

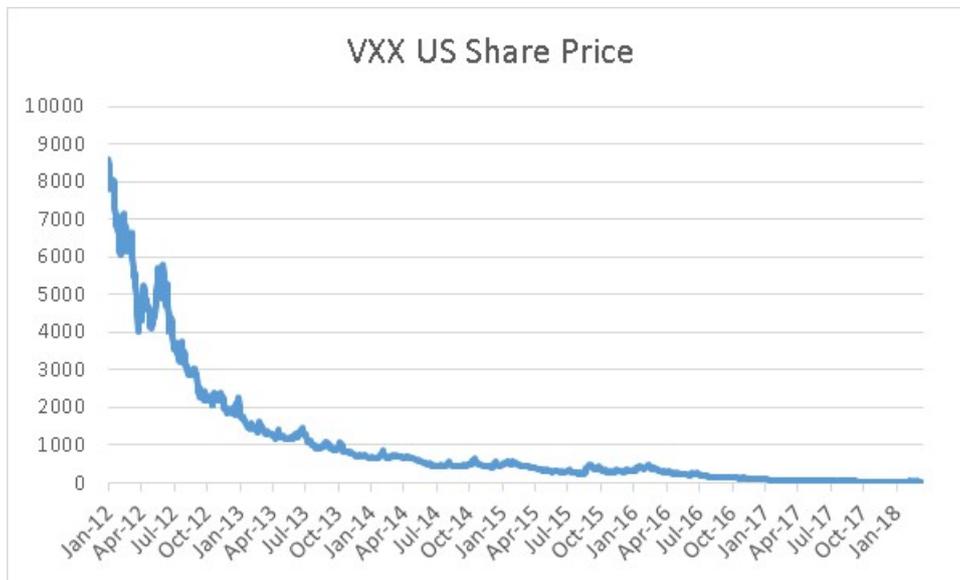
VIX ETFS AND SHORT VOLATILITY STRATEGIES



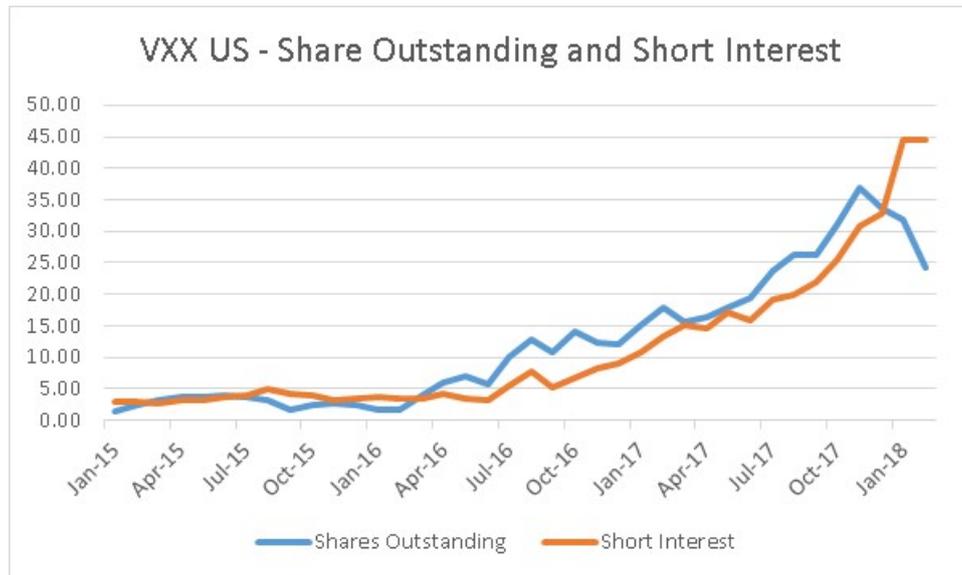
Russell Clark's
Market Views

"From an investing perspective, I am only interested in whether the market is long or short VIX, as VIX has a tendency to rise when the market is short VIX and to fall when the market is long. The easiest way to do that is to work out the net position of VXX and SVXY and then combine them. Currently these two ETFs have a record short VIX position."

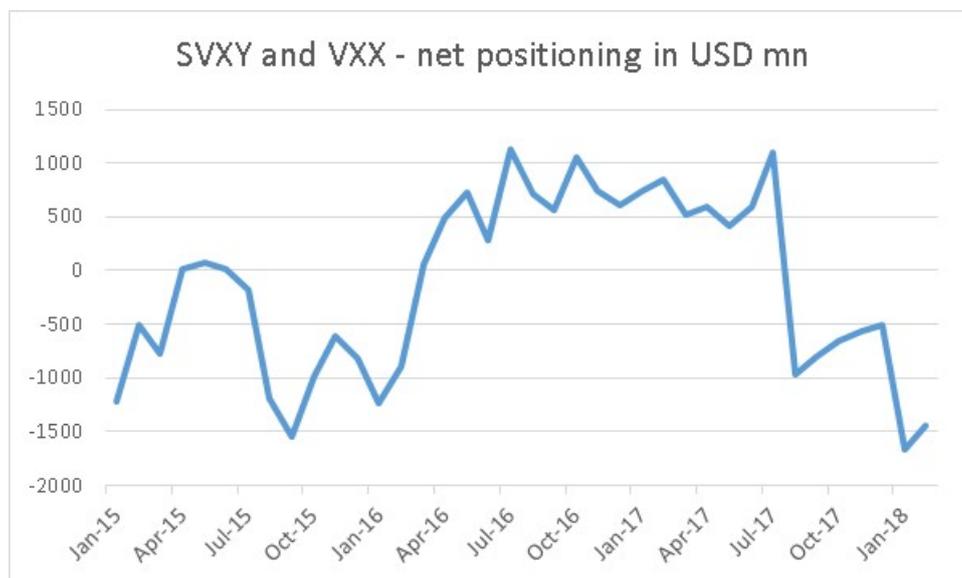
The emergence of exchange traded funds with volatility strategies ('VIX ETFs') over the last few years has allowed many more investors to participate in short volatility strategies. One of the largest is VXX US ('VXX'), the iPath S&P VIX Short Term Futures ETN, with a market cap of over 800mn USD. A look at the long term share price performance of the VXX would make most investors wonder why anyone would own VXX.



