

India VIX Index rallies: What does market volatility mean for investors?

India VIX is a measure of the market's expectation of volatility. It typically rises ahead of events like the Lok Sabha elections, which could have a major impact on the market trajectory. What is the outlook on India VIX at present?

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In May so far, the India VIX has risen by around 53 per cent to above 20. On Tuesday, the index touched a high of 21.88 in afternoon trades. (Representational/Pixabay)

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India VIX, which is an indicator of the market's expectation of volatility over the near term, surged past the 21 mark on Tuesday (May 14). The rise shows that fear among traders or market participants on the expected volatility is more now, as compared to 15 days earlier. Currently, the fear among the market players is coming from the outcome of the ongoing Lok Sabha elections.

What is the Volatility Index?

The Volatility Index, VIX or the Fear Index, is a measure of the market's expectation of volatility over the near term. Volatility is often described as the 'rate

and magnitude of changes in prices' and in finance often referred to as risk. Usually, during periods of market volatility, the market moves steeply up or down and the volatility index tends to rise. As volatility subsides, the Volatility Index declines.

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The Volatility Index is a measure of the amount by which an underlying index is expected to fluctuate in the near term, (calculated as annualised volatility, denoted in percentage e.g. 20 per cent) based on the order book of the underlying index options. The Chicago Board of Options Exchange (CBOE) was the first to introduce the volatility index for the US markets in 1993 based on S&P 100 Index option prices. In 2003, the methodology was revised and the new volatility index was based on S&P 500 Index options.

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Since its inception, it has become an indicator of how market practitioners think about volatility. Investors use it to gauge market volatility and base their investment decisions accordingly.

What is India VIX?

India VIX is a volatility index computed by the 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.

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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. The higher the India VIX values, the higher the expected volatility and vice versa, as per NSE.

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Why has India VIX surged?

In May so far, the India VIX has risen by around 53 per cent to above 20. On Tuesday, the index touched a high of 21.88 in afternoon trades. On Monday, India VIX soared 16 per cent to touch the 21.48 mark during the intraday trades, before ending at 20.6.

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On Monday, after rising 998 points from the intraday lows, the BSE Sensex ended 112 points up at 72,776.13. The NSE’s Nifty also ended 48.85 points up at 22,104.05; it declined nearly 1 per cent during the day.

The volatility seen in the benchmark equity indices was amid concerns over the results of the ongoing elections, set to be declared on June 4. The market participants said a lower voter turnout ratio in this election may have some impact on the [BJP](#)’s seat count. Heavy selling by foreign portfolio investors, who have dumped Rs 18,375 crore (till May 13) of Indian equities, have also led to the fall in the domestic market.

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“A critical domestic event like the Lok Sabha elections does command a certain level of uncertainty for its outcome. Just like earlier elections in 2014 and 2019, similar fear, or I would say uncertainty, with respect to the outcome remains,” said Sahaj Agarwal, Senior Vice President – Derivatives Research, Kotak Securities.

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A high number indicates participants are getting more cautious and expect volatility as the event unfolds.

India VIX reflects the expected volatility and typically rises ahead of events like elections that could have a major impact on the market's trajectory. As expectations of outcome keep changing, VIX also keeps rising, said Deepak Jasani, Head of Retail Research, HDFC securities Ltd.

"However this time around though the VIX has risen, it has risen at a pace slower than in the previous elections as there was lower uncertainty about the outcome when the elections began," he said.

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What is the outlook on India VIX?

According to Geojit Financial Services Chief Market Strategist Anand James, the behavior of India VIX now has a lot of similarities to the period shortly before the 2019 electoral results announcement.

Then too, markets had come off peaks in March, and VIX shot up to 28.6. The main difference is that prior to this, VIX was in a 20-14 range during the previous 6 months, pointing to volatility expectations being reasonably high for an extended period.

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In stark contrast, VIX's rise from record lows to above 20 now, has unfolded in just a fortnight's time, James said.

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"So, while recent history points to more room for upside in VIX and thereby volatility, the abruptness in the rate of change of VIX may lead to a cool-off, perhaps even before the electoral results," he said.

HDFC Securities' Jasani said VIX could keep rising and peak out before the 6th or 7th phase of the elections and once the results are out, VIX can fall quite sharply.

What should investors do?

Kotak Securities' Agarwal said that in isolation, the India VIX does not give a view on the market.

"But considering all the parameters, we believe the markets are in a corrective/consolidation phase. Only a cross above 23,000 changes the undertone to

buying on dips for higher targets – till the same does not happen, I would be passive on broader markets and selectively positive,” Agarwal added.

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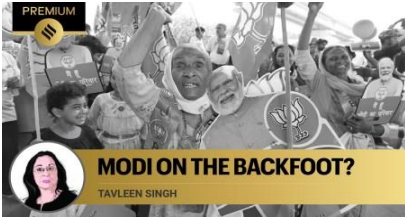
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