MCELLIGOTT LAYS DOWN SOME COLD HARD TRUTH – REVISITING VOLMAGEDDON NEARING ITS ANNIVERSARY – A.I. CALL OPTION FANS HAVE A SHINY NEW TOY – TRADES FOR THE FED/NFP/MAG7 EARNINGS – MCD TRADE

VOLATILITY SUMMARY

Charlie the celebrity quant's Tuesday quote:

"The ugly truth this that there's too much money being made selling puts into a market that can't pull back let alone 'crash'."

Well, there you have it. Distilled like Everclear 151. Almost nothing else matters; SPX and QQQ are one giant risk reversal every day, sell a put to buy a call. No cops on the beat, Fed and Treasury complicit.

So, I was sensing some déjà vu today and figured it was a decent time to take a brief walk down memory lane, when shorting vol was as popular as now, while certainly taking a less sophisticated form.

And this is not to say that this is going to happen again in the near future, but you can bet that a similar experience is most definitely out there like a ticking time bomb or sands in the hourglass considering the behavior. The $100 walk to the mailbox, as I like to write here, has been going on for some time now and all that does is make the behavior so rote as to erase the memory of there being actual risk in these trades. You can slip on the ice on the way to get your check.

So, take a gander at this, from February 2nd, 2018:

U.S. MARKETS

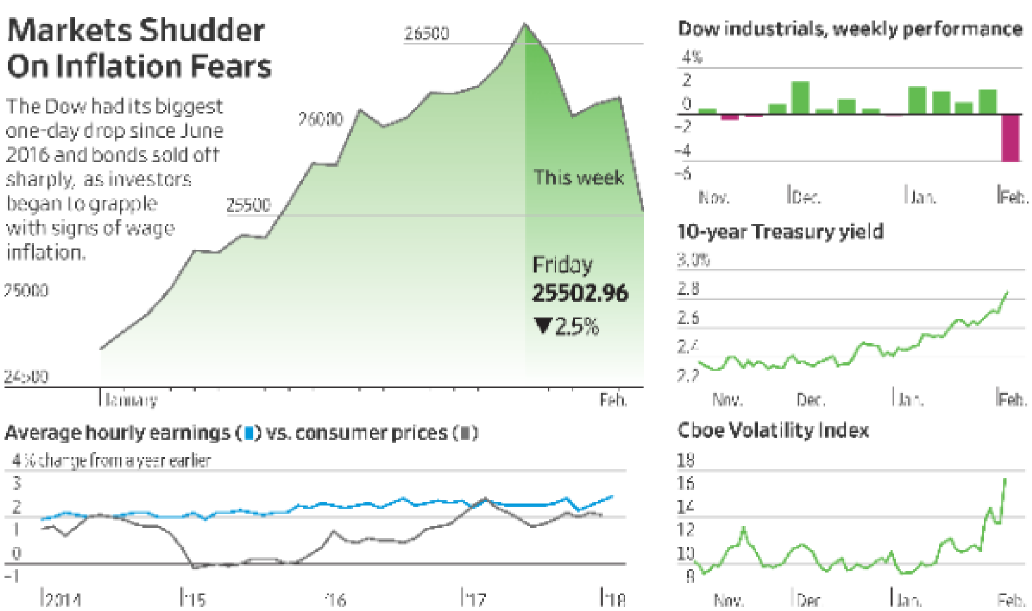
Dow Drops More Than 650 Points on Worries About Inflation

Blue-chip index falls sharply as concerns about rising interest rates and disappointing earnings reports weigh on markets

By Corrie Driebusch Follow , *Riva Gold* Follow *and Daniel Kruger* Follow

Updated Feb. 2, 2018 9:59 pm ET

Resize 869 Gift unlocked article



Sources: WSJ Market Data Group (DJIA; VIX); Labor Department (earnings, inflation); SIX Financials (performance); Tullett Prebon (Treasury)

https://www.wsj.com/articles/earnings-news-hits-japan-korean-stocks-1517537873

Sort of seems ludicrous, right? How disappointing could the earnings have been, I mean the market hadn't fallen in a long time, including most of earnings season:

Does that look vaguely familiar to you?

Well, circling back to the pre-volmageddon article, it wasn't earnings, that's editor junk, it was, and I kid you not, *strong non-farm payrolls and wages and rising yields* that got the vol ball rolling:

> The recent volatility continued Friday following the January jobs report. Wage growth accelerated, rising 2.9% over the past year, the strongest year-over-year gain since June 2009, according to the Labor Department. Government-bond yields rose as investors interpreted the wage gains as a sign the tightening labor market may finally trigger higher inflation. Yields rise as bond prices fall.

So, thus far in 2017, we have a stock market perma-ramp, accompanied and abetted by shorting volatility through ETFs like XIV, SVXY, VXX, UVIX etc. That specific ETF/ETN space was only a couple billion, so blaming the next chart on just those funds is a joke; the average trader sees now how vol is shorted in the real world, I mean they are a part of what the 'pros' were doing back then. The main event:

Lots of observations you can take away from just the chart. It was on a Monday, that would really surprise folks these days, probably did then as well, weekend risk was completely forgotten, just like they smash everything for next week by Thursday morning now.

Second, notice the ball held under water that got away into opex, so typical. It's good practice in today's markets to look for extra beaten down stuff on dips, if it has in-the-money puts or large open interest call gamma overhead, that's fuel into opex. The old options left lying around, far in and out of the money, they move stocks/markets.

Third, notice the Wednesday before opex. Take a wild guess what was on that day…..CPI. Yep, it came in worse than expected and the options into expiration blew that off, and you know on CNBC they put an inane spin on it like, 'Oh it really wasn't that bad because….', but you know the drill, the real cause and why it was 'ignored'.

Fourth, it unclenched post opex and got loose again.

At the time, the financial media and traders were mostly lost on what happened:

MARKETS

Stocks Plunge and Traders Panic: 'Did Someone Fat-Finger This?'

After Dow's historic drop, ripples spread across Asia and Europe

When Andrew Clarke, director of trading at brokerage firm Mirabaud Asia Ltd., woke up at 5:30 a.m. on Tuesday in Hong Kong, he casually glanced at his iPhone for a market update—like he does every morning.

