EMCORE
House of Asymmetry

Vola Headlines

- Cross-asset volatility remained compressed through July, with energy the clear exception. Measured against trailing five-year averages, implied volatility sits at or below its recent norm across currencies, rates and most equities, while crude oil trades roughly 50% above its own norm.
- Implied volatility in the Nikkei remains elevated, with downside wings continuing to trade in attractive historical quantiles. This divergence relative to other major equity indices is particularly noteworthy.
- Currency and rates volatility are again the lowest relative to their recent norms. The JPM G10 FX volatility index trades below its five-year average, with Euro Bund and US Treasury volatility 20% to 35% below theirs, and natural gas comparably subdued.
- The commodity complex has diverged. Crude oil is the clear outlier, with WTI and Brent implied volatility around 50% above their five-year averages as supply and geopolitical premia re-entered the market. Gold and silver remain rich against multi-year averages, while corn – last month's largest dislocation – has normalised to only modestly above its norm.

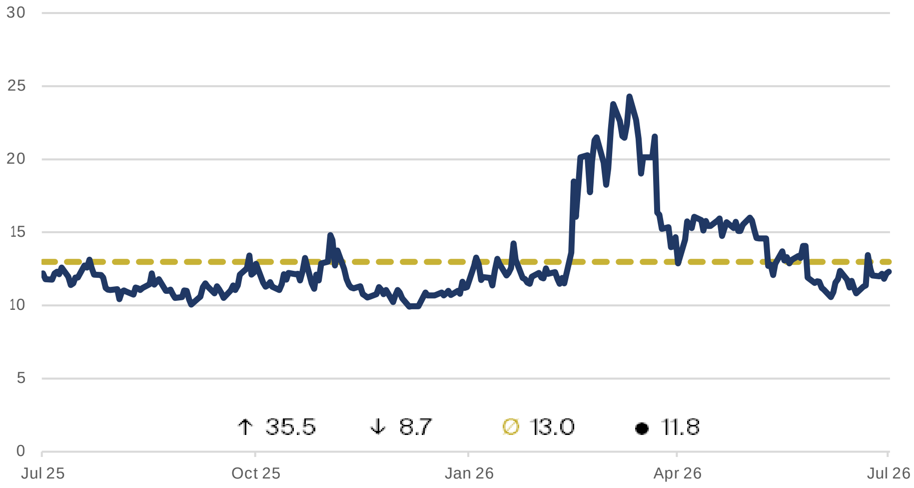
Sophisticated institutional investors build protection positions in equities, rates, and currencies using relative cheap volatility. When opportunities arise, the associated costs can be reduced by harvesting elevated volatility premiums in other markets. The result is convex protection carried at little net cost.

Overview

SMI	12.30	Euro Stoxx	15.36	SPX	15.01	Nikkei	33.22
DAX	15.93	FTSE 100	11.41	NASDAQ	25.43	Hang Seng	19.87

