

Twitter Thread by Subhadip Nandy

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This question might have rose in your mind too, that why VIX was lower than yesterday despite the huge selloff today.

This is what I think happens . A thread.

Market is highly volatile but vix is down by 4%

— Jegathesan Durairaj (Jegan) (@itjegan) [May 13, 2022](#)

What is VIX ?

<https://t.co/VOkAwGRsHL>

2. India VIX*

India VIX is a volatility index computed by NSE based on the order book of NIFTY Options. For this, the best bid-ask quotes of near and next-month NIFTY options contracts which are traded on the F&O segment of NSE are used. India VIX indicates the investor's perception of the market's volatility in the near term i.e. it depicts the expected market volatility over the next 30 calendar days. Higher the India VIX values, higher the expected volatility and vice-versa.

What is IV (implied volatility) ?

<https://t.co/U34ZNRHrLd>

Now my explanations. IV is simply demand and supply. IV is back calculated from option prices and not given by the BSM model. When demand for options (by buyers) are high, IVs will be high. When supply of options (by sellers) are high, IV will be low.

Now look at this chart. Nifty fut and VIX are plotted together (red line is the VIX). Yesterday's massive breakdown forced traders to hedge their positions by buying puts (could be cash holdings, could be future longs, could be sold puts). This excess demand spiked up IVs /VIX



Notice the highest VIX was at around Nifty lows of yesterday . Today we went to those lows again. But since traders were already hedged yesterday for these levels, there was no demand for PEs. Hence VIX today was lower despite market being volatile and going to yesterday's lows

If we break today's lows and go lower in the future, VIX should again increase due to demand for PEs for hedging.

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Old thread on IVs and VIX

<https://t.co/IW6tk9hcmv>

IV - A thread

In financial mathematics, implied volatility of an option contract is that value of the volatility of the underlying instrument which, when input in an option pricing model) will return a theoretical value equal to the current market price of the option (1/n)

— Subhadip Nandy (@SubhadipNandy16) September 20, 2018