He wasn't ready for what he was about to see.

"I saw the Dow down 1000 points and thought there was something wrong with my phone," Mr. Clarke said. "I thought my wires got crossed or I was getting the wrong feed or something. I couldn't believe it."

The market rout that started in the U.S. rippled across Asia and into Europe on Tuesday, leaving traders, investors and strategists befuddled as to how to cope with the sharp and sudden declines, particularly after such a long stretch of historically low volatility.

https://www.wsj.com/articles/stocks-plunge-and-traders-panic-we-dont-see-anywhere-to-hide-1517894172

Even a week later, they were still clueless:

- Streetwise: A Historical Tie Breaks but Trouble Still Lurks

The week's turbulence was especially unsettling given that there was no obvious cause for the frequent lurches. Even the traditional relationship between stocks and bonds, where investors seek a safe haven in times of trouble, materialized on some days but was absent on others.

"It is very tricky to find anything that would make sense for why equity markets are so nervous aside from the fact that we have come quite a long way," said Nandini Ramakrishnan, global market strategist at J.P. Morgan Asset & Wealth Management.

https://www.wsj.com/articles/global-stock-slump-continues-1518138066

So, it's not like this short vol/opex cycle influence is new. Something like this can happen when the timing and conditions are right. Back then, wage growth, strong payrolls and levels of interest rates were the concerns, and the market was on a tear. So, can you blame me as we near the volmageddon anniversary for having déjà vu?

SMCI – A Shiny New Call Option Toy

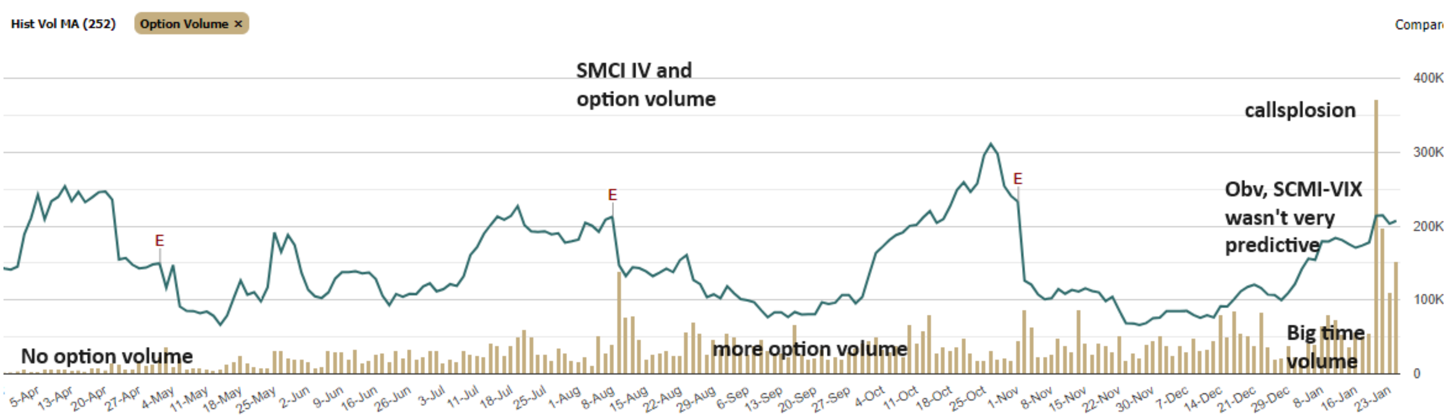
A.I.?- Check!

Closely linked to NVDA? – Check!

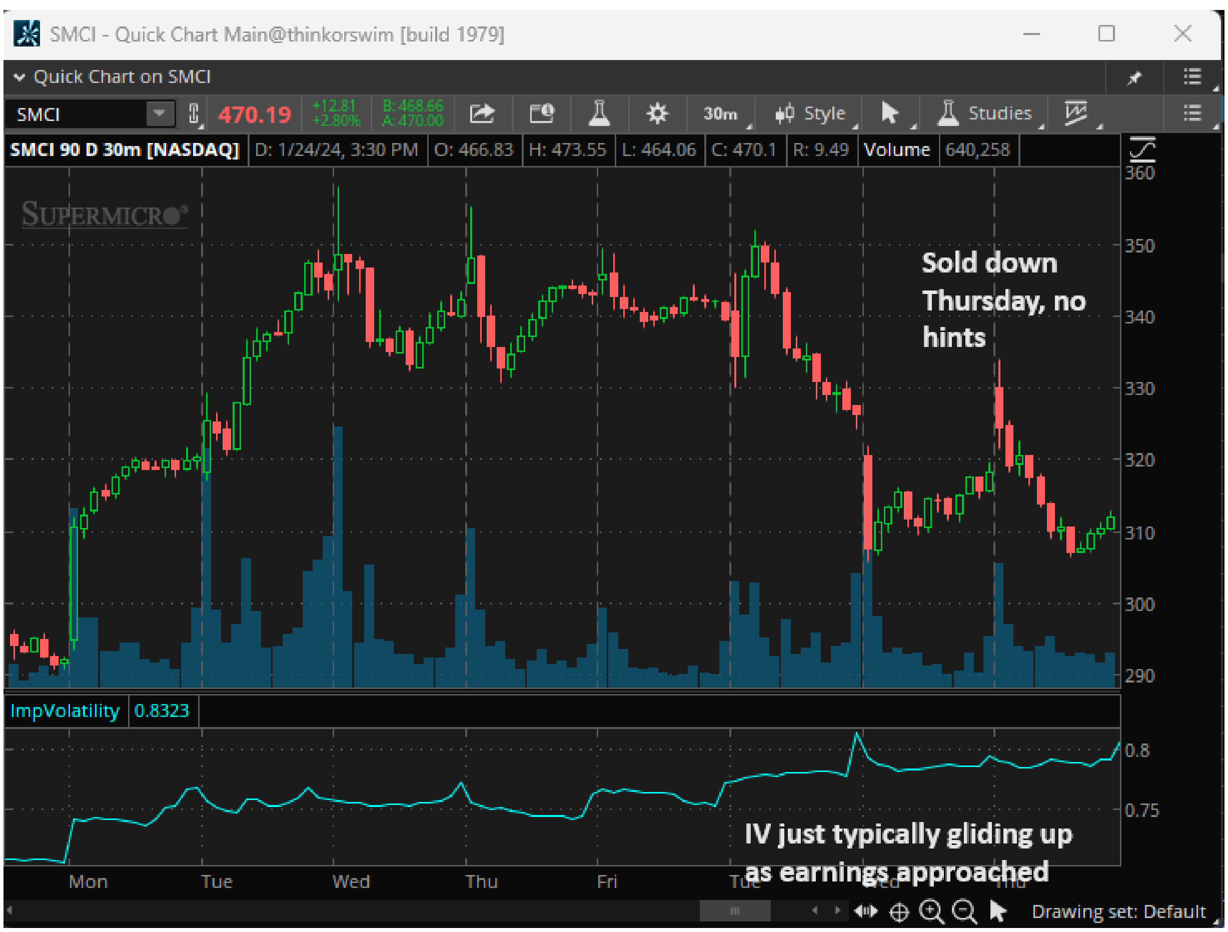
Fancy new technology moat? – Check! (https://patentcenter.uspto.gov/applications/1771337)

