept. 3 (5-10 years)
- Sept. 3 (10+ years)

Major JGB auctions

- Sept. 5 (10-year)
- Sept. 11 (30-year)
- Sept. 13 (5-year)
- Sept. 20 (20-year)
- Sept. 26 (40-year)
- Sept. 28 (2-year)

BoJ Monetary Policy Meeting

Sept. 18-19

Market Likely to Challenge BoJ Again

The lower August trend of the S&P/JPX JGB VIX indicates, on the surface, that the BoJ has regained temporary control of anxiety levels heading into month-end. Despite the BoJ’s initial success in calming the market after a rocky start, upward pressure on yields seems unlikely to abate, as market participants continue to see how quickly 10-year yields can near the upper limit (0.2%) of the newly widened BoJ band around their yield target of zero. In the month ahead, watch for the S&P/JPX JGB VIX to indicate any changes in sentiment ahead of such challenges.

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