Equities

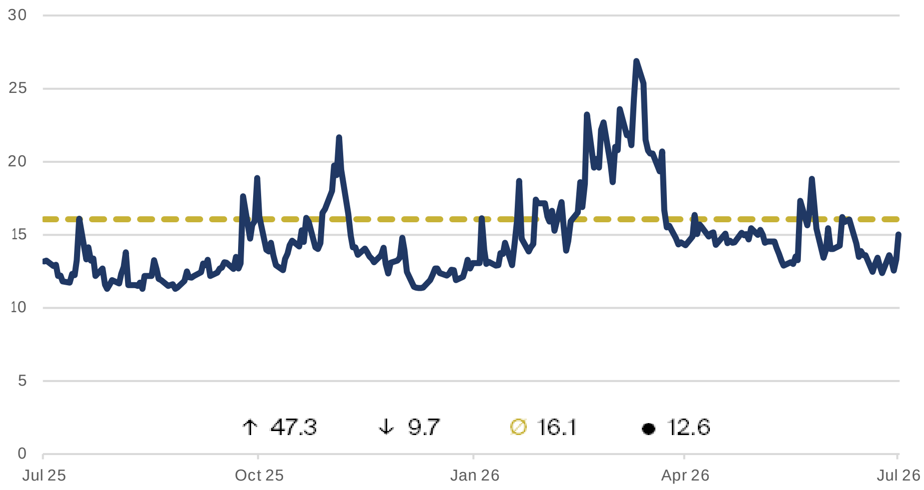
SMI 1M ATM Implied Vola



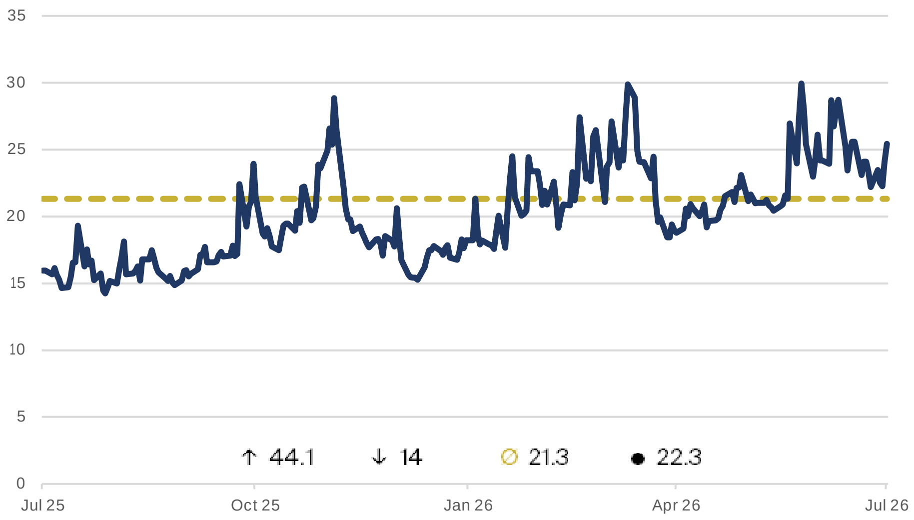
Euro Stoxx 1M ATM Implied Vola

DAX 1M ATM Implied Vola

S&P 500 1M ATM Implied Vola



NASDAQ 100 1M ATM Implied Vola



Hang Seng 1M ATM Implied Vola

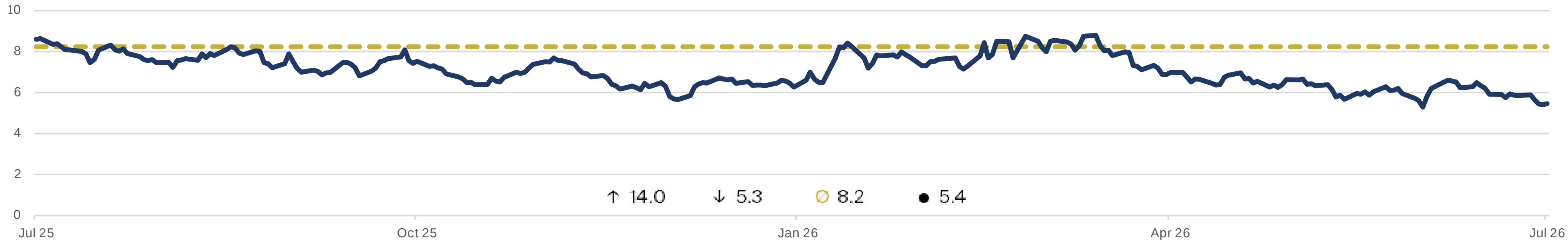
-- 5 year average of 1M ATM implied volatility ↑ Top 5 year ↓ Low 5 year ● Current