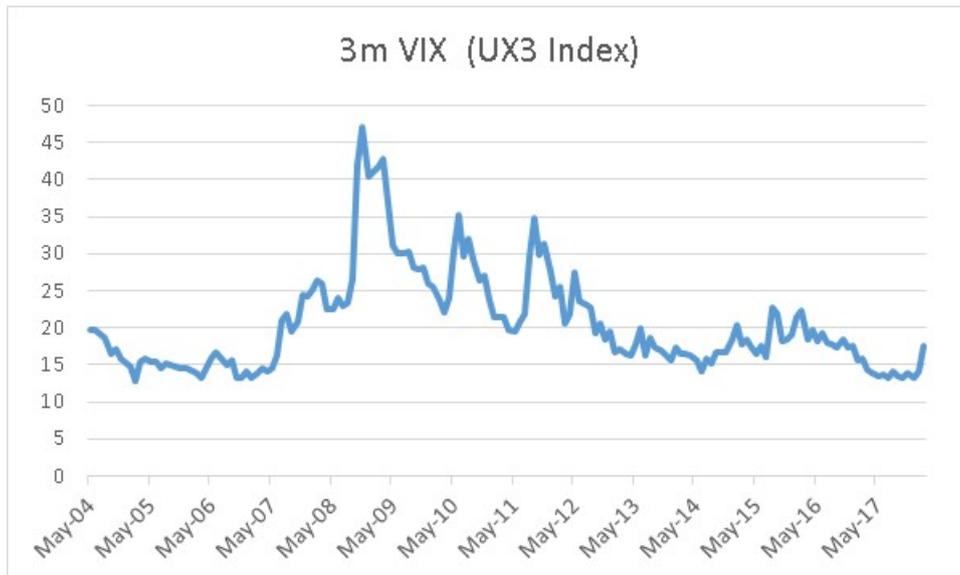
However, the VXX has proven to be a very liquid way for investor to go both long and short the underlying VIX, and the structure of VXX allows for the short interest in VXX to be greater than shares outstanding. These means that although VXX is nominally a long VIX product, when short interest is greater than shares outstanding it will be a short VIX product. Recently we have seen short interest in VXX rise substantially as share outstanding has fallen.



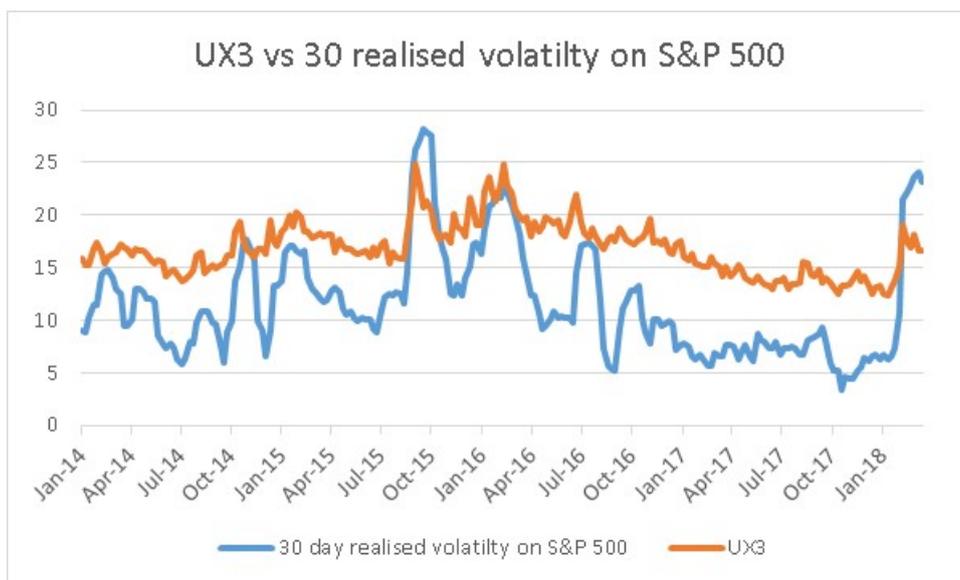
Other than VXX, there is another VIX ETF, SVXY US ('SVXY'), that is nominally short VIX, but can also have short interest greater than shares outstanding. In this case this would turn a short VIX ETF into a long VIX product. From an investing perspective, I am only interested in whether the market is long or short VIX, as VIX has a tendency to rise when the market is short VIX and to fall when the market is long. The easiest way to do that is to work out the net position of VXX and SVXY and then combine them. Currently these two ETFs have a record short VIX position.



If a VIX ETF is long positioned, it will be buying 3-month VIX futures (UX3 is the generic code), and then sell them once they have become 1-month futures (UX1 is the generic code). Hence, one of the conditions to make money with a long volatility trade is that you need UX3 to be trading cheaply. UX3 became very richly valued during the financial crisis, but during the 9-year bull market, since then it has become cheap, even with the recent sell off.



For the first time since the summer of 2015, realised volatility on the S&P 500 is greater than UX3.



The combination of UX3 trading lower than realised volatility and record short position in large elements of the VIX ETF market could indicate there are highly volatile markets ahead.

INFORMATION

Issue Date: 20th March 2018
Source: Bloomberg, unless otherwise stated
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