

# No Volatility Means No Need for Interest Rate Swaps

June 20, 2014

Its a little sad how excited I get about charts. Maybe its because they do such a good job telling a complex story, or maybe because looking at a chart is easier than reading - but I digress. Another great view of the fixed income world came across my desk from one of our data analysts that I found pretty interesting. As interest rate volatility dropped off so did holdings of interest rate swaps.

From an economics and investment perspective this isn't very surprising. Low volatility - in theory - means there is less risk of a rate move. If rates aren't expected to go anywhere, then there is no need to hedge (or speculate on for that matter) interest rates - the primary use(s) for interest rate swaps. The result is a severe reduction in interest rate swaps outstanding.

**IR Swap Outstanding vs. VIX**



Source: CFTC, CBOE, Greenwich Associates

This volatility/IRS correlation is a lot more interesting however, when looked at through a derivatives regulatory reform lense. The chart tells us that the drop off in volume is not because the market doesn't want to clear but instead because of macroeconomic forces. Basically the volatility/IRS correlation implies a regulation/IRS non-correlation. Yes, extraterritoriality rules are keeping many offshore funds offshore, but that does not seem to a big determining factor of IRS holdings. Limited SEF usage can be explained somewhat by the same theory, although we believe there is a bit more explicit avoidance going on there (but we'll save that for another post on another day).

This chart also confirms the beliefs of many, that the regulators have gotten pretty lucky in their rule implementations over the past few years. Calm markets have played a big part in keeping rule implementations out of the news. Day one for clearing, reporting, SEF trading and even the more recent package trade relief expiration have all gone off with almost no fanfare. Of course the hard work of the market participants played a big part in those successes as well, but if the VIX was 40 rather than 12 on those days and rates were a bit further above zero, then I suspect these moves would have been much more complicated if not postponed.

So what's next? As discussed [in an earlier post](#), the financial markets need more volatility and the volumes that come along with it. Then and only then will we learn whether or not the new swaps infrastructure can stand up on its own.

---

[www.greenwich.com](http://www.greenwich.com) | [ContactUs@greenwich.com](mailto:ContactUs@greenwich.com)

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

## About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit [www.crisil.com](http://www.crisil.com)

## Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.