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Despite rally, market volatility near all-time lows

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Despite touching all-time highs, Indian equities have seen surprisingly low volatility in the past few months, hinting at increased confidence about the market's upward trajectory and absence of significant negative cues.

In the past three months, India VIX — a measure of investors' perception about the risk of sharp swings based on options prices — has mostly hovered between 11 and 12 levels. The gauge touched a record low of 8.4 intra-day on May 15 before closing at 10.67. On Monday, it gained 1.9 per cent to close at 11.01.

"The market movement by and large has been one-sided for the past few months. There have been a few corrections but the market has been able to bounce back each time. Traders who have employed spread strategies such as bull-call spreads or long-call ladder spreads have made money in this market," said Vikas Jain, senior research analyst, Reliance Securities.

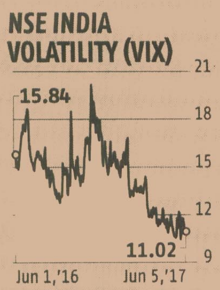
A bull-call spread is an options strategy that involves purchasing call options at a specific strike price while also selling the same number of calls of the same asset and expiration date but at a higher strike. A bull-call spread is used when a moderate rise in the price of the underlying asset is expected. A long-call ladder is a limited profit, unlimited risk strategy in options trading that is employed when the options trader thinks that the underlying security will experience little volatility in the near term.

"Traders who have employed strategies like bull-call spread or bought call options have made money. Even those who have held on to their futures positions in the index have made money," said Sneha Seth, derivatives analyst, Angel Broking. On the other hand, those who pre-empted tops and had built short positions in the anticipation of reversal have lost big money, especially during the expiry weeks of the last two series, which witnessed sharp upmoves, Seth said.

The BSE Sensex has gained 8.6 per cent in the past three months. According to Kunal Nandwani, CEO at uTrade Solutions, this has been a difficult period for some traders as most trading strategies, including arbitrage and market making, do not perform well in lower volatility periods. Experts suggest one should not trade aggressively in the index at this point but prefer stock specific-trades as a major upside is not expected from here on. Key macro events such as the GST and the Reserve Bank of India's rate decisions have been factored into the market price, they said.

Notably, foreign portfolio investors (FPIs) continue to remain bullish. In the last couple of series, FPIs have added long positions in index futures and these longs are still intact. According to experts, their current index 'Long Short Ratio' is at 85 per cent, suggesting they remain upbeat on Indian equities.

"On the upside, the Nifty is likely to face resistance at 9,750-80 levels and see profit-booking at those levels. The sentiment may turn negative if it breaks 9,450 on the downside," said Jain.



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