Overview

G10	5.46	USDJPY	6.05	EURGBP	3.67	USDCHF	6.22
EURUSD	4.95	EURCHF	3.13	GBPUSD	5.67	EURJPY	5.41

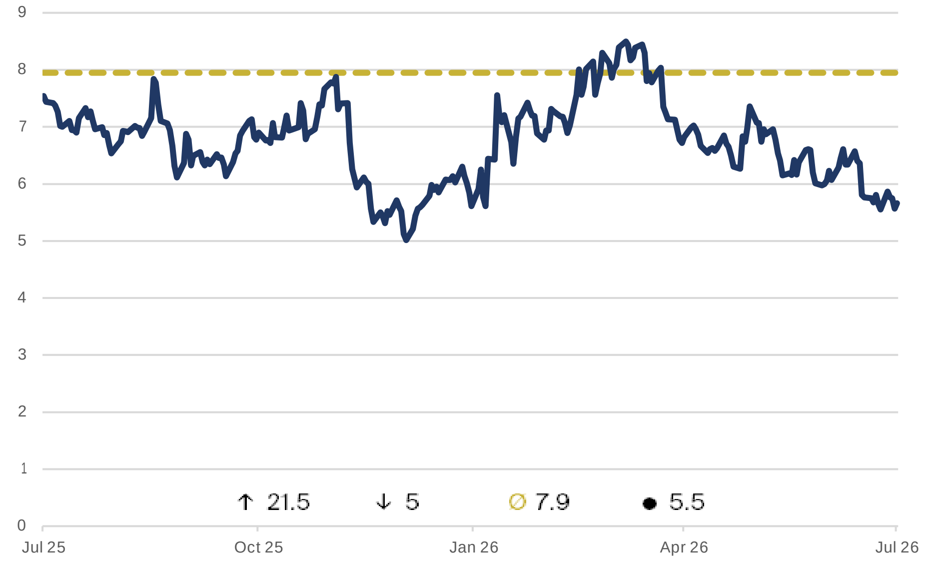
FX

JPM G10 FX Volatility 1M ATM Index

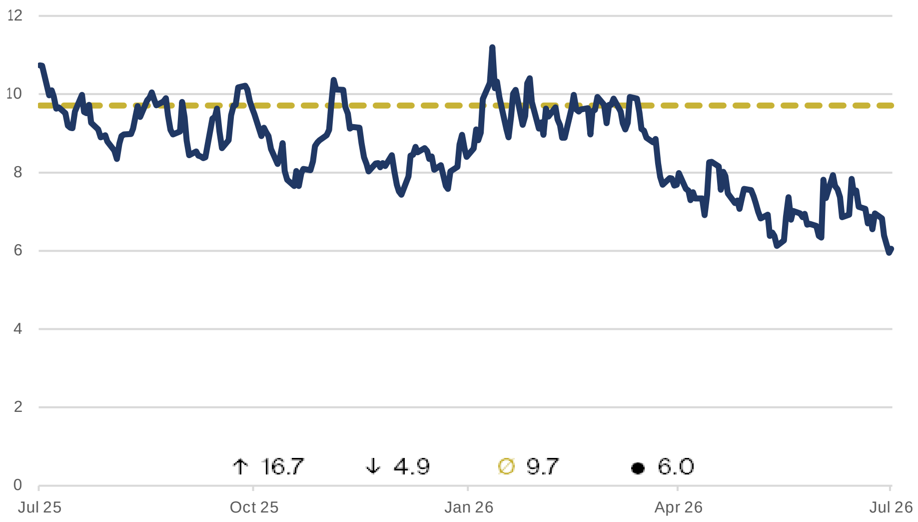


EURUSD 1M ATM Implied Vola

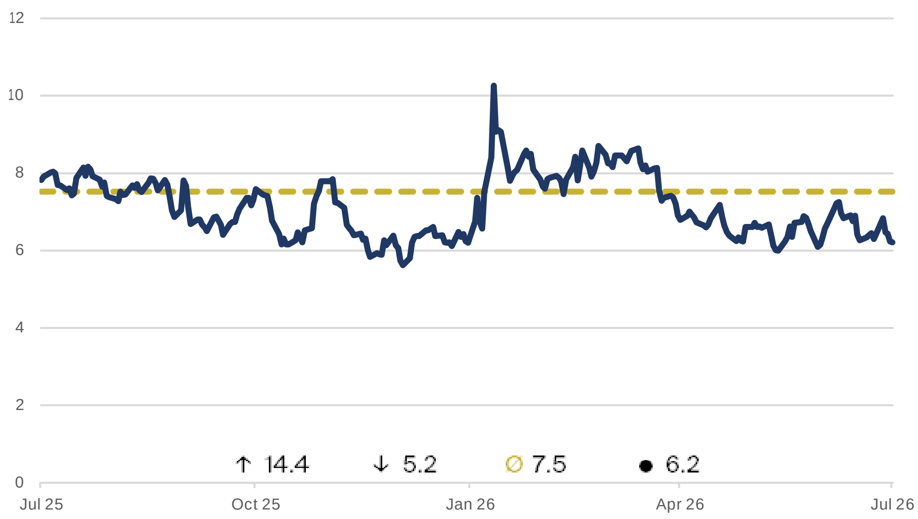
GBPUSD 1M ATM Implied Vola