What more can an A.I. call option fanboi ask for? They possess a unique liquid cooling system that A.I. servers need desperately. And, these folks like to preannounce before opex (Is Mnuchin on the board or something? (He loved to drop news on opex Thursday for maximum positive market impact if you recall – Stevie Gamma he was known around the W.H. Just kidding, he was not, but he did know how to gamma ramp the stock market, being a GS alum.)) and this particular pre-announcement was explosive.

What comes with a stellar A.I. breakout, yes, huge call volume:



Well, there is one thing I'm going to do, first of all. Put a note on my trading calendar to keep an eye out for their pre-announcements; they make a habit of posting them most of the time, not every quarter, but most. And, no one was expecting one that day, but *they even did it on the same exact day last January!* Here it is, languishing around last Thursday, sold down from the open:



Of course, somebody always knows something and was gobbling up $330s:

The after-hours Thursday of opex week pre-announcement release lights the rocket:

And many open interest calls make tens of thousands of percent overnight:

How was this so overlooked? The two CEOs appear together all the time. Well, some folks are celebrating this week.

Earnings are next week, and since this is a freshly minted A.I. darling, most of the option trading and open interest is in the front week. I am poking around in here for an earnings trade and will post one next week if something appeals. IV over 110 generally has something to do, especially when it's a newly ordained vol playground.

Wednesday Afternoon Strikes Again

It's a rule apparently, Mondays are always up and watch your ass if you're short vol on Wednesday afternoon. Remember this from the 20th of December?

What about last Wednesday:

I think in all the ramping, folks forgot that yesterday was Wednesday:

It wasn't really that thrilling for the 0DTE put crew, in SPX anyway. QQQ just wasn't going to be complicit with its own flat day, thus not a whole lot of downside juice. It was so boring, that buying the round strike at-the-money put was where the volume perked up at 1pm and that was probably one of the better ideas, how vanilla:

Volatility Trades:

Fed meeting/Mag7 earnings/NFP put calendar spreads

Sell Jan 31st SPX 4875 put

Feb 2nd SPX 4875 put

Net debit: $5.20-5.50

Sell Jan 31st QQQ 425 put

Buy Feb 2nd QQQ 425 put

Net debit: .70-.75

For 5 SPX points, you essentially own the volatility in the Fed meeting reaction, non-farm payrolls release and wage inflation data and AAPL/AMZN/META earnings. How can you beat that? Target, $10.

The QQQ spread at .75 is a mere .2% of the underlying. Target, $1.50

MCD long Mar puts

Buy $290 March put, net debit: $2.75

Simple premise here. They have raised prices 20% in the last two years. Taking my son to MCD comes with a unique short of sticker shock, and for only one meal. You feel like you've just been had. It makes going to the grocery store and suffering that inflation considerably more appealing.

Folks are obviously taking notice:

> But in late December, the socialist commentator Doug Henwood noted that a far more important economic indicator showed the US economy in crisis, posting **on X**, "Can't imagine why people think this isn't a great economy. Lunch for three at McDonald's: $44!!"

> Nevertheless, Henwood is **far from alone** in bristling at inflation in the quick eats sector. Recent months have witnessed many a viral complaint about, say, **$18 Big Mac combo meals**. And for progressives, such discontent may be symptomatic of a genuine political challenge.

https://www.vox.com/politics/2024/1/9/24027094/fast-food-prices-wages-mcdonalds

MCD has admitted as much. They said they can't keep raising prices, lest the anger continues to grow:

https://www.reuters.com/business/retail-consumer/mcdonalds-beats-sales-estimates-cheaper-items-draw-consumers-2023-07-27/

And in the last conference call, they admitted losing some of the low income bracket traffic:

- Diners who make $45,000 and under have become more price sensitive due to inflationary pressure, and this subcategory had negative traffic growth, Kempczinski said. Traffic overall was slightly negative in Q2 and Q3, but is up compared to 2021, he said.

https://www.restaurantdive.com/news/McDonalds-Q3-inflation-pressures-diners-and-franchisees/698161/

So, if revenue growth is slowing and lower end customers are leaving and folks are getting angry enough to start griping in a burgeoning social media shaming mob, then what's up with this?

The March quarterly opex puts have 50 days, and for 1% of spot, they are a bargain considering where this stock has come from only a couple months ago. Target, $7-10.

