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“Understanding VIX Index”



VIX Index

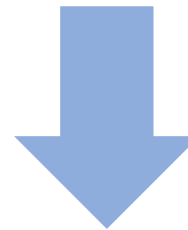
VIX or CBOE (Chicago Board Options Exchange) Volatility Index is a **measure of market's expectation of volatility in the near term.**

It is considered as a contrarian indicator and is also colloquially referred as the **"fear index or the fear gauge"**.

India VIX refers to the India Volatility index. It depicts the **expected market volatility over the next 30 days.**



High Levels of India VIX Index indicates **higher expected volatility** and reflects **higher level of fear** prevailing in the market.



Low levels of VIX Index indicates **lower expected volatility** and reflects **lower level of fear** prevailing in the market.

Who owns the VIX Trademark?

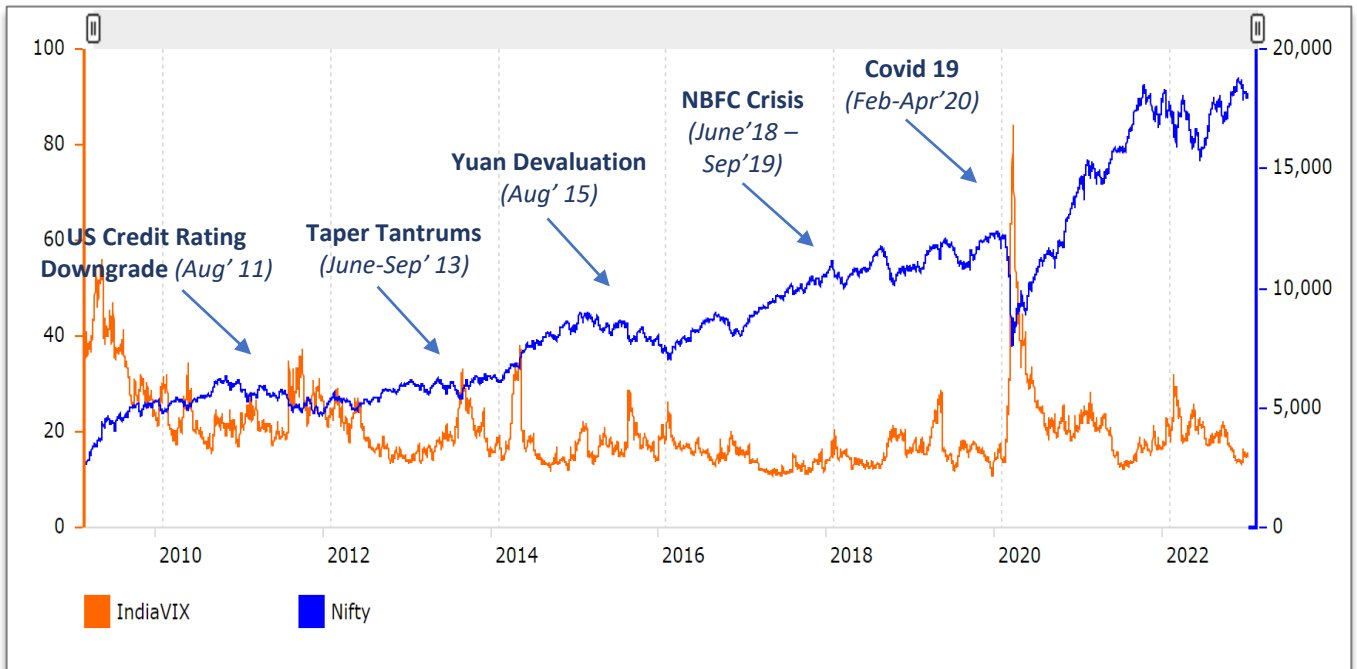
- **Chicago Board Options Exchange (CBOE)** owns the VIX trademark. In the US, VIX values are calculated using the **CBOE traded standard S&P 500 options** with near term expiration dates, thus generating a **30 day forward projection of volatility.**
- In India, value of VIX has been computed by NSE since November 2007 and is based on **out-of-the-money (OTM) option prices of the Nifty.**
- India VIX also **uses the computation methodology of CBOE with suitable amendments** to adapt to the NIFTY options order book.
- From the best bid-ask prices of NIFTY Options contracts, a volatility figure (%) is calculated which indicates **the expected market volatility over the next 30 calendar days.**

Source: www.investopedia.com; <https://www.nseindia.com>

Please note:- Option is a contingent claim representing an asset that has a future payoff, only if a future event takes place (E.g. an asset price greater than a specific price or an asset lower than a specified price).



India VIX v/s NIFTY



As can be seen from the chart, that during the onset of Covid -19 (Feb- Mar'20), India VIX had a touched a high level of ~86 and Nifty 50 crashed by over 30% for the same period. The same holds true for the periods of US Credit Rating Downgrade in Aug' 11, where India VIX had risen to ~35 in Aug'11 and Nifty 50 had fallen by ~11% in that month. Another example was the event of US Taper Tantrums in Jun -Sep' 13, where India VIX had increased from 16.9 in June' 13 to 32.5 in Sep'13 and Nifty 50 had corrected by -3% for the period .

This indicates a negative correlation between India VIX and the Nifty. However, there were two occasions where India VIX and Nifty were not negatively correlated.

Please find below the excerpt from a publication by the RBI:

“In India, the stock market rose amidst high volatility towards the end of January 2018 but fell at the beginning of February 2018 alongside turbulence in global stock markets. In consonance with it, the India VIX increased sharply during this period and touched 20 on February 6, 2018. With a sharp correction in equity indices in February 2018, the inverse relationship got restored in the rest part of February 2018.

The simultaneous rise in the Nifty and the India VIX appeared again in April 2019.”

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