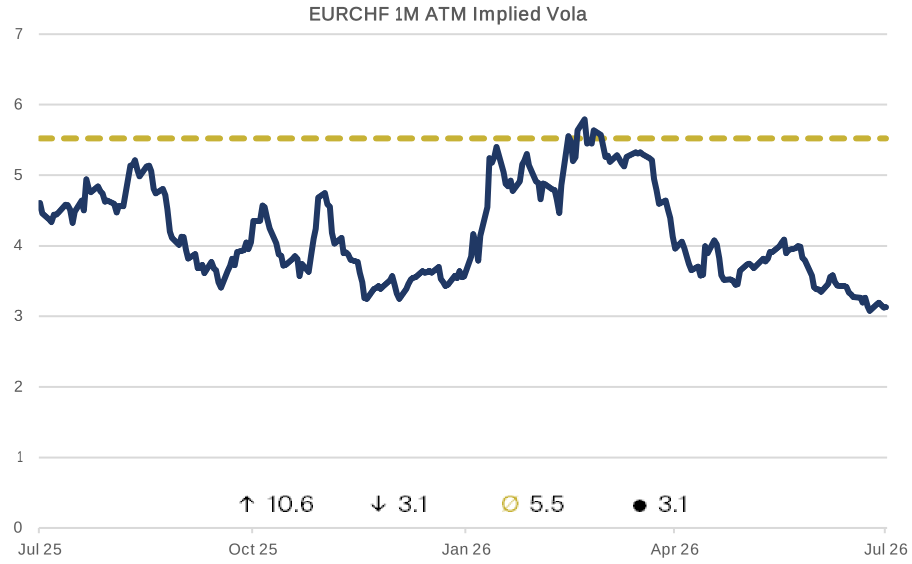
USDJPY 1M ATM Implied Vola



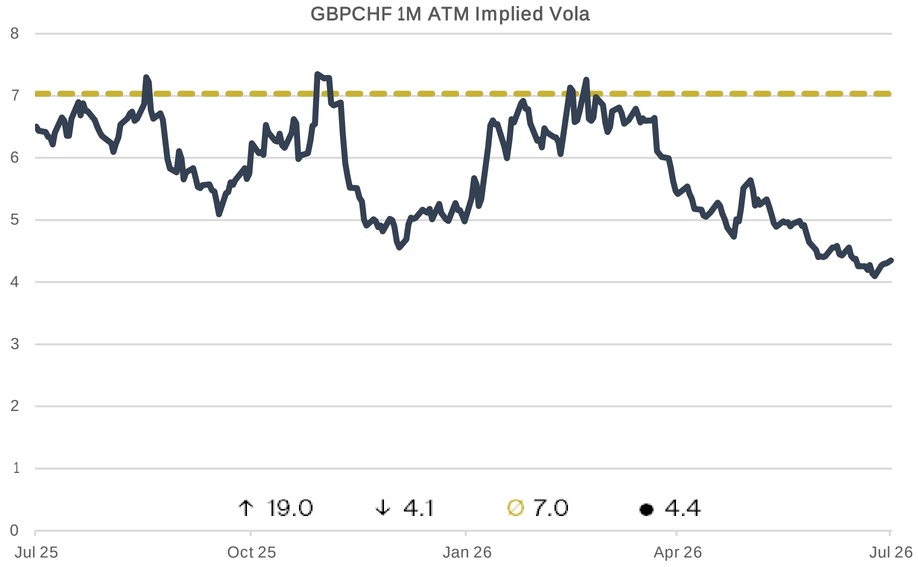
USDCHF 1M ATM Implied Vola



EURCHF 1M ATM Implied Vola



GBPCHF 1M ATM Implied Vola



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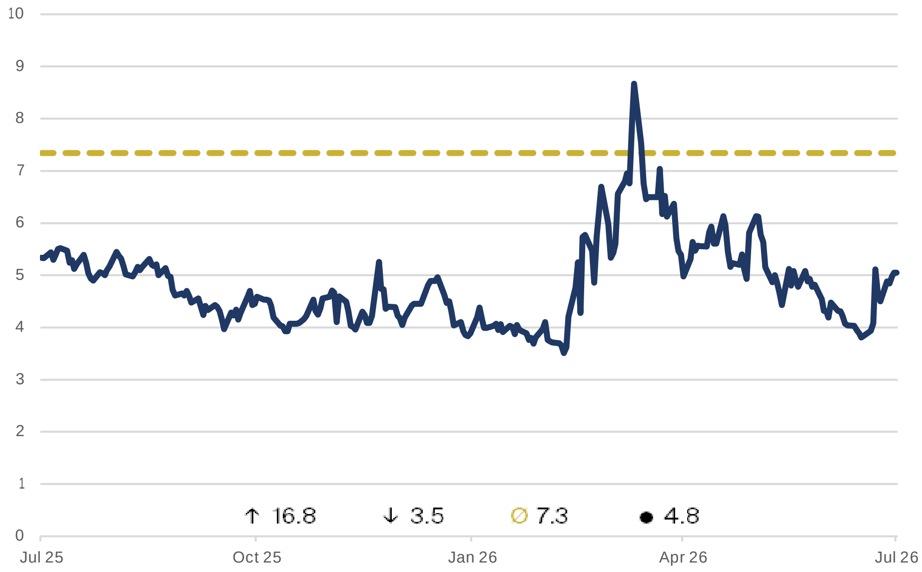
Overview

