

11/29/2009
 Volatility Tracker

Volatility Tracker: Repricing Debt Burdens

1. Comment

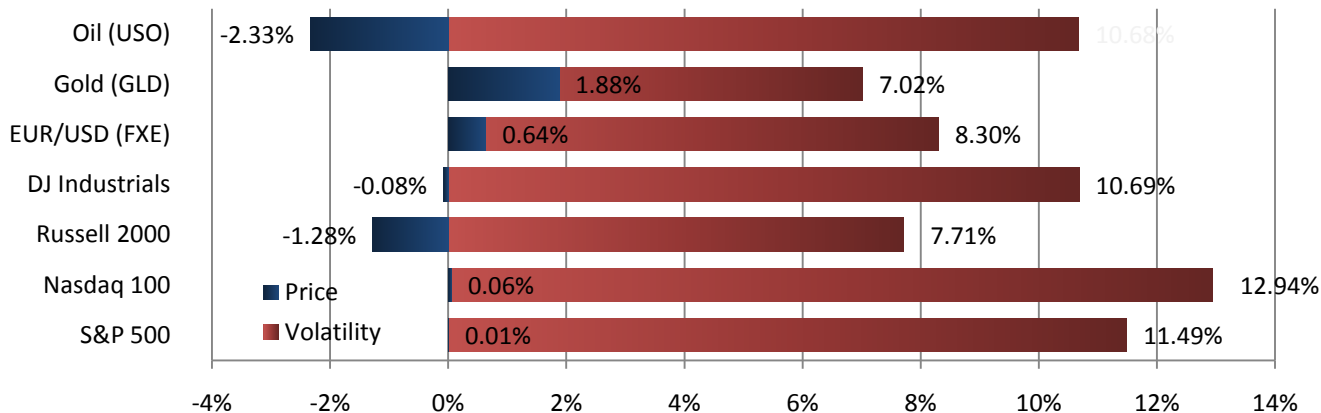
Volatility indexes popped across the board on the Dubai news last week. [2] If traders are concerned about the effects of this particular event, their reaction is overblown - as is already clear, most of the direct exposure to Dubai World appears to rest with HSBC and some Continental European banks. It seems smart, however, to be thinking about the significance of debt burdens in other countries, and about what precedent will be set by the resolution of the situation in Dubai.

When equity index options consistently price in moves of more than 1.5% on two-thirds of trading days [2], Friday's trading range should not be a surprise, even if you believe equity volatility is significantly and consistently overpriced. We wouldn't expect longer-dated volatility futures contracts to move noticeably on last week's news, but even the December VIX contract only lifted slightly.[7]

CBOE appear to have stopped distributing data for ICJ, the January 2010 implied correlation index, so ignore the continued declining ratio at [10] this week.

My repeated comments regarding short oil / long oil volatility played out well last week. [15-17]

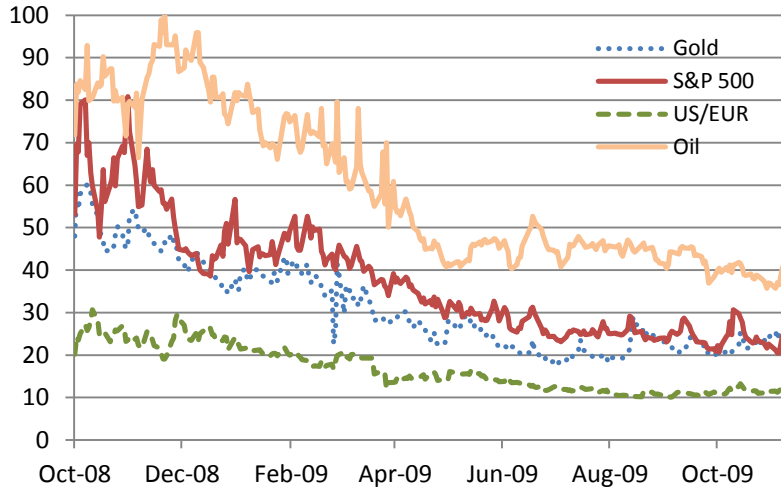
2. Weekly Change - Stock, Commodity, and Volatility Indexes



