

# S&P/ASX 200 VIX Futures

SECTOR FUTURES



S&P/ASX 200 VIX futures provide an exchange-traded mechanism to efficiently isolate, trade, hedge and arbitrage anticipated volatility in the Australian equity market.

## S&P/ASX 200 VIX

The S&P/ASX 200 VIX is a volatility index that allows investors, financial media, researchers and economists to monitor the anticipated level of near-term volatility in the Australian equity market over the next 30 days.

The volatility index is based on the implied volatility of put and call options over the Australian equity benchmark index, the S&P/ASX 200. Two option maturities are used to calculate the index, with the nearest month at least a week away from expiry. The implied volatility of the options closest to maturity is interpolated with that of the options farthest from maturity, to arrive at a constant indication of expected volatility in the S&P/ASX 200 over the next 30 days.<sup>1</sup>

The volatility index can indicate investor sentiment and market expectations. A relatively high volatility index value implies that the market expects significant changes in the S&P/ASX 200, while a relatively low volatility index value implies that the market expects minimal change.

This characteristic often results in the volatility index moving inversely to the Australian equity benchmark index. Charts 1 and 2 illustrate this relationship.

Volatility indicators such as the S&P/ASX 200 VIX are often perceived to show characteristics of mean reversion by oscillating around a long-term average (or mean). In other words, a move away from the long-term average towards high or low extremes can be followed by a move back towards the long-term average.

The implication is that high levels of volatility may be followed by a return to more normal volatility levels, and very low levels of volatility may be precursors to an increase in volatility.

More information on the S&P/ASX 200 VIX can be found at [asx.com.au/volatilityindex](http://asx.com.au/volatilityindex)

<sup>1</sup> The Australian Financial Markets Association (AFMA) supplies the one-month, two-month and three-month interest rates used to calculate the S&P/ASX 200 VIX.

## Trading volatility with S&P/ASX 200 VIX futures

S&P/ASX 200 VIX futures enable market participants to trade anticipated changes in Australian equity market volatility in a single transaction. By efficiently isolating the volatility component of index options, participants can trade volatility independently of the factors that would normally complicate volatility strategies, such as expiring options and price movements in the S&P/ASX 200.



Exploiting the negative correlation between S&P/ASX 200 VIX and S&P/ASX 200 to hedge equity portfolios



Diversifying multi-asset portfolios by adding volatility as an asset class, with a low or negative correlation to other asset classes



Hedging the Vega risk present in option portfolios



Hedging over-the-counter (OTC) volatility products

S&P/ASX 200 VIX futures are an ASX-listed product that enables participants to more easily hedge, trade and arbitrage anticipated volatility in the Australian equity market.

Its potential uses include:



Developing arbitrage strategies using S&P/ASX 200 VIX futures and related securities such as index options



Profiting from correctly anticipating changes in the implied volatility of the Australian equity market



Trading the spread between different contract months in S&P/ASX 200 VIX futures



Trading the spread between S&P/ASX 200 VIX futures and VIX futures on other markets.