US Treasury	4.36	Euro Bund	5.05				
WTI	51.99	Brent	52.11	Natural Gas	43.61	Corn	24.63

Rates

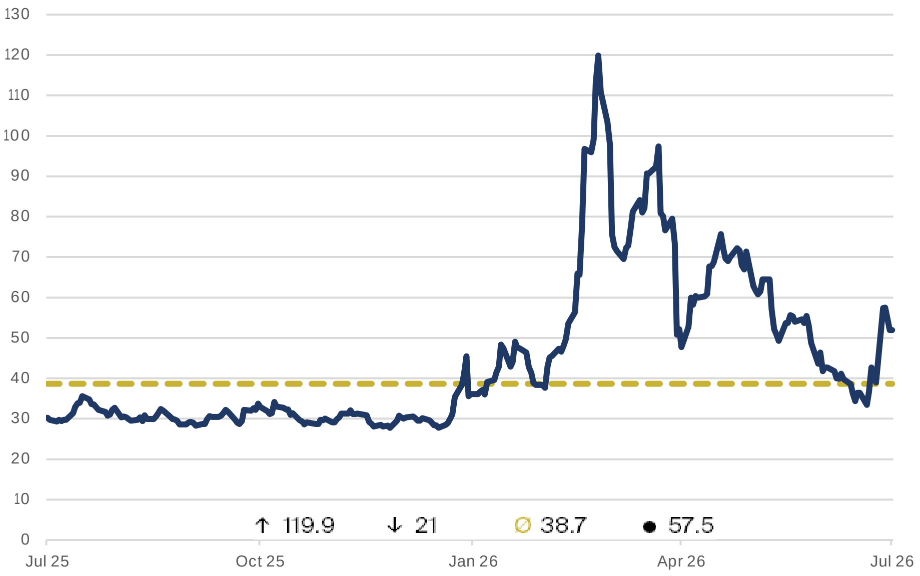
US Treasury 1M ATM Implied Vola

Euro Bund 1M ATM Implied Vola