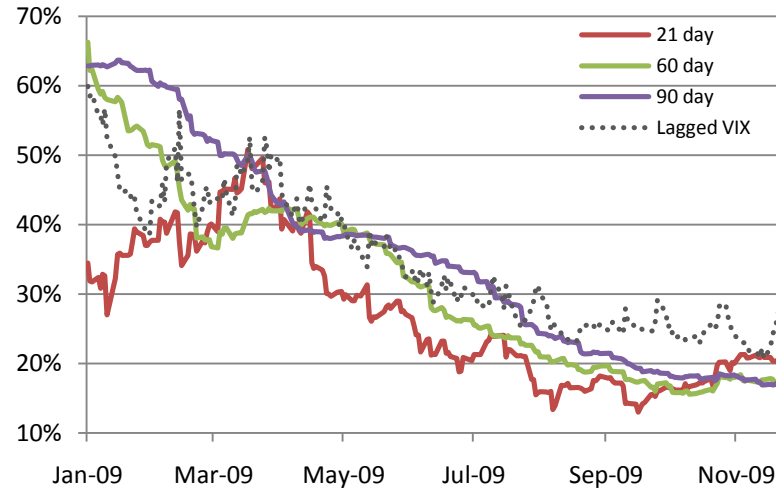
	S&P 500	Nasdaq 100	Russell 2000	DJ Industrials	EUR/USD (FXE)	Gold (GLD)	Oil (USO)
■ Price	0.01%	0.06%	-1.28%	-0.08%	0.64%	1.88%	-2.33%
■ Volatility	11.49%	12.94%	7.71%	10.69%	8.30%	7.02%	10.68%

Implied Daily Move (1σ)		
	Points +/-	%
SPX	17.01	1.56%
NDX	28.25	1.60%
RUT	11.79	2.04%
DJIA	139.89	1.36%
US/EUR	1.17	0.78%
Gold	1.91	1.66%
Oil	0.99	2.57%
Forward Bias		
	Price	Volatility
SPX	→	↗
EUR/US	→	↘
Gold	→	↘
Oil	↘	→