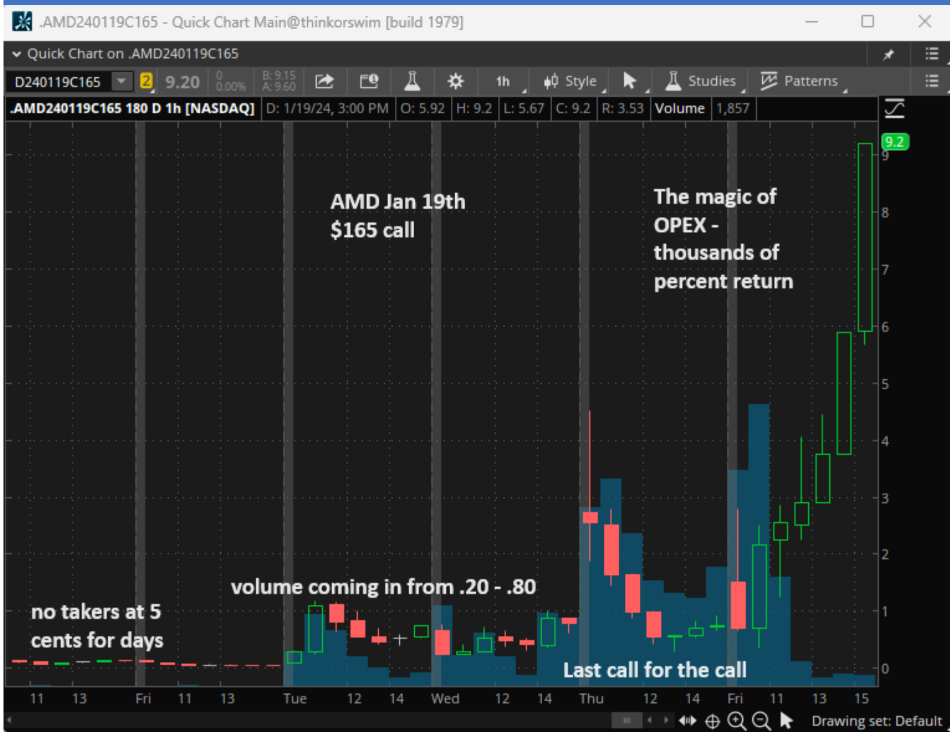
MARKET PURGATORY PRECEDES THE REAL EARNINGS SEASON LAUNCH – NFLX/COF TRADES – CRUDE EXPIRATION CYCLE TRADE

VOLATILITY SUMMARY

It's eerily quiet out there. You would never know, we are a week away until about a googolplex of market cap (market caps are just for show now, all meaning lost: is MSFT worth and two Australias minus one Sweden, whatever) will announce adjusted earnings along with absurdly profuse A.I. propaganda messaging (A.I. isn't yet adept at overhyping itself on company conference calls for the purpose of pumping executive options on stocks that in another form of A.I. is trading every day from 9:32 to 10:37am…).

And, lest we forget, the Jay and Janet show (who's the straight one in that duo?) is the middle act in next week's vaudeville market revue, wherein both actors are assumed to be market friendly, because, well, it's an election year and trussing up treasuries and stonks is simply the parents leaving the alcohol cabinet unlocked while away so the homemade QE printers can run until you're drunk with long 0DTE/mag7 call cash.

Remaining in the now, the almost rote but ludicrous option return stuff is plentiful if you can find it, things like AMD calls going from pennies to dollars:



Trading the 5000 SPX calls is back in a big way, and they definitely seem to be gaining what large open interest does, gravitational pull. I did not realize just how large the force is becoming; open interest at 5000 for February is larger than 4800 was for January, and yet March, well just look for yourself:

0	31.80 C	32.70 C	15 MAR 24	4995
164,424	[illegible]	[illegible]	[illegible]	5000
0	29.00 C	29.90 C	15 MAR 24	5005
745	27.70 C	28.60 C	15 MAR 24	5010
0	26.50 C	27.10 C	15 MAR 24	5015
564	25.20 C	25.90 C	15 MAR 24	5020
15,144	24.10 C	24.60 C	15 MAR 24	5025

Speaking of these markets and all the gamma, I came across a terrific Odd Lots podcast recently, starring derivative veteran Harley Bassman. He calls himself the 'convexity maven' and his site offers some excellent reading, check out 'stocking stuffers' tab for his favorite trades for 2024 in bond convexity: https://www.convexitymaven.com/2021-present/

He has some fascinating commentary on 0DTE and why assets pin (depends on which side of the seller/buyer relationship is hedging):

Tracy (34:04):
I just have a couple more questions, but one of them is slightly outside the world of fixed income. But I think given your experience in derivatives and things where the tail is sometimes wagging the dog, maybe you have an opinion on this, but, zero day options, is that something you've been following at all in the stock market?

Harley (34:26):
I find them very interesting and they're important to the extent of when these options are trading, there's a buyer, there's a seller, it's a closed system. The world has not gone more or less optional or convex. It's a closed system. However, the two parties may act differently. So once upon time, when you would see huge options selling in the bond market or option trading, that might reduce volatility, because the seller very often would be my ex-employer. And they would not be adjusting their portfolio. Whereas the buyers, people like me, when I was a trader on Wall Street, I would be delta hedging, adjusting my portfolio.

And if I'm trading against the option, but the seller *isn't*, that'll drive the market towards the strike at expiry. The question is now is with zero day options, are the buyers or the sellers trading them? Are they adjusting them? And I'm going to guess the retail's probably selling the options, but in GameStop they were buying it. And so what you saw there was, GameStop they would buy the option. Citadel, Susquehanna, they would sell the option. They were hedging. Retail wasn't and that's what drove the market to be more volatile.

But, he saves up a haymaker for the punchline. What about all that net dealer gamma and the predictability of it? Buckle up, you may or may not like this:

Right now, you probably have retail selling the options and Susequehanna buying it, and therefore that's *reducing* volatility. So you've got to figure out who's the buyer, who's the seller, who's trading it and who's not. Can we know that? I see these guys on Wall Street all the time saying, you know, 'this is the net gamma of the world.' Like, do I believe them? Not really. It just sells newspapers.

Thank you!! Somebody finally said what I've been thinking and actually saying in this note often, the assumptions made in this gamma predictive service space are often far from accurate, and the most current LEAP call expiration was a perfect example.