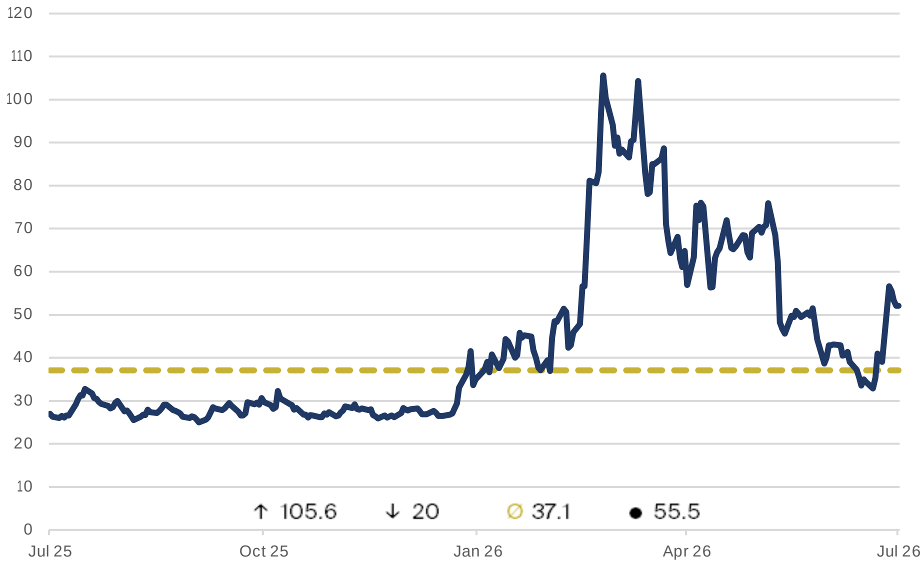


Commodities

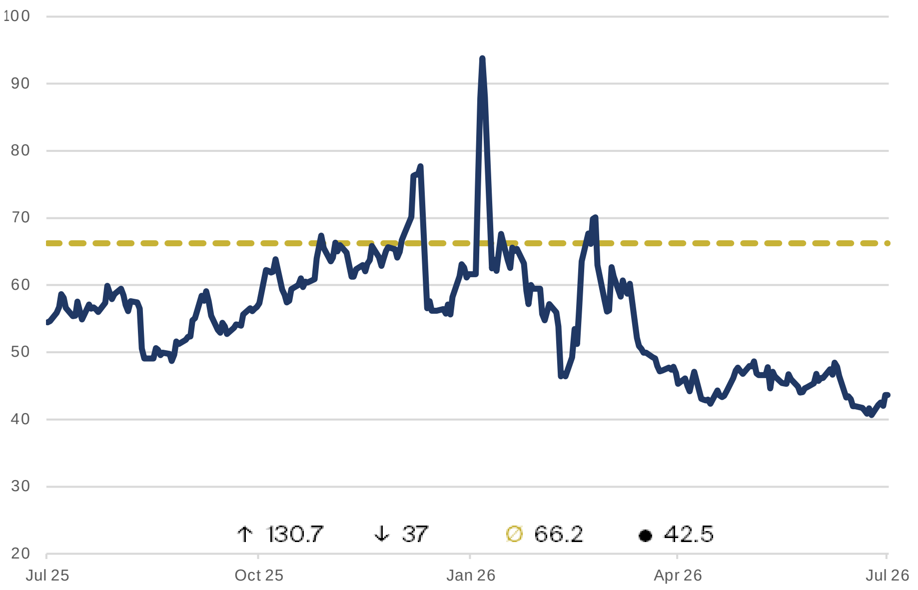
WTI 1M ATM Implied Vola



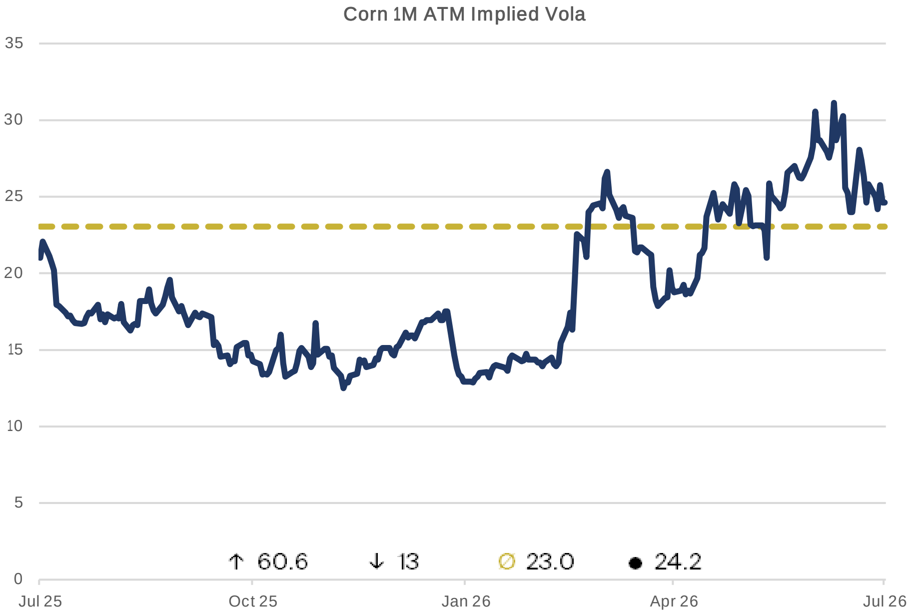
Brent 1M ATM Implied Vola



Natural Gas 1M ATM Implied Vola