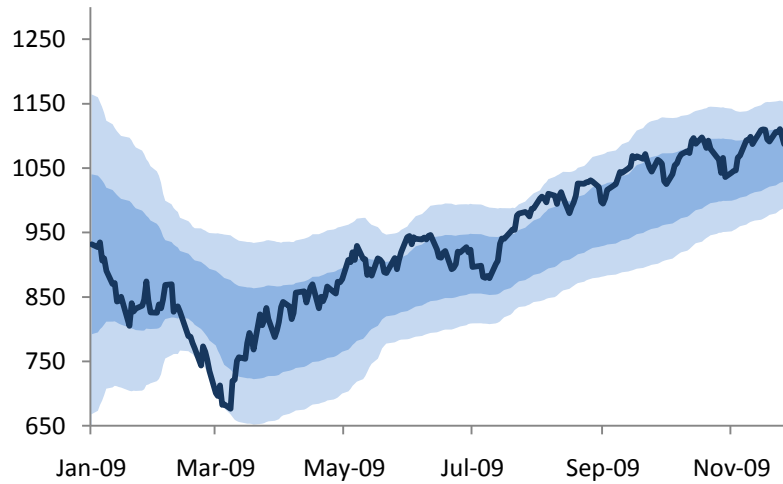
3. Implied Volatility Indexes



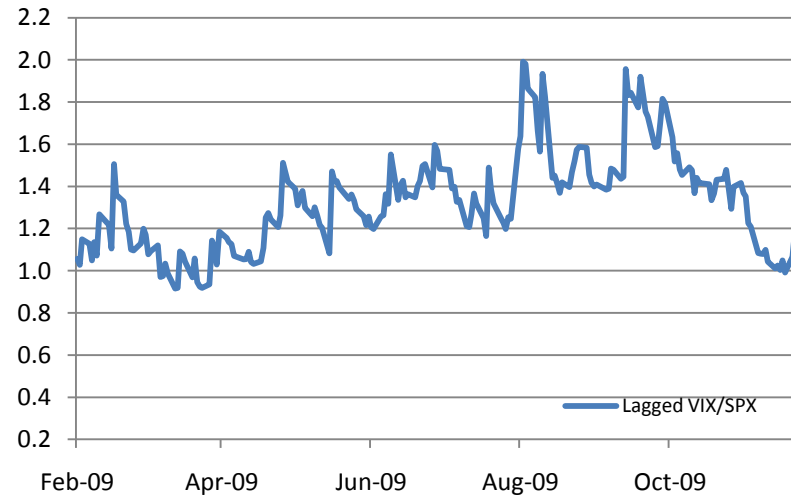
5. S&P 500 Implied and Realized Volatility



