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Vix (2x): Oil and S&P market

Minus one standard deviation move in both assets

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Strong correlation and

Volatility compression

Historically, crude oil and S&P 500 volatility are extremely linked to each other. On a 10 year weekly Z-Score study (deviations from the mean) we can clearly notice the relation.

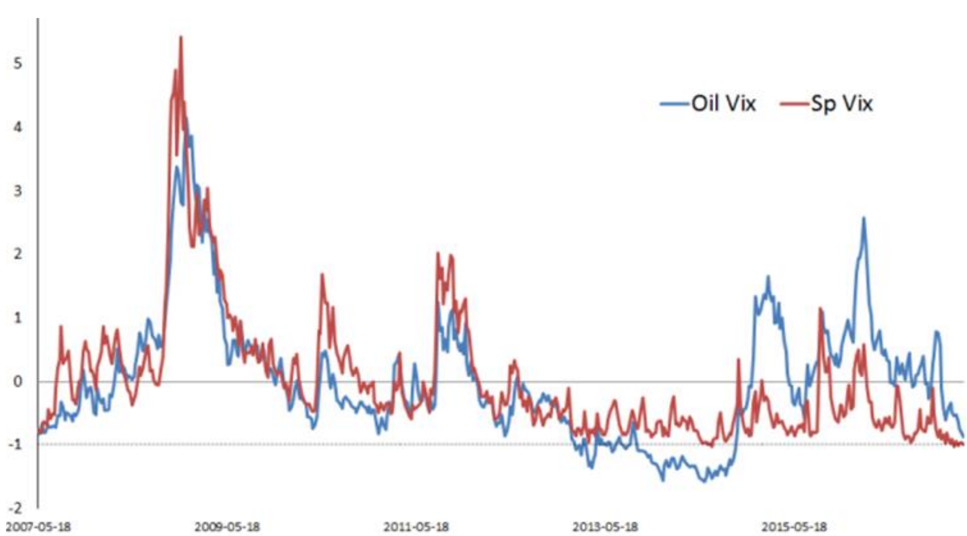
Two highlights:

Crude oil and S&P 500 volatility move in cycles that seem in sync. Their highs and lows converge on the studied period. Their correlation during the last 10 years hit 0,75, which is consider as a very strong number.

Currently, both assets are trading at their volatility´s lower band. Actually, the reading is very close to minus one standard deviation (-1 StD). Under so narrow volatility, it is very likely to expect mean reversion movements on prices. It is worth to mention that during 2013-2014 crude oil prices traded below that reading, even sinking to a low of -1,5 StD, in an environment of low volatility in the overall market (risk appetite)

As a reference, S&P Vix for the 10 year period averaged 20,85 points, today is trading at 11,5 points. Meanwhile, Oil Vix averaged 37,5, today is merely reaching 25,5.

Figure 1: Z-Score on S&P Vix and OIL Vix.



Last thoughts

Expected Mean reversion

At so extremely high political and economic uncertainty global wise, It is fair to project a mean reversion movement and apparently historical low levels of volatility are warning even an aggressive movement.
Despite not knowing which asset will be the final trigger, is very likely to expect a hand in hand move in both crude oil and S&P500 volatility to recreate what we have been seen in the past.

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