Corn 1M ATM Implied Vola



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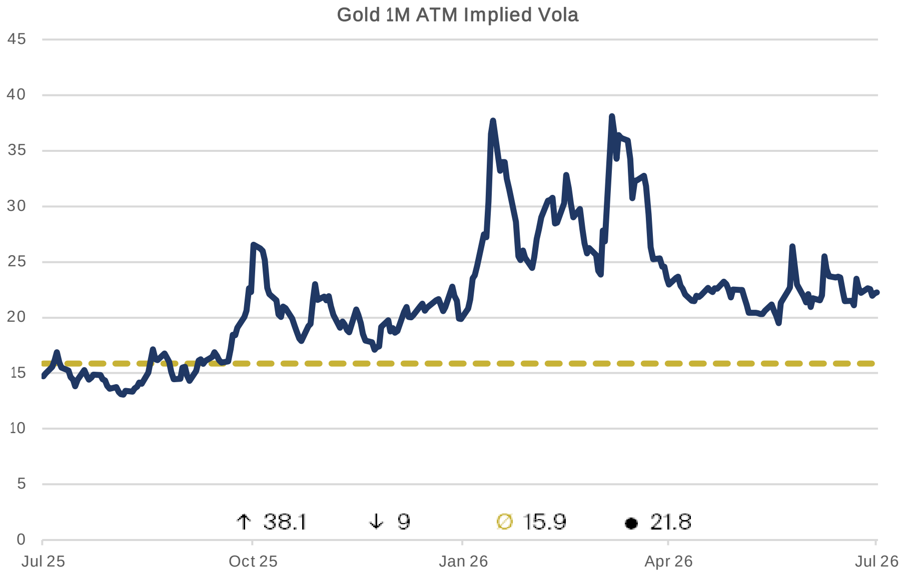
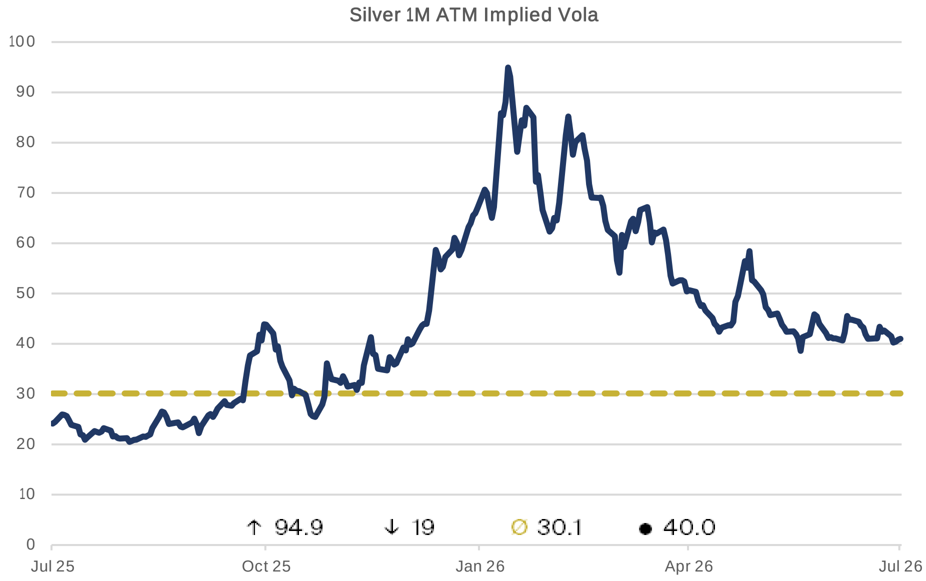
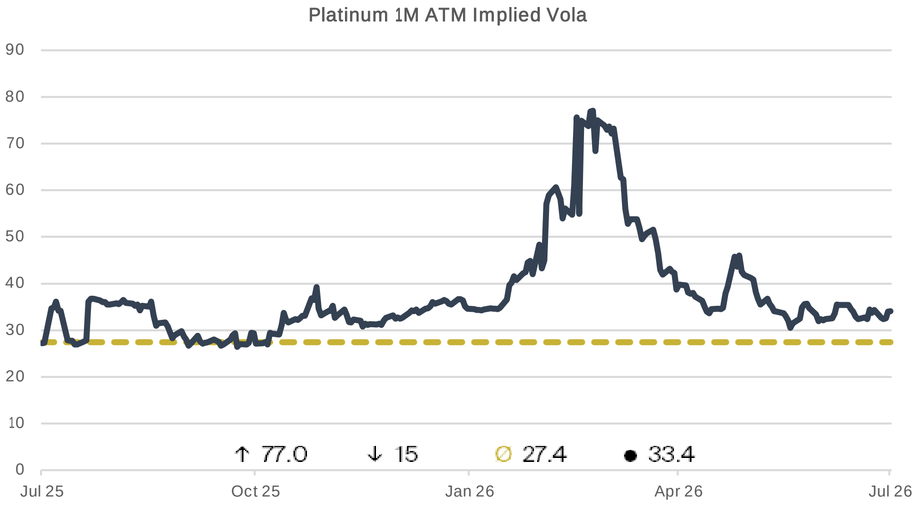
Overview

