Golden Week & Volatility

• Golden Week on average sees slightly more muted volatility in USD/JPY than the weeks surrounding it

• Occasionally Golden Week does see a spike in volatility while the period around it can prove lively

• These spikes have most typically been connected to renewed appreciation in the JPY

If there was one clear theme to trading last week, it was of a slow, steady deterioration in sentiment regarding the outlook for global growth (albeit somewhat tempered on Friday and today), probably best illustrated by the steady grind lower in the CSI 300.

Within the FX markets it was the JPY crosses that most clearly reflected this shift in thinking, with AUD/JPY and JPY/KRW making some particularly interesting moves, reviving memories of the turn in fortunes seen in the summer of 2008, as the combination of soaring oil prices and slowing growth began to make themselves felt in a holiday-thinned market.

Given this, it’s therefore worth asking whether there is any evidence to support the idea that the holiday-thinned liquidity of Golden Week can feed into heightened volatility.

In a typical year, the closure of underlying asset markets

Newswatch

1. Oil: Oil prices extend declines following President Trump’s comment on Friday that “I called up Opec, I said you’ve got to bring them (oil prices) down. You’ve got to bring them down.”

2. Spain: The governing
Looking back over the period since 1971, the average reading for realized volatility in USD for the five trading days running up to April 29 (Showa Day) stands at 8.39% (the reading last Friday was 4.46%, the lowest reading since 2014).

For the five trading days running from April 29, the average is 7.37%, while for the five trading days coming after May 5 (Children’s Day), the average is 8.98%. In other words, in a typical year, Golden Week tends to be notably quieter than either side of it (see chart below).

This isn’t particularly surprising given that in a typical year the closure of underlying asset markets would naturally remove one of the driving forces behind currency volatility. In this respect it’s similar to the picture that’s emerged during Parliamentary recesses in the UK, when the decline in political activity is reflected in a drop in GBP volatility.

PSOE takes 123 seats in the general election. Together with Podemos, this takes the seats held by socialists to 166 (out of 350 seats in Congress in total). This gives prime minister Pedro Sánchez the option to form a government with the support of Basque nationalist and moderate regional parties.

3.

Scotland: The SNP’s party’s conference votes to replace GBP with a separate Scottish currency "as soon as practicable" after independence. Party members also backed the leadership over six economic tests that will "guide" the exact timescale for a new currency.

4.

China: Industrial profits in March rise 13.9% y/y.

5.

US/China: Treasury Secretary Steven Mnuchin is quoted by the NYT as saying: “We’re getting into the final laps (of the trade talks). I think both sides have a desire to reach an agreement. We’ve made a lot of
This, however, is not to say that there haven’t been years when Golden Week has exhibited distinct bouts of volatility when compared to the periods immediately surrounding it.

1982, 1986, 1991 and 2005 all saw relatively heightened volatility, with 1986 standing out in particular. This came in the period between the Plaza and Louvre accords, as the G5 nations worked to weaken the USD against the JPY and DEM.

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More generally, it’s worth noting that the period around Golden Week has seen heightened volatility on a number of occasions, including 1979, 1980, 1986 (as discussed), 1995, 2010 and, most recently 2016.

In all but one case (1995) the volatility was associated with the USD either resuming or commencing another leg of its near half a century downtrend against the JPY. 2010 saw the most dramatic spike and came, interestingly enough, as heightened political uncertainty emerged in the UK on the back of an indecisive general election on May 6.

It seems fairly clear that while the typical Golden Week is usually a pretty moribund affair, sparks can fly, particularly when the driver proves to be a deterioration in sentiment feeding into a rise in demand for the JPY.

With this in mind it’s therefore worth noting that our own iFlow data show little sign of investors having net bought JPY for quite a number of months now.
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