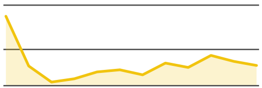

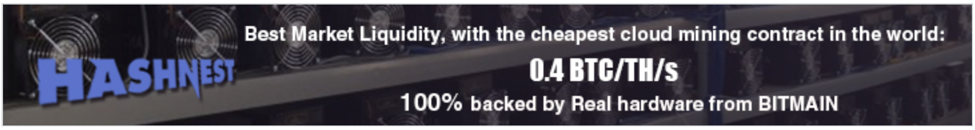

BitMEX to Launch Bitcoin 'Fear' Index

Joon Ian Wong (@joonian) | Published on December 31, 2014 at 15:16 BST

Derivatives exchange BitMEX will publish an index on 5th January that it hopes will become the bitcoin world's version of the VIX– the so-called 'fear index' that is used to gauge uncertainty in the wider financial markets.

The 30-Day Bitcoin Historic Volatility Index, as BitMEX is calling it, works by taking the time-weighted average price from Bitfinex's USD/BTC rate. It then calculates bitcoin's annualised volatility over a rolling 30-day period using that data. The result is a measure of bitcoin's realised volatility for that period.

True to form as a derivatives exchange, BitMEX has created a tradable instrument based on its new index, and will offer a futures contract quoted in volatility percentage points, with each point paying 0.01 BTC. Traders will receive up to five times leverage for the contract.

Volatility as an asset class

The new contract effectively turns bitcoin volatility into a tradable asset class. Effectively, traders on BitMEX will be able to place a bet on increased uncertainty in the bitcoin price without having to predict whether the price will rise or fall.

"Say an event is coming up that you believe the price will either spike or drop, you can buy the contract and make a profit no matter what happens," said Arthur Hayes, BitMEX's chief executive.

If the volatility futures take off, BitMEX might also offer longer dated contracts. Trade in these contracts could give market watchers an idea of where future bitcoin volatility is headed, Hayes said.

"It will give a glimpse into where market participants see the volatility realising in the future," he said.

Trading in volatility is not an innovation in the wider financial markets. The first VIX futures contracts were offered 10 years ago on the Chicago Board of Exchange Futures Exchange, which also developed the VIX.

Since then, a range of products built on the VIX volatility gauge have appeared, including options and exchange-traded funds.

It is worth noting that the VIX differs from the new BitMEX index in one important respect. The former tracks the 'implied volatility' of options derived from the Standard and Poor's 500 index. The VIX, therefore, provides a snapshot of market sentiment towards future volatility. The BitMEX index, however, records historical volatility, or an instrument's average deviation from its

average price.

Maturing market

Nevertheless, the introduction of a bitcoin volatility index and tradable instruments is another sign of the maturing digital currency markets, said Harry Yeh, managing partner at bitcoin fund Binary Financial.

"It's great to have a volatility futures contract similar to the VIX ... [it's] another area for speculators, but also a great indicator on what the market is doing," he said.

For Yeh, the increasing range of derivatives for digital currencies is a healthy sign of growth that could lead to a rise in the bitcoin price in 2015. He said derivatives would allow big merchants and long-term investors in bitcoin to limit their exposure to the cryptocurrency's price swings, allowing them to hold it as an asset for longer periods of time.

BitMEX launched on 24th November with five derivatives products, including three bitcoin futures contracts. Hayes said the platform is seeing trading volume of about 100 BTC daily.

The BitMEX team is long on experience in traditional markets. Its team includes former Citi prop trader Hayes; chief risk officer Ian O'Connor, who ran front office support for HSBC's structured equity derivatives group in Hong Kong; and advisor Joseph Jeong, who once headed hedge fund sales for Asia at Deutsche Bank.

BitMEX Derivatives

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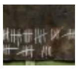

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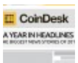

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This is an interesting development. The CBVIX at https://www.cbix.ca/volatility has taken this approach for some time for Canadian Bitcoin prices publishing a 30 day and 10 day historical volatility against GOLD and the TSX (disclaimer I developed this) albeit it is not tradeable which is the big breakthrough here.

However historical volatility is just that, historical and an implied volatility index would be much more interesting. Of course for that we need an option market with sufficient liquidity.
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