Crude Oil's Implied Volatility Falls to Lowest Level Since 1996

By Grant Smith

Jan. 21 (Bloomberg) -- Implied volatility in crude oil, a measure of expectations for future price swings, eased to its lowest level in 17 years as growing confidence in the global economy was balanced by surging output in North America.

The implied volatility for U.S. West Texas Intermediate crude on the New York Mercantile Exchange was at 21.7 percent on Jan. 18, based on data for the rolling second-month options contract. That's the lowest since a level of 21.2 percent was reached on Jan. 9, 1996.

Oil prices have been supported by the receding likelihood of any collapse in the single European currency, while at the same time price rallies have been prevented by booming U.S. production, according to **Archbridge Capital AG**.

"A lot of risks are being priced out of the market," said Hakan Kocayusufpasaoglu, chief investment officer at Archbridge in Zug, Switzerland, who predicts volatility will rebound. "The risk of a Eurozone break-up is being priced out. And as supply increases and stocks build we have less to worry about on the upside."

Volatility has also declined in equity markets. The benchmark gauge for U.S. stock options fell to its lowest level since April, 2007, on Jan. 18. The Chicago Board Options Exchange Volatility Index, or VIX, retreated 8.2 percent to 12.46 and has tumbled 45 percent since Dec. 28.

April WTI oil options contracts are the second-closest to expiry on the Nymex, after March. February options expired on Jan. 16 while the February futures contract expires today.

The second-month options contract can often be a more reliable guide to volatility than the front-month, which fluctuates as investors roll their positions into the subsequent futures contract when the front month expires.