4. S&P 500 Price and Bollinger Bands

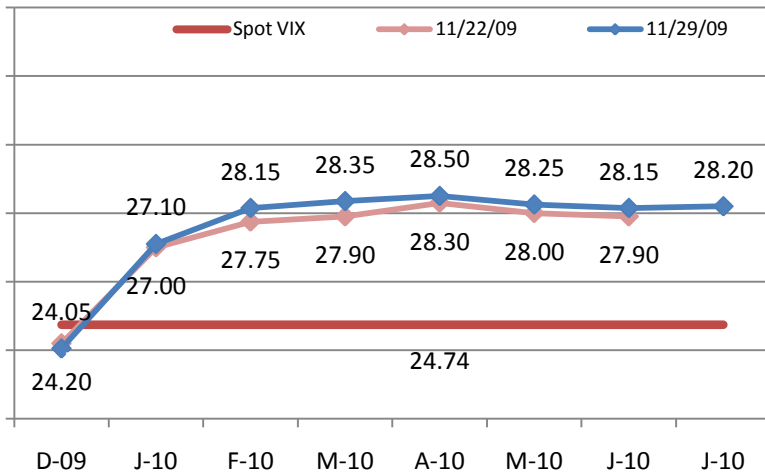


6. S&P 500 Implied/Realized Volatility Ratio

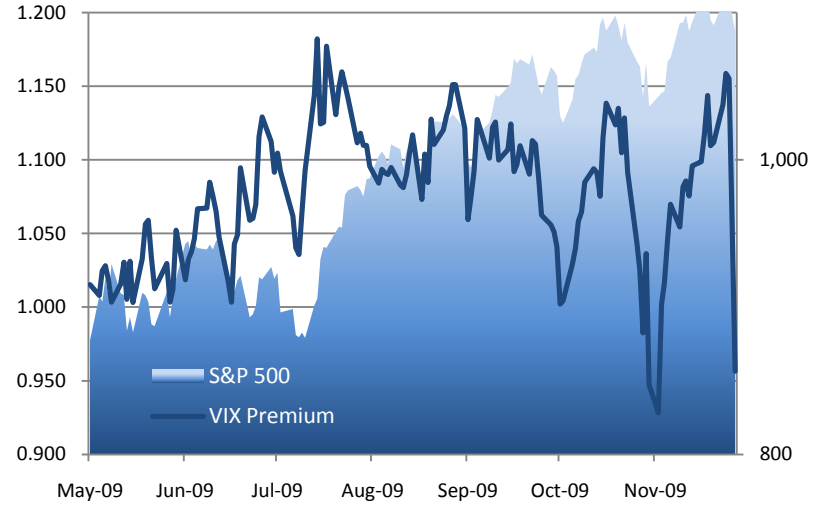


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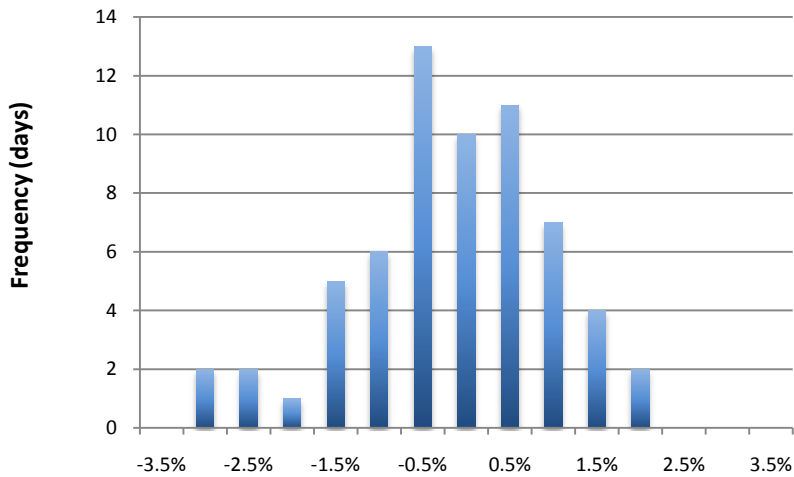
7. Volatility Futures Term Structures