Chart 1 – S&P/ASX 200 VIX vs S&P/ASX 200

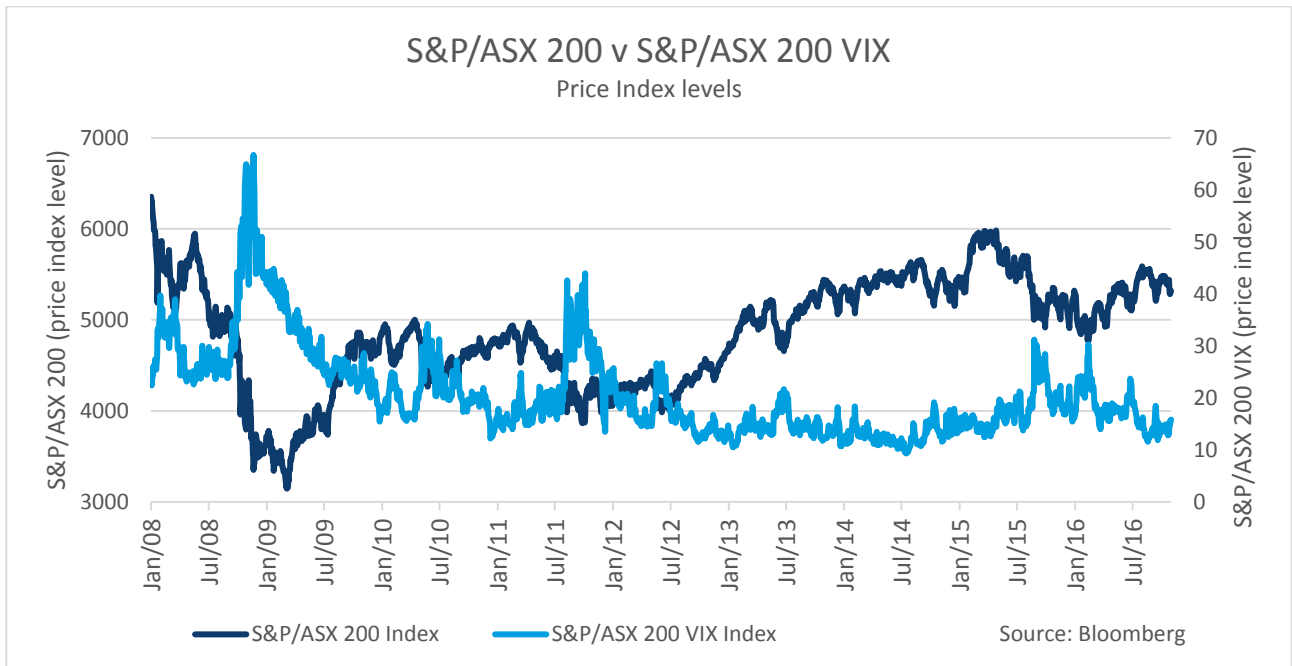


Chart 2 – S&P/ASX 200 VIX vs S&P / ASX 200 Correlation (Jan 2008 – Oct 2016)

