IBEX35

SKEW Index

The SKEW index consists of measuring the slope between an option at 95% (5% below the underlying) and an option at 105% (5% above the underlying). The volatility skew is defined as the curve that pinpoints the relative position of the volatility of each strike price in the option chain for each maturity. Skew is normally decreasing for IBEX 35® options, because strike prices below the underlying carry higher implied volatility, since for the market makers who sell the options sharp falls in the underlying that drive volatility spikes carry higher risk.

Characteristics:

The methodology is very simple, but at the same time, robust and in line with the current market practices. When the market is nervous, clouded by uncertainty or expecting a correction, out of the money (OTM) put options are used to protect portfolios, because they are cheaper. This increased demand for options having strike prices below the underlying drives up those options' implied volatility in relation to the rest of options.

The SKEW index detects these anomalies. The interpretation of the SKEW index is very simple: if it is high, it indicates a steepening of the decreasing skew (indicating tail risk). A low value indicates that it is levelling out and that the market is calm.

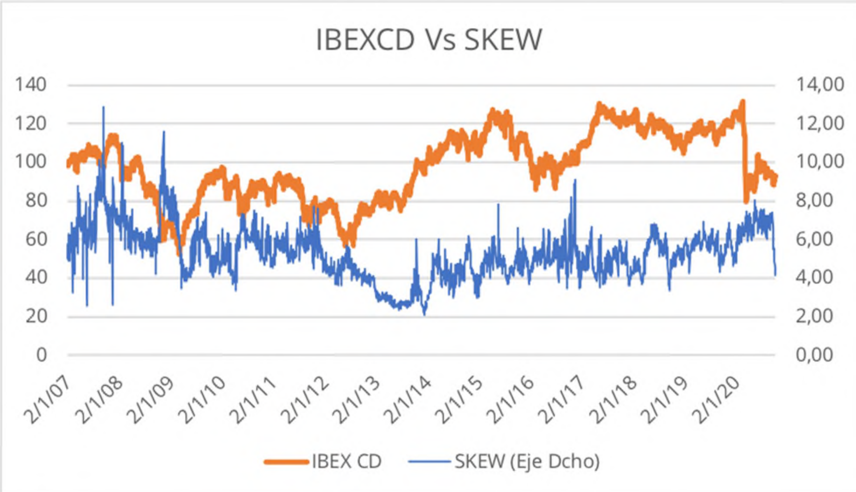
Utility:

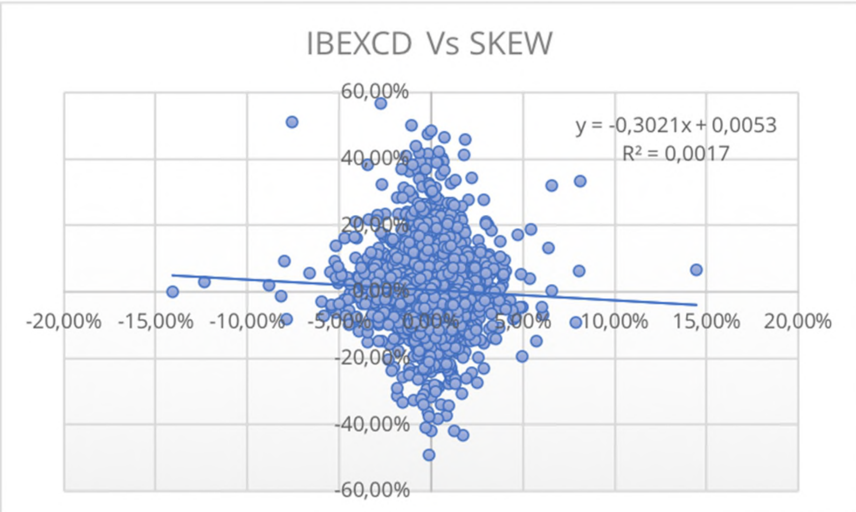
For the time being, SKEW is not designed to form the basis of indexed products.

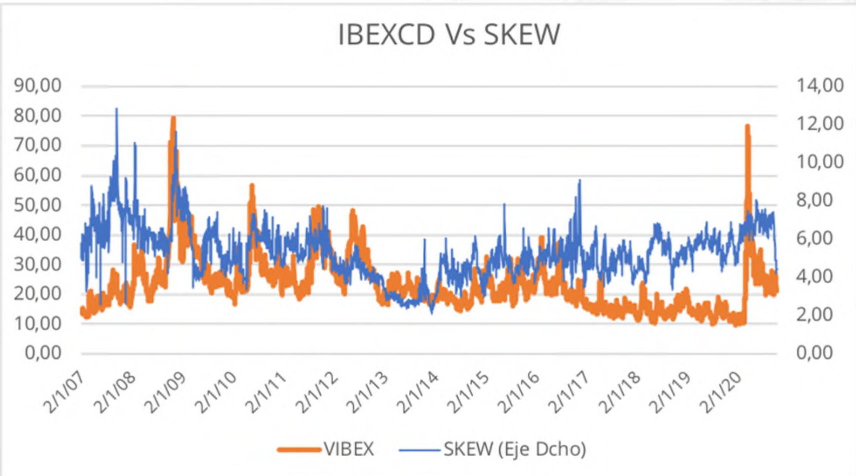
The usefulness of SKEW is that volatility is a key element of investment decision-making, especially in the options market.

Market sentiment about the future volatility of the IBEX 35® can signal the best time for getting into or out of hedging arrangements.

SKEW Index







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