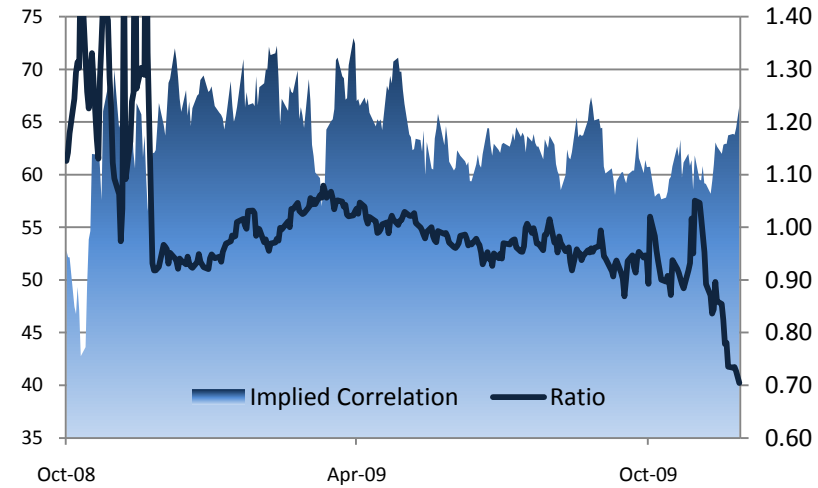
8. VIX Premium Ratio



9. S&P 500 Daily Return Distrib. (3 mo)

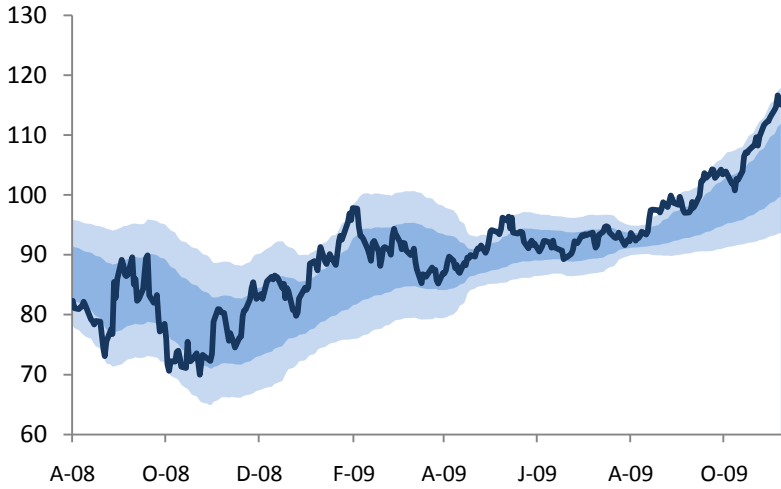


10. Implied Correlation Index

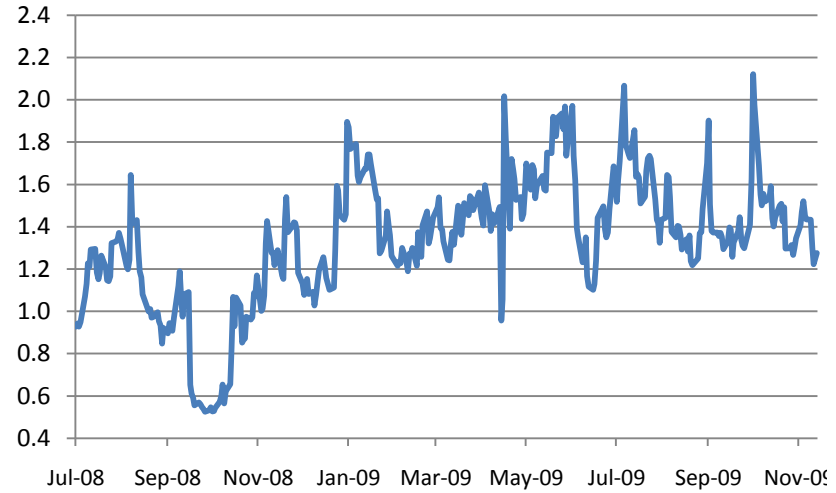


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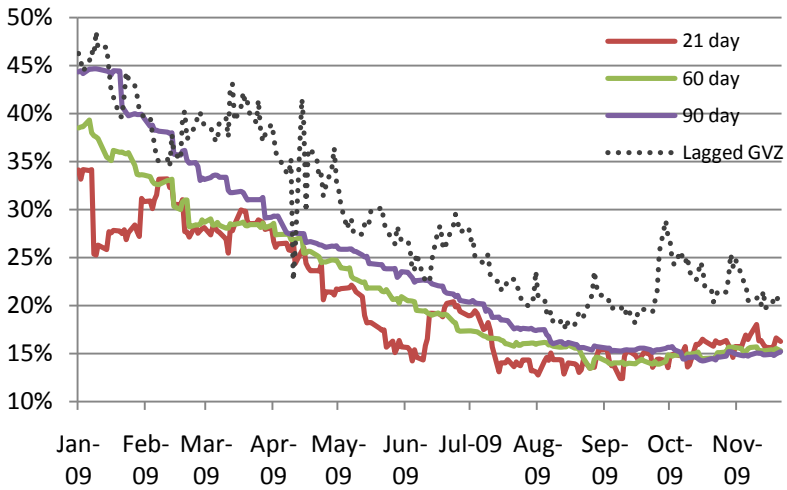
11. Gold Price and Bollinger Bands (GLD)



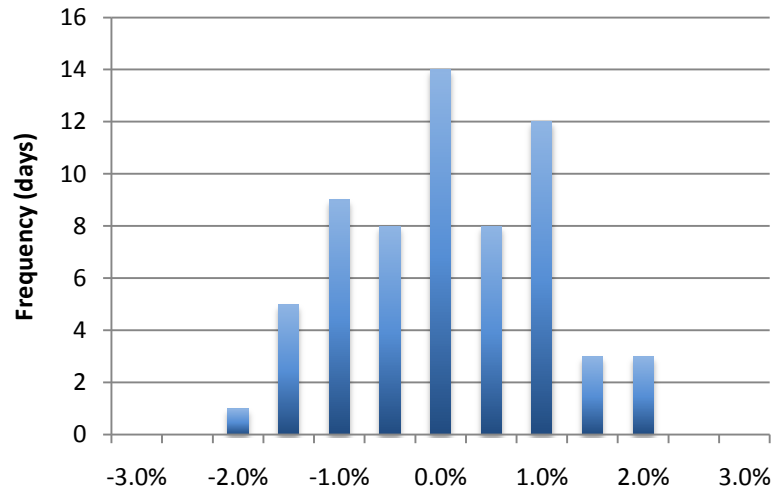
13. Gold Implied/Realized Volatility Ratio



