

CORNERSTONE MACRO

Economics, Policy, Strategy & Technicals

Options Strategy

JUST WANT TO (VIX) FLY

- **The kink between the VIX Sep-Oct-Nov futures has flattened during the recent volatility spike.**
- **We suggest buying the VIX Sep/Oct/Nov 20-strike put calendar fly to position for lower 'base' volatility and an increase in the election implied move.**

Since the Democratic primaries started heating up early this year, we've been tracking the market implied 1-day move for the US presidential election in November. We saw that as Bernie Sanders surged in the polls into Super Tuesday, so too did the implied 1-day move for the election, as the risk of a very progressive president started being priced in.

Now that Biden has secured the Dem. Nomination and volatility has spiked higher due to Covid rather than election fears, the implied 1-day move for the election has actually declined a lot.

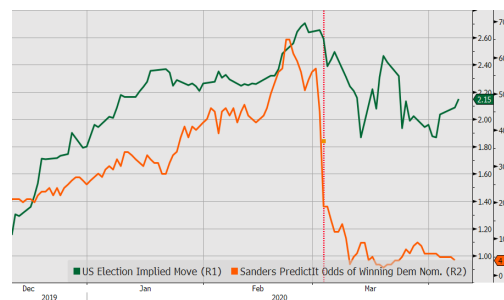
The changes in the election implied move can be seen in the changes of the VIX Sep/Oct/Nov futures fly, which is selling 1x Sep, buying 2x Oct, selling 1x Nov VIX futures.

Conceptually, the VIX Oct future is elevated relative to the Sep and Nov futures because the 30-day forward window from October catches the election date on Nov 3rd, 2020.

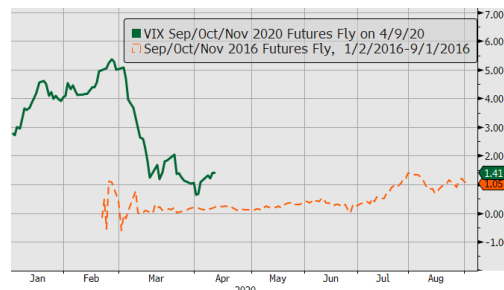
In the middle chart we show the price of that futures fly this year, overlaid with the same type of futures fly back in 2016 ahead of the Trump election.

Another easy way to see this is by looking at the VIX futures curve (bottom chart). The VIX Oct futures (circled in red) are elevated relative to Sep and Nov, but less so now than in early March and January.

ELECTION IMPLIED MOVE AND SANDER'S PREDICT IT

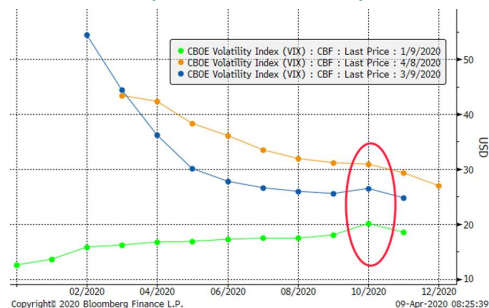


VIX SEP/OCT/NOV FUTURES FLY, NOW AND 2016



VIX FUTURES CURVE

ORANGE = TODAY, BLUE = MAR9TH, GREEN= JAN9TH



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FLY, FLY AWAY

One trade we like to position well ahead of the November election is buying VIX Sep/Oct/Nov put calendar flies. This trade will work well if the Oct VIX future rises relative to the VIX Sep and Nov futures, which should happen if overall volatility decreases, while the implied move for the election increases again.

Specifically the trade is:

- Buy VIX Sep 20 put**
- Sell 2x VIX Oct 20 put**
- Buy VIX Nov 20 put**
- Net pay .35**

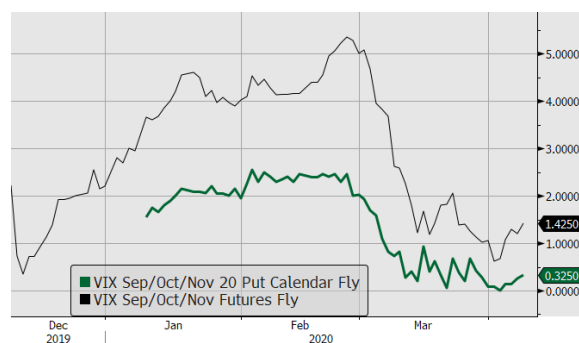
Here is the price of this put calendar fly this year (green) relative to the VIX futures fly price (black). You can see VIX put calendar fly was worth over \$2.00 back when the VIX futures fly was pricing above 4.

In the ideal scenario volatility normalizes over the next few months and the kink for October re-emerges as VIX resets lower. The risk in this trade is that VIX floats around the 20 strike while also remaining inverted as September expiry approaches. We think this unlikely with the VIX either being much higher or much lower than the 20 level as we approach September.

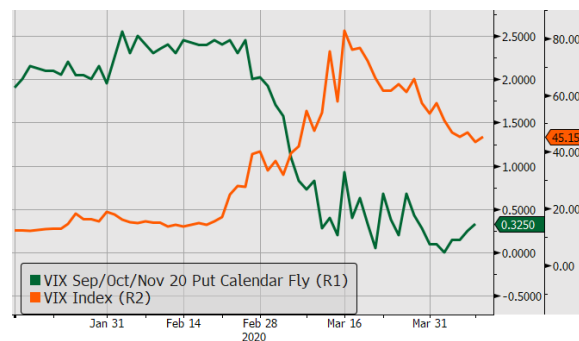
The other benefit to this trade, as opposed to other trades to fade high volatility, is that in a scenario where volatility is significantly higher we don't see this calendar moving much in price. See chart below of the running price of the VIX Sep/Oct/Nov 20 put calendar fly; when VIX was 60, this was basically same level.

As far as ways to fade volatility that should carry well, we think this trade threads the needle of time, vol of vol, and isolating a catalyst that will become more important as the election approaches.

VIX SEP/OCT/NOV 20 PUT CALENDAR FLY AND THE VIX FUTURES FLY



VIX SEP/OCT/NOV 20 PUT CALENDAR FLY AND THE VIX SPOT



APPENDIX

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APPENDIX

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