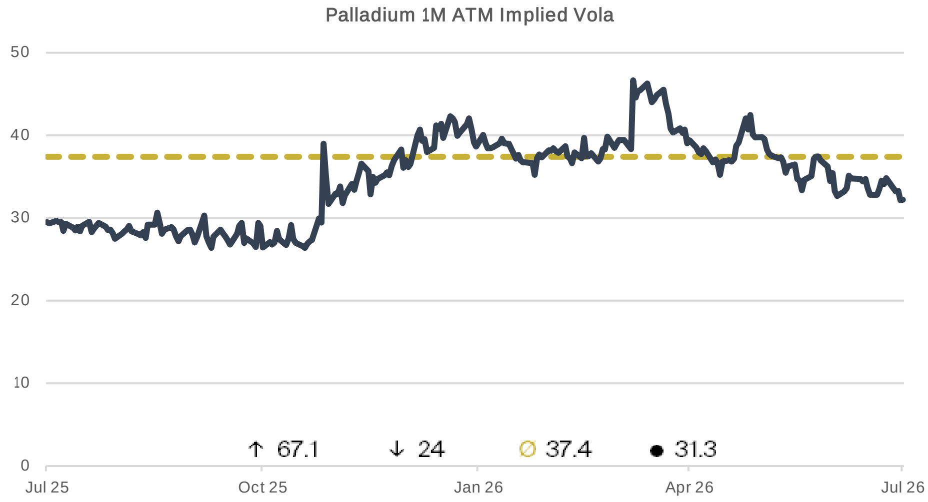
Gold	22.26	Silver	40.98	Platinum	34.11	Palladium	32.23

Metals









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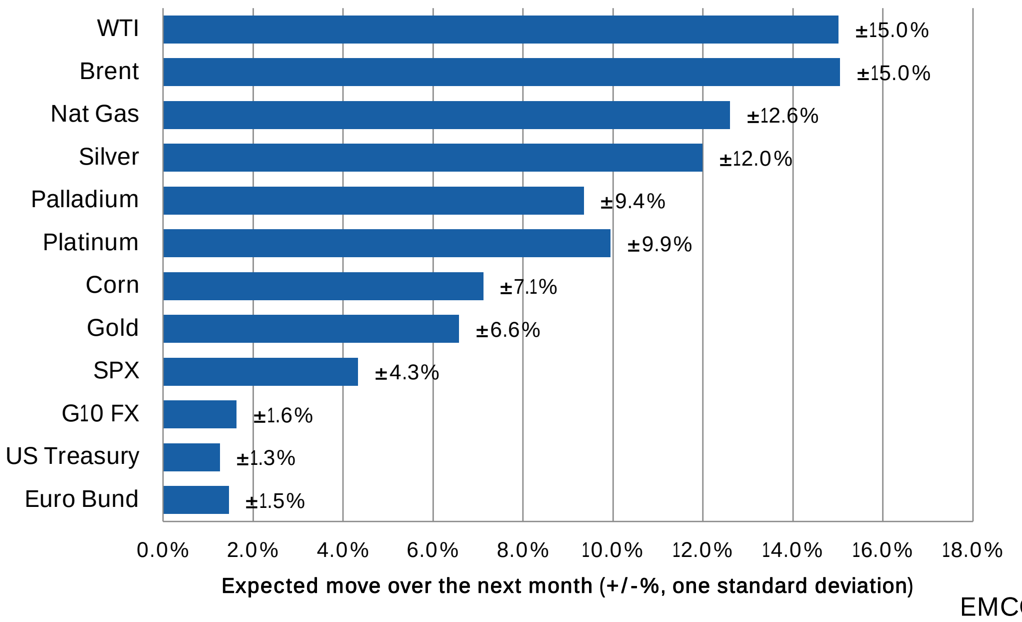
From Implied Volatility to an Expected Move



Implied volatility is quoted as an annualised percentage, which makes it hard to picture. Dividing it by the square root of twelve converts it into the move the market is pricing for the coming month – the range the underlying should stay within roughly two times out of three.

Read that way, the figures on the previous pages become tangible. Crude oil is currently priced for a move of about ±17% over the next month, more than four times the ±4% priced into the S&P 500 and roughly twelve times the ±1.4% priced into the Euro Bund.

Implied volatility says nothing about direction – only about magnitude.

"You are paid for the move the market fears, not the one it gets."

EMCORE AG
Pflugstrasse 20
9490 Vaduz
Liechtenstein

Phone: +423 239 81 71
info@emcore.li
www.emcore.li

EMCORE Asset Management AG
Schochenmühlestrasse 6
6340 Baar (ZG)
Switzerland

Phone: +41 41 729 70 00
info@emcore.ch
www.emcore.ch