I think, a lot of hedge funds were long calls and weren't going to sell no matter what. Just like he says above, unhedged owners. And that kept causing *upside* volatility, coming to a head last week. And you know how I came up with this theory? (Originally, it was an educated guess, one I penned in a note on November 16th, A Theory on the Real Reason for December Volatility)

Let me show you this graphic and you will immediately understand where I'm going with the hedge fund LEAP premise:

I've been persistent in highlighting Charlie's commentary around this point, and if you internalized the message, you stuck around in December for the rest of the melt-up. (*Not* investment advice, obviously, just me highlighting what I think's notable among the deluge of commentary that finds its way to me every weekday.)

"The key to driving downside hedge demand is that we simply need to see active funds keep getting long-*er* and taking up net exposures, as they 'follow the Fed's lead' like the Pied Piper telling you to get long risk assets," McElligott went on, adding that we're "just not there yet."

US Equities Positioning

	Last Update	5y %tile
Fund Flow	01/03/2024	100%
Futures	01/02/2024	9%
AssetManager	01/02/2024	99%
Levered	01/02/2024	4%
CTA	01/08/2024	98%
RiskParity	01/08/2024	39%
VolControl	01/08/2024	80%
LongShort	01/05/2024	41%
MutualFund	01/05/2024	46%
MacroFund	01/05/2024	88%
Options	01/08/2024	95%

Source: CFTC, TFF, Nomura Vol, Nomura QIS, HFR

As the figure above shows, positioning for the long/short crowd as well as mutual funds isn't extreme.

Those two cohorts, Charlie added, exhibit "exceedingly middling" exposure on a five-year lookback and still have "plenty of room" to dial it up.

Until they do, the answer to "WEN CRASH?" may continue to be "Not yet."

https://heisenbergreport.com/2024/01/09/wen-crash/

So, everyone else had capitulated long, CTAs, vol control, managers, etc. But who was sitting there, long/short hedge funds, a giant space. They didn't have to, they had the LEAPs aces in their pockets, and they most certainly weren't going to fold/sell at this point; they *needed* the long exposure. So they called the stocks in, just now.

Q.E.D. (Ok, maybe you disagree, but it's damn a convincing argument.)

So, with the Fed meeting, a major treasury refunding announcement, Yellen the face that launched the rally of a trillion stocks, non-farm payrolls, giga tech earnings all colliding next week, and this opex unclench placidity hinting smooth sailing ahead (or more like the daily short vol crowd party is on full rager at this hour) it's time to focus on earnings season trades.

Volatility Trades:

COF put calendar spread:

Sell Feb 9th $125 put

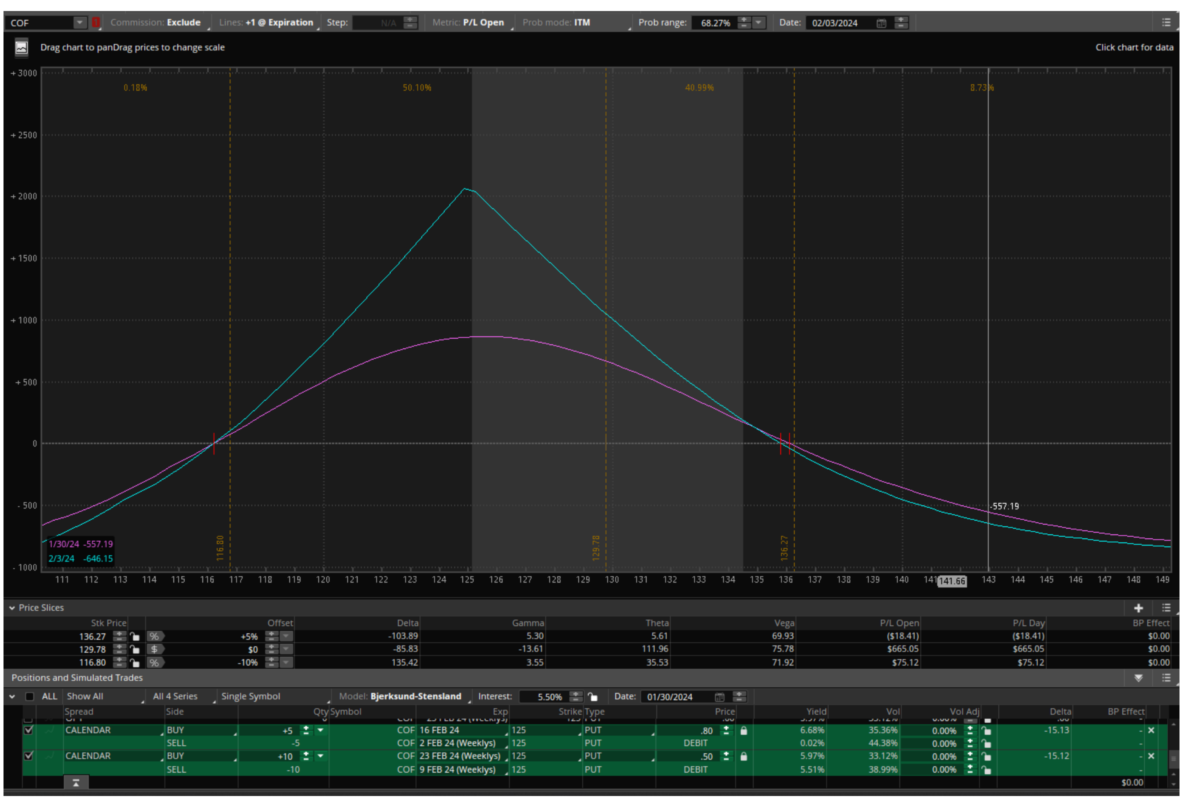
Buy Feb 23rd $125 put

Net debit: .50

Sell Feb 2nd $125 put

Buy Feb 16th $125 put

Net debit: .80



The COF put trade worked perfectly off our other DFS put trade on the bifurcated consumer theory. Why this has bounced back, no clue, but I appreciate it, time to go back to the well. I like both of these spreads, the latter to capture the vol of next week, the former to capture the potential vol of a weaker post earnings equity season.