12. Gold Implied and Realized Volatility

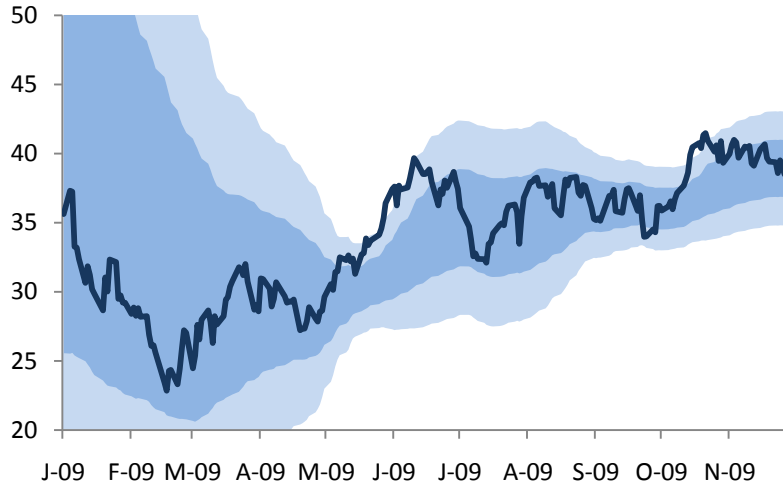


14. Gold Daily Return Distribution (3 month)

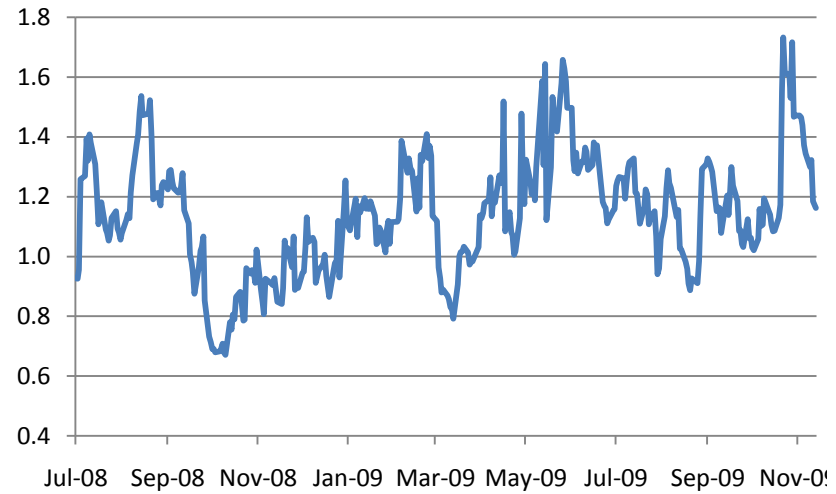


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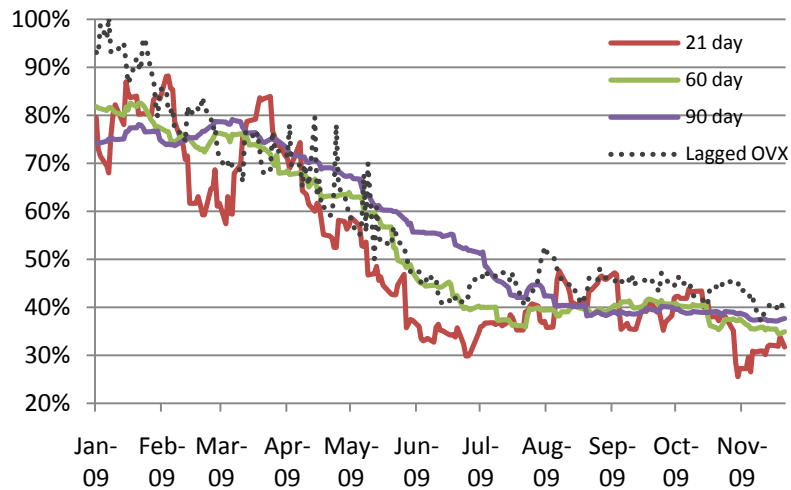
15. Oil Price and Bollinger Bands (USO)



