The Move to Zero Dated VIX Expiry Options

Lu Wang and Sam Potter at Bloomberg ran an interesting article this week, describing a relatively new phenomenon—i.e. short dated options activity/measures on the traditional fear gauge. Many theories abound on the docile readings of the VIX in the face of the most uncertain macro conditions of a generation. In the past year, extreme bearish/bullish positioning around the FOMO trades in derivatives has contributed to cap the reading, as has diminished net demand for positions with cash levels that would not command protection. Keep in mind that the traditional relationship of the VIX in terms of opposite directional move relative to stock prices was corrupted in '22 – 26% of the time, the two were moving in tandem, which was the most since 2006 **and the VIX was certainly not moving in ways to reflect the market disruption with the disconnect most glowing on the most extreme of days**.

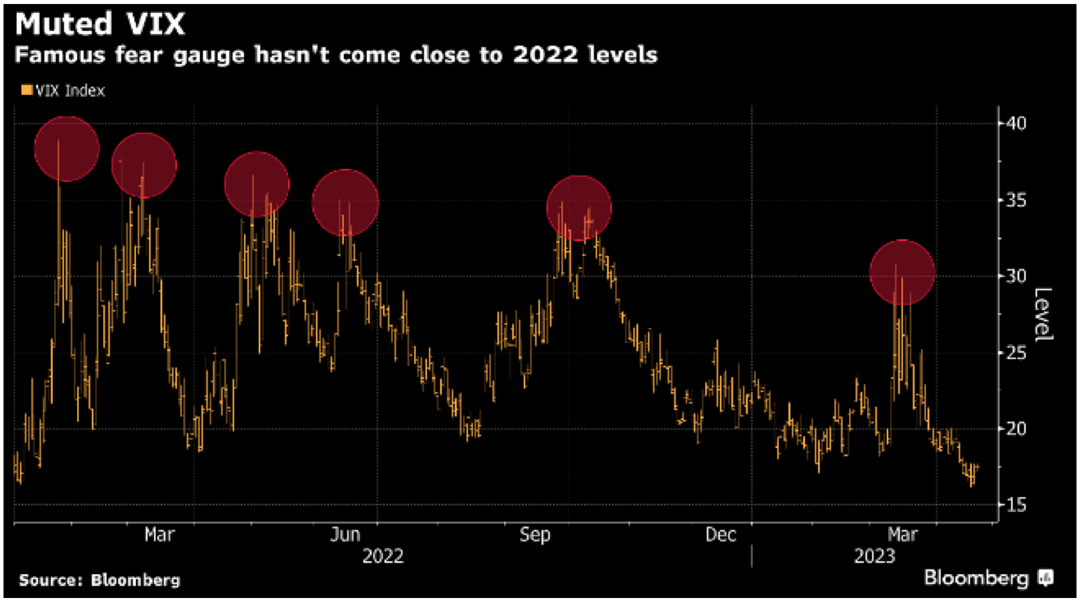
Figure 1

Source: Bloomberg

The Bloomberg article highlights the recent trend of traders hedging against or betting on turmoil in the form of zero-dated options. The VIX is calculated using derivatives that expire 23 to 37 days into the future, maybe contributing to the lack of near term sentiment reflection. Beginning yesterday, the CBOE 1-day Volatility Index (VIX1D), began pricing while the VIX nine-day (VIX9D) was often pricing higher than the VIX over the course of the year. **According to the Bloomberg article, popularity of the shortened readings are on the rise, accounting for as much as 40% of the S&P 500's options volume.**

So while the VIX sits at a historically low 17 handle—likely not reflecting the actual fears in the market—the shorter term derivatives may offer a better barometer.That said, the volatility of the volatility measure is showing early growing pains with considerable fluctuations in price. Referenced at 13.27 on Friday, the close yesterday (April 24) was 25% down. It's **certainly a cowboy market but maybe a measure worth keeping tabs on as the VIX is poorly reflecting actual risk sentiment for some time now**.

Figure 2



Source: Bloomberg

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