NFLX earnings call butterfly with post-earnings put calendar spread

Buy Jan 26th $500 call

Sell 2x Jan 26th $525 call

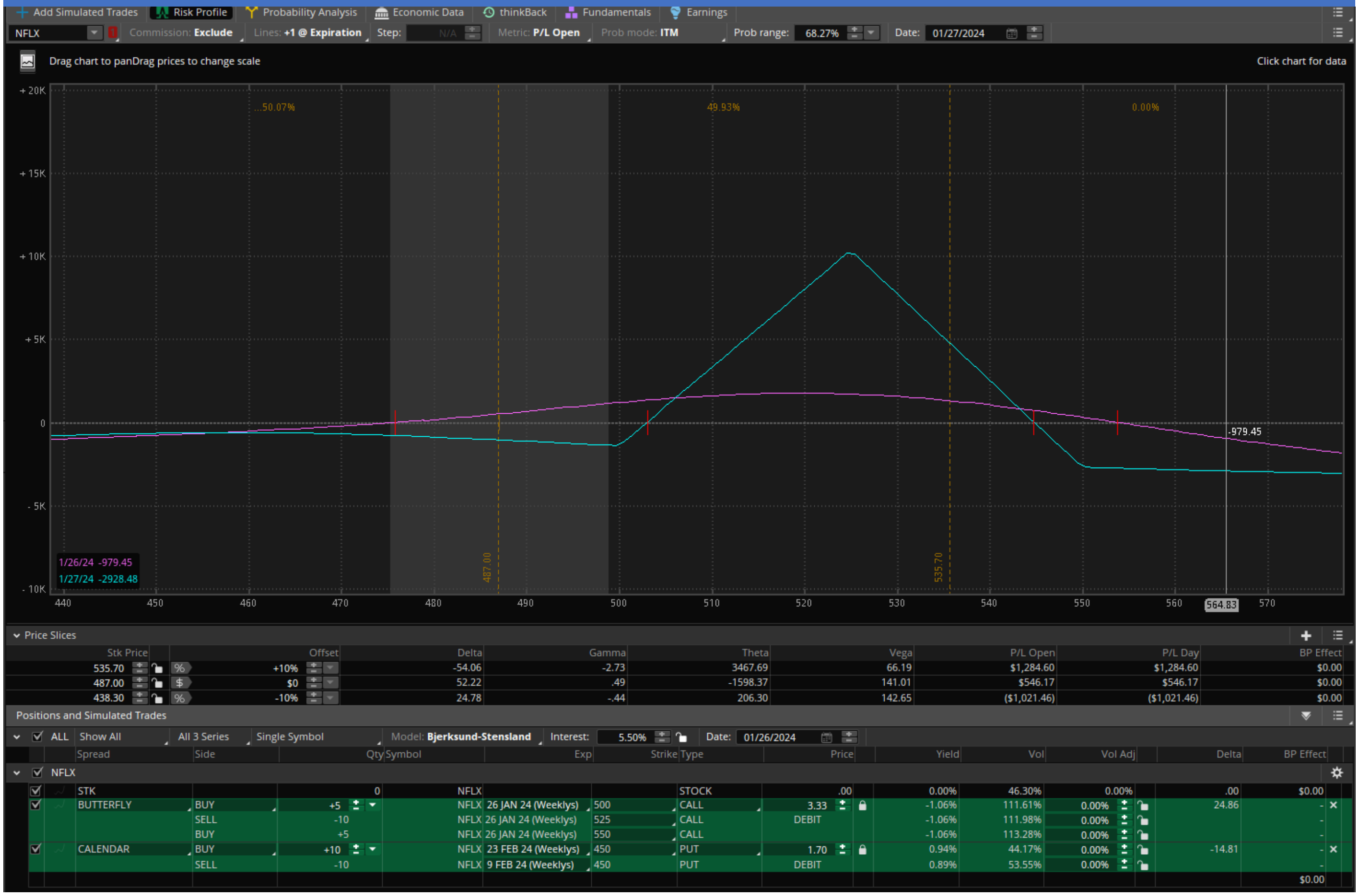
Buy Jan 26th 550 call

Net debit: 3.30-3.50

Sell Feb 9th $450 put

Buy Feb 23rd $450 put

Net debit: 1.70



Call this the needle threader. You know folks are going to line up for the post earnings release spike, and that touristy open interest is release nitrous provided NFLX doesn't fumble. Heck, if the numbers aren't so hot, just toss some A.I. stuff into the press release. Anyway, can we choose our own adventure path here perfectly? Post earnings spike, and then post Fed/earnings season market hangover. It's not like we are putting our neck out there, 3.30 on $25 wide and then two weeks wide for .35% of spot. Cheap on both sides. And if one fails the other helps as the P/L chart demonstrates, provided it doesn't go above $550.