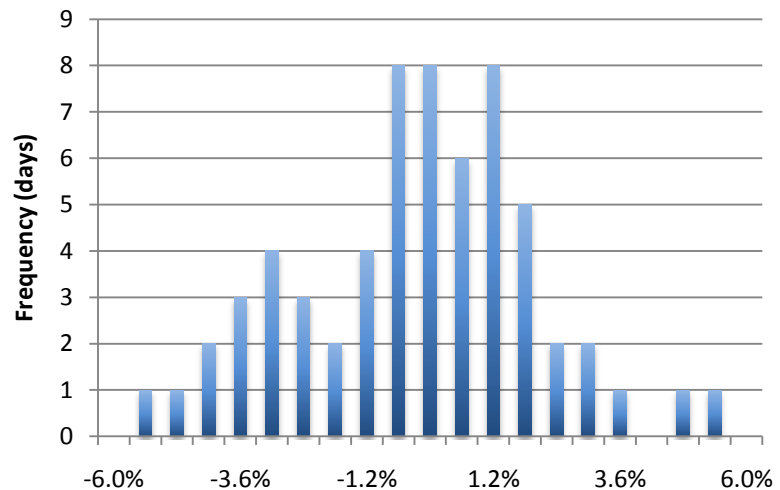
17. Oil Implied/Realized Volatility Ratio



16. Oil Implied and Realized Volatility



18. Oil Daily Return Distribution (3 month)



- 1. Comment.** Highlights items of note in the data below along with our short-term volatility bias and any trading theses. The Expected Daily Move table displays the de-annualized price and percentage change in each underlying asset as implied by its volatility index, within one standard deviation. The Forward Bias table displays my bias for the movement of the price and implied volatility of several assets for the coming week.
- 2. Weekly Change.** Tracks the weekly percentage change in the assets listed and in their implied volatility indexes.
- 3. Implied Volatility Indexes.** A one year chart of the implied volatility indexes for the S&P 500, gold, oil, and USD/EUR. Indexes for the Nasdaq 100 and Russell 2000 are omitted because of their tight correlation with VIX.
- 4. S&P 500 Price and Bollinger Bands.** Tracks daily closing prices in SPX with an overlay of one and two standard deviation 50-day bands.
- 5. S&P 500 Implied and Realized Volatility.** Tracks the 21-, 60-, and 90-day realized (or "historical") volatility of the index and the 21-day lagged CBOE Implied Volatility Index ("VIX"). Realized volatility is displayed as the annualized standard deviation of lognormal returns over the period specified, and may be thought of as a backward-looking measurement of price behavior. Implied volatility is the annualized standard deviation of returns implied by option prices, and may be thought of as a forward-looking measurement of expected price behavior.
- 6. S&P 500 Implied/Realized Volatility Ratio.** Tracks the ratio of 21-day lagged implied volatility (IV) to 21-day realized volatility (RV). This ratio asks how well IV from one month ago predicted the RV over the next 21 trading days (roughly, 30 calendar days). When IV correctly anticipates RV over the period, the ratio will hover near 1; we regard the area near 0.9 – 1.2 as normal, given the persistence of a volatility risk premium in equity market derivatives. A ratio less (greater) than 1 indicates that the price behavior of the underlying asset was more (less) volatile than anticipated.
- 7. Volatility Futures Term Structure.** Tracks the Friday closing prices of the VIX Futures for the two weeks prior, along with the spot levels for reference.
- 8. VIX Premium Ratio.** Tracks the ratio of rolling three-month (VXV) to one-month (VIX) implied volatility. Periods in which one-month readings persist at an extreme premium or discount to three-month levels have tended to coincide with major market moves.
- 9. S&P 500 Daily Return Distribution (3 month).** Histogram plotting the frequency of daily percentage returns over the prior 63 trading days.
- 10. Implied Correlation Index.** Reflects the market-capitalization weighted average correlation of the 50 largest components of the S&P 500.
- 11. Gold Price and Bollinger Bands.** Tracks daily closing prices in GLD with an overlay of one and two standard deviation 50-day bands.
- 12. Gold Implied and Realized Volatility.** Tracks the 21-, 60-, and 90-day realized (or "historical") volatility of the ETF and the 21-day lagged CBOE Gold Volatility Index ("GVZ").
- 13. Gold Implied/Realized Volatility Ratio.** See #6 above; given the novelty of the VIX-style gold volatility index (GVZ) and the characteristics of the underlying, we do not yet have a range we regard as normal.
- 14. Gold Daily Return Distribution (3 month).** See #9 above.
- 15-18. Oil** charts correspond to 11-14 above.



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