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STOCKS NEWS EUROPE-Volatility market shows investors well protected

REUTERS

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While the euro zone's blue chip Euro STOXX 50 (Zurich: ^STOXX50E - news) index has been moving sideways over the past three weeks as investors eagerly await details about the ECB's bond buying plan, its implied volatility index, Europe (Chicago Options: ^REURUSD - news) 's main gauge of risk appetite known as the VSTOXX (EUREX: FVS.EX - news) , has surged nearly 30 percent.

The VSTOXX, which measures the cost to protect stock holdings against potential pull-backs as it usually moves in an opposite direction to equities, hit a six-week high of 28.68 on Wednesday, while the Euro STOXX 50 is less than 1 percent below a five-month high.

"This is a very unusual breakdown in the negative correlation pattern, also observed in the United States where the VIX has been on the rise and the S&P is barely moving," says Valerie Gastaldy, head of Paris-based technical analysis firm Day By Day.

"It means that investors are now well protected against a potential correction, so they won't pull the trigger if the market goes down. On the contrary, they might sell their put options to book profits, and they might even buy the dips in stocks. All in all, there is no complacency going into the ECB meeting."

The 30-day rolling correlation between the VSTOXX and the Euro STOXX 50 hits -0.43 on Thursday, the weakest negative correlation between the two indexes in seven years.

The last time there was a similar, yet milder break-down in the naturally strong negative correlation between the two indexes was in late January, after which the Euro STOXX 50 rallied 8 percent over the next two months and the VSTOXX retreated.

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