Buyers Scooping 50-Cent VIX Calls Again After Stock Tumult Ebbs

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By Gregory Calderone

(Bloomberg) -- The U.S. equity market may have fallen back to sleep, but someone's still willing to pump up volume in VIX options that represent a multi-million dollar bet on chaos.

A trader purchased a block of almost 75,000 July $18 calls on the CBOE Volatility Index on Monday for 50 cents apiece, echoing buying previously associated with a personage dubbed "50 Cent." That followed similar trading on Friday, when 100,000 July $19 calls were bought, also at a price in the neighborhood of half a dollar per contract.

Investors like 50 Cent are choosing to hedge as the S&P 500 Index reaches fresh records despite concerns ranging from politics to Federal Reserve tightening. Traders have been using VIX contracts like never before this year, with daily call volume outpacing puts by almost threefold on average. The number of options outstanding protecting against a resurgence of volatility is now at its highest level since the week before Donald Trump's election, relative to bets for quieter days ahead.

50 Cent, a buyer or buyers of near-month VIX calls, is hardly the only trader taking a view on future stock swings.

With the index grinding lower, a more profitable trade this year has been to sell volatility, not buy it. Even the 46 percent VIX surge of May 17 was quickly erased when the gauge fell for seven straight days.

The blocks of July 18 and 19 calls of the last two sessions represented by far the highest single-day volume in either strike's history, though they weren't enough to push overall calls past historical averages.

As was the case before, the trading was in options that would require a lot of equity turbulence to be exercised. At 18, the lower of the two has a strike of more than 40 percent above the level of the monthly July VIX futures. Even the 373-point Dow Jones Industrial Average rout in mid-May wasn't enough to push the volatility index above 16.

Here are some stats about VIX options trading:

* The volatility index has fallen as much as 31 percent this year, closing at its lowest level since 1993 on Friday.

* About 693,500 VIX contracts changed hands each day on average in 2017, a record in data going back to 2006.

* As of the last close, there were almost 6.9 million calls outstanding, compared with less than 2.1 million puts.

* The CBOE VVIX Index, a measure of demand for VIX options, has surged to a record high relative to the gauge of equity swings.

* The cost of VIX calls relative to puts is near its highest level since December 2015, indicating that investors are willing to pay up to protect against increased market turmoil.

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