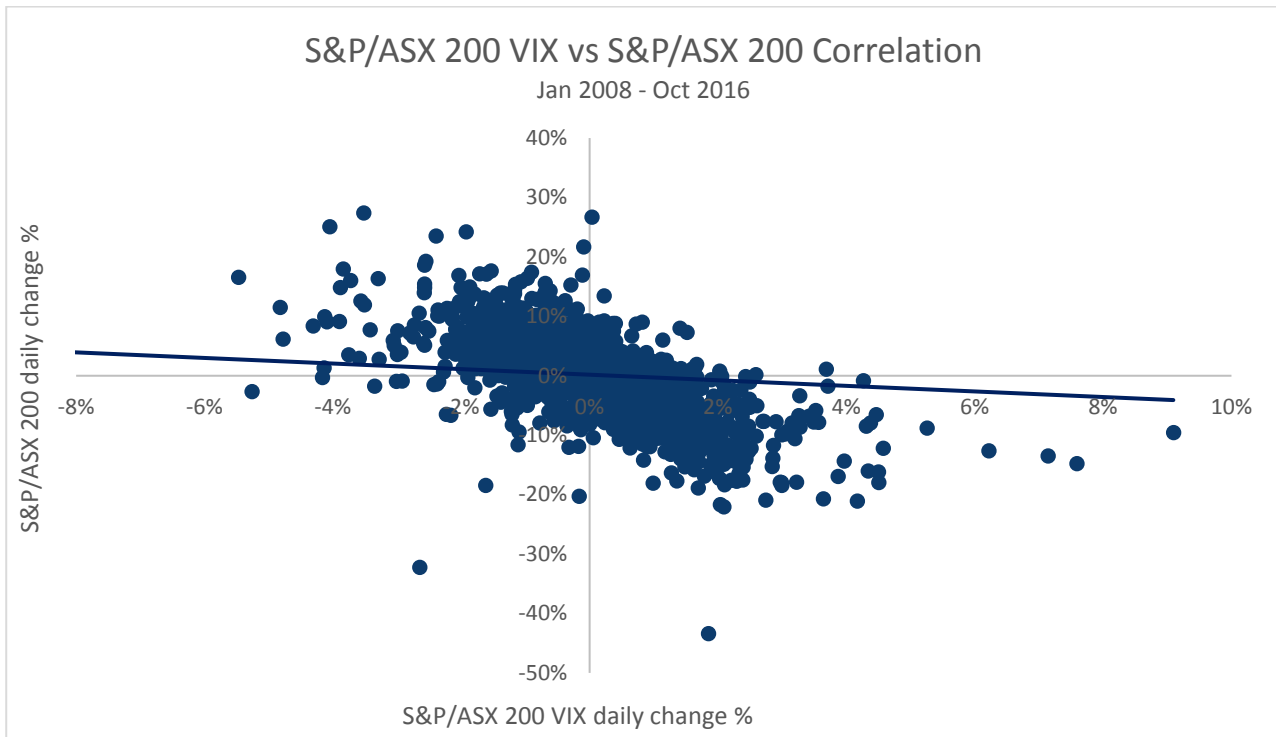


Chart 3 – Historical volatility of S&P/ASX 200 VIX and S&P/ASX 200

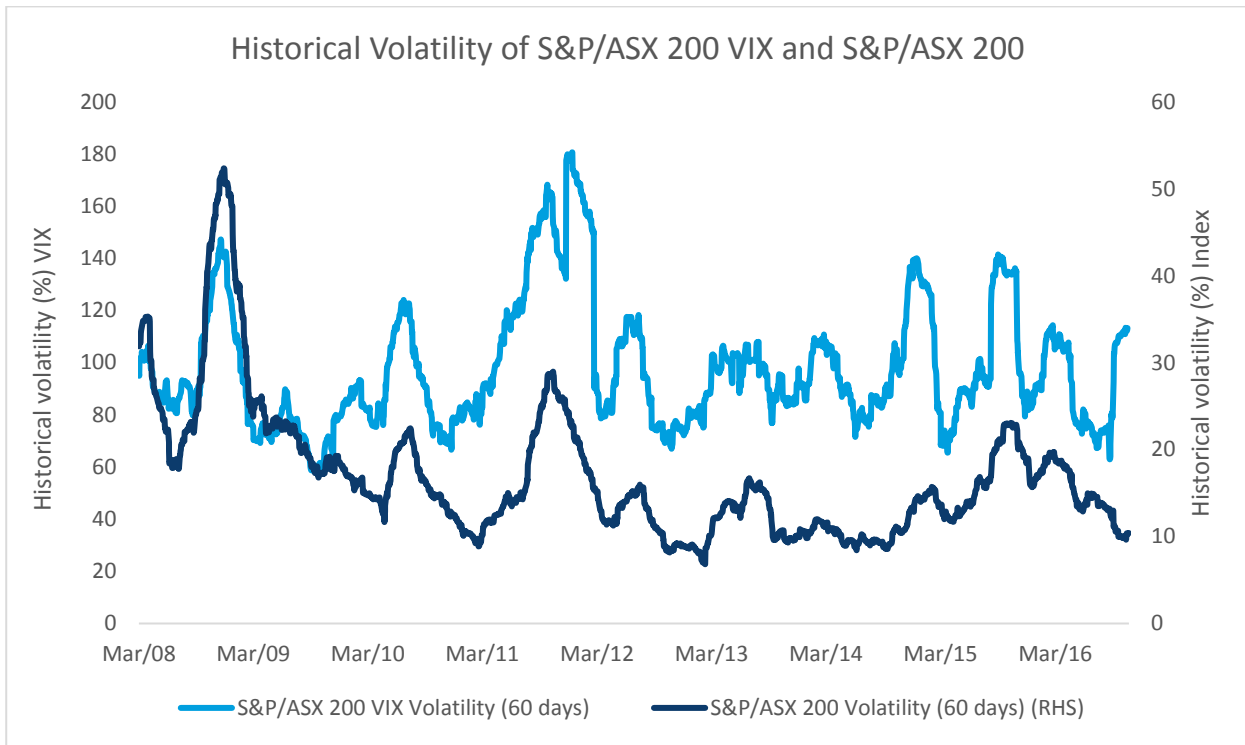


Chart 3 plots the historical volatility of the S&P/ASX 200 VIX and the S&P/ASX 200 from the beginning of 2008 to October 2016, a period of uncertainty and instability in the world's economies. The chart demonstrates that the volatility of the S&P/ASX 200 VIX is higher than that of the underlying market. This is expected, since the volatility of the S&P/ASX 200 VIX can be thought of as the volatility of anticipated volatility. As well as the two volatility time series being positively correlated, the S&P/ASX 200 VIX shows greater movement than the underlying S&P/ASX 200 during an increase or decrease in volatility.



## Contract Specification

Contract	S&P/ASX 200 VIX FUTURES
Commodity Code	VI
Underlying Index	S&P/ASX 200 VIX
Contract Multiplier	A\$1,000 times the S&P/ASX 200 VIX value
Minimum Price Movement	0.05 points, or A\$50
Contract Months	Next two calendar months
Trading Hours	10.10am to 4.15pm Australian Eastern Standard Time
Trading Platform	ASX Trade24
Last Trading Day	Trading to cease in the expiring contract at 12.00pm on the Tuesday 30 days prior to the third Thursday of the following calendar month. For example, the February S&P/ASX 200 VIX future will expire 30 days prior to the third Thursday in March. The non-expiring contract will continue to trade as per the stated trading hours.
Final Settlement Price	The Final Settlement Price will be the average value of the S&P/ASX 200 VIX between 11.30am and 12.00pm on the Last Trading Day. The Final Settlement Price will be calculated to two decimal places (0.01 points or A\$10).
Settlement Day and Settlement	ASX Clear (Futures) publishes the Final Settlement Price on the first business day after the Last Trading Day. On the second business day after the Last trading Day, ASX Clear (Futures) settles the cash flows resulting from the Final Settlement Price.
Transaction Fee (excl. GST)	A\$1.20
Block Trade Threshold	50 lots





## Further Information

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