MOVE index: How to measure bond market volatility

The MOVE index projects the yield spread between long and short-term bonds to give an idea of current market volatility. Read more for a MOVE index definition and strategies.

By : Ryan Thaxton, Financial Writer

What is the MOVE index?

The MOVE index, short for "Merrill Option Volatility Estimate Index," is a measure of expected short-term volatility in the US Treasury bond market. It was introduced by Harley Bassman of Merrill Lynch (now part of Bank of America) in 1994 as a way to gauge market sentiment and predict potential price swings in the bond market.

The MOVE index is sometimes referred to as the VIX for bonds because it is used to assess risk in the bond market similar to the role of the VIX, short for CBOE Volatility Index, in the stock market.

In 2019 Bank of America Merrill Lynch sold the MOVE index and other fixed-income volatility indices to the Intercontinental Exchange (ICE). You may see the index named as the ICE or BofA MOVE index.

How does the MOVE index work?

The MOVE index is a market-implied measure of bond market volatility. It calculates options prices to reflect the expectations of market participants on future volatility.

Options are financial derivatives that give the holder the right but not the obligation to buy (call option) or sell (put option) an underlying asset – in this case, US Treasury bonds – at a predetermined price (strike price) on or before a specific date (expiration date). The prices of these options fluctuate based on market expectations of future bond price volatility.

How to read the MOVE index

The MOVE index is used to gain insight into the expectations of bond market participants on future interest rate volatility. You can use the index to help identify increases in market volatility in order to develop trading strategies which profit from bond market volatility.

The index uses options prices on Treasury bond futures from 2, 5, 10 and 30 years to calculate a weighted average value. The average can range anywhere from zero to upwards of 260.

A high MOVE index value is interpreted to mean an increase in Treasury market volatility and potentially heightened risk and uncertainty.

A low MOVE index value indicates low risk and high certainty. The lower

How to calculate the MOVE index

To calculate the MOVE index, the following steps are taken:

1. Select a basket of at-the-money (ATM) call and put options on US treasury bonds with a one-month time to expiration
2. Calculate the implied volatility for these options. Implied volatility is a measure of market expectations for future price swings and is derived from the prices of options. It represents the level of uncertainty or fear in the market
3. Average the implied volatilities of the selected options to arrive at the MOVE index value

MOVE index trading strategies

There are several ways to incorporate the MOVE index into your trading strategy, from assessing risks and market sentiment to adjusting your hedging strategy. Here are two of the most popular uses for the MOVE index.

Risk assessment

You can use the MOVE index to assess current risk levels. Remember, a high value reflects more volatility in the market and may prompt you to increase risk mitigation strategies including changing your exposure to volatile assets.

Because the MOVE index is to bond markets what the VIX is to stock markets, comparing the two can give you a better perspective on the current risk trade-off between stocks and bonds. From there, you can better allocate assets in your portfolio to take on your desired level of risk.

Market sentiment

The MOVE index can provide you with insight into trader sentiment for the entire bond market by analysing current trends. When investors and traders are concerned about potential volatility or economic uncertainties, they tend to bid up the prices of options, causing the MOVE index to rise. Conversely, when markets are calm and confident, the MOVE index tends to be lower.

Understanding why the MOVE index is climbing or falling can help you predict potential price swings in the US treasury market.

MOVE index summary

The index is an important tool for monitoring the bond market, allowing you to make more informed decisions when managing fixed-income portfolios.

By measuring interest rate volatility, you can use the MOVE index to gauge risk levels in the US treasury market and even compare it with similar indices of other markets, like the VIX.

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19:30, Friday, Apr 19

CFTC S&P 500 NC Net Positions

Actual **$74.1K** Previous **$-62.9K**

19:30, Friday, Apr 19

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Actual **290.5K** Previous **297.1K**

19:30, Friday, Apr 19

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Actual $201.9K Previous $202.4K

19:30, Friday, Apr 19

CFTC GBP NC Net Positions

Actual £8.6K Previous £28.3K

19:30, Friday, Apr 19

CFTC JPY NC Net Positions

Actual ¥-165.6K Previous ¥-162.2K

19:30, Friday, Apr 19

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Actual €12.2K Previous €32.7K

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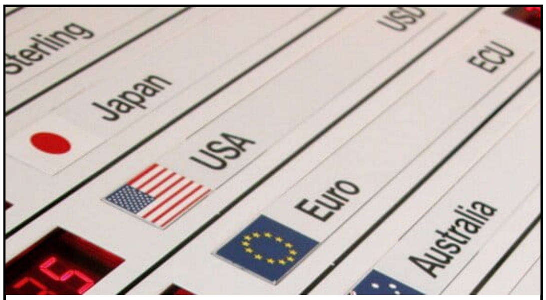

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