

Does central bank ETFs ownership boost the volatility of underlying assets?

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Abstract

This paper analyses how the Japanese ETF market size boosts the volatility of underlying assets. Similarly, to the U.S. case, ETFs tend to magnify the volatility of underlying assets transmitting exogenous shocks through the rebalancing process. However, Japan represents the only developed country where central bank purchases dominate the ETF market, and the countercyclical policy of the Bank of Japan generates demand pressure in the underlying market during the bearish period mitigating the effect on the volatility of underlying assets price. Conversely, the Bank of Japan does not intervene during bullish periods letting the underlying price fluctuate and even boosts the positive trend in underlying price by continuing the ETF purchase program.

Keywords: Japanese ETF market, Bank of Japan, unconventional monetary policy, Volatility of underlying assets, ETF purchase program.

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