Almost $100 Million of VIX Options Traded Hands in a Split Second Today

by Callie Bost
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Almost $100 million worth of options pegged to volatility in U.S. equities changed hands in a split second today in Chicago, transactions that together would represent more than half a normal day’s volume.

About 40 different trades went off at 12:16:04 p.m., encompassing contracts that gain in value should the Chicago Board Options Exchange Volatility Index rise over the next few months, according to options data compiled by Bloomberg. The four biggest were each more than 130,000 contracts.

While divining the motive of a single trader who may be operating in more than one market is impossible, buying a call on the VIX is a bet the equity market turbulence will rise, which usually happens when stocks fall. To Jamie Tyrrell, a VIX specialist on the CBOE floor, the trades had characteristics of someone hedging stocks.

“I’m not sure if it’s the biggest trade ever, but it’s certainly one of them,” said Tyrrell, who works for Group One Trading LP, the primary market maker for VIX options. “Someone is interested in owning a lot of protection, but not in the near-term.”

Options Flurry

Just over 1 million contracts were traded, all told, about 54 percent of the total amount of index options
that traded at the CBOE all day Friday. The trades were spread among four contracts that pay off at different dates and prices, say if the VIX rises to 17 by June or 23 by July.

The VIX jumped 7.7 percent to 13.85 at 4:15 p.m. in New York. More than 1.5 million VIX options changed hands in total today, the highest daily volume since October.

The transactions all occurred at the same second, through they spanned more than three dozen individual trades. While that’s not proof they were connected, it’s common on electronic venues for large blocks to be divided into smaller units.

Expectations of higher volatility have been creeping back into the market through options on the VIX. Traders owned about 5 million calls as of Friday, the most since November and more than double the open interest in January. They held 2.6 calls for every put, around the highest ratio since October.