Crude oil futures options

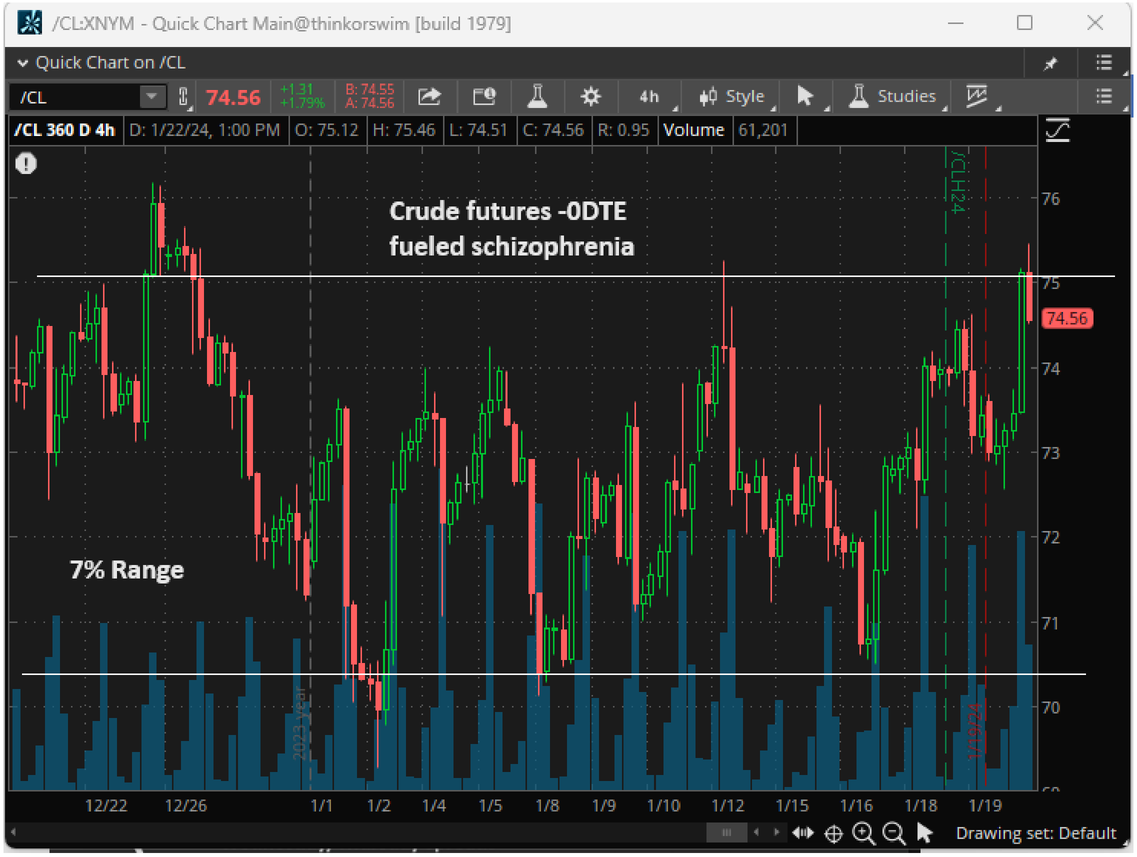
Opex pattern put vertical spread

Buy $73 Jan 31st put

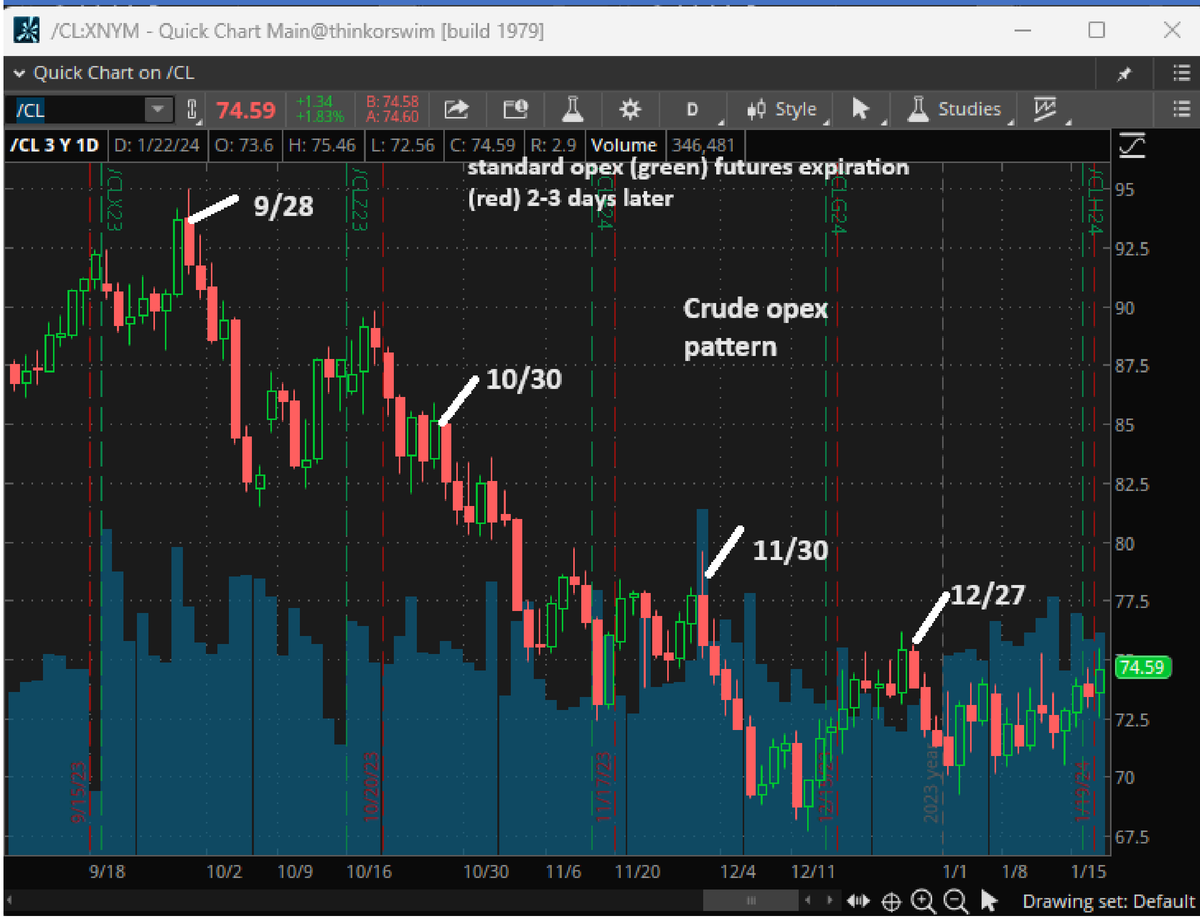
Sell $70 Jan 31st put

Net debit: .55-.60

I've mentioned lately, that 0DTE is spreading like covid around the world, festering anew in untrodden countries and infecting commodities. And here are the symptoms in crude, it's literally trading lately like it should be tested:

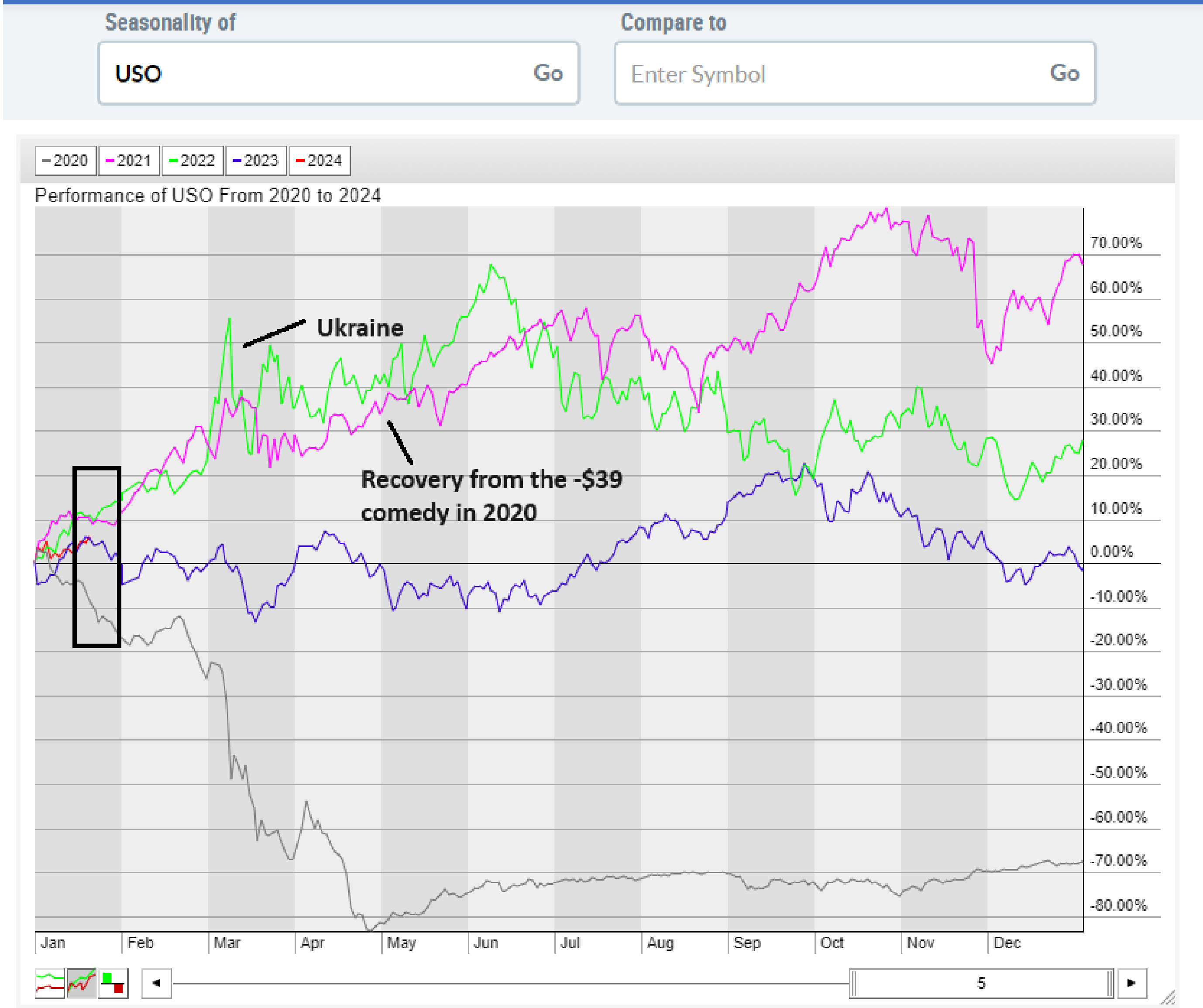


Wow, that's like a fish flopping around on deck. Yet, I happened to notice what the larger opex cycle and major expirations seem to be doing to crude futures, in the tail-wagging-dog sense of course:



That's pretty darn consistent, wouldn't you say? Now, yes, I can hear you already, there was a downtrend, it appears to be basing, and yes, seasonality is bearish for crude in the fall.

But, it's not so hot right here in this upcoming time frame either; it's obviously still not driving or storm season, and the up years lately, well, easily explained herein:



Seems to be tracking 2023 almost perfectly. I'd let this go for a double on one of these almost daily schizophrenic dips and do it again when it bounces before the end of the month. And, if you do this, set an order to close at your target for the overnight, a lot of movement happens from 3-6am EST.

Ok, more earnings trade ideas to come, if I see something earlier than Thursday, will send out an addendum.

ADDENDUM WITH TRADE IN SPX

VOLATILITY SUMMARY

Volatility Trades:

SPX GDP put calendar spread

Sell 4800 Jan 24th put

Buy 4800 Jan 25th put

Net debit: 2.15-2.30 (2.20 Fill)

14	PUTS											
Strike	Bid X	Ask X	Mark	Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	
Fri/Monday put calendar spreads											24.76% (±13.212)	
4800 / 4800	4.55	4.80	4.675	4.65	1.65	+55.00%	19.60%	-.16	.00	10,799	880	
4805 / 4805	5.35	5.60	5.475	4.80	3.25	+209.6...	18.64%	-.17	.00	2,894	55	
4810 / 4810	6.20	6.40	6.300	6.20	7.15	-752.6...	17.77%	-.17	.00	2,600	143	
4815 / 4815	6.90	7.20	7.050	6.80	9.54	-348.1...	17.21%	-.15	-.01	2,378	120	
4820 / 4820	7.60	7.85	7.725	7.30	5.86	+406.9...	16.72%	-.11	-.01	1,960	57	
4825 / 4825	8.00	8.50	8.250	8.20	8.88	-1305....	16.39%	-.06	-.01	1,666	71	
4830 / 4830	[illegible]	8.60	8.400	8.30	-3.25	-28.14%	15.98%	.02	-.02	1,471	32	
4835 / 4835	7.90	8.30	8.100	6.70	1.91	+39.87%	16.02%	.09	-.01	853	76	
4840 / 4840	7.10	7.50	7.300	7.50	8.68	-735.5...	16.38%	.15	-.01	681	47	
4845 / 4845	5.90	6.70	6.300	8.20	51.87	-118.7...	16.87%	.19	-.01	266	12	
4850 / 4850	4.70	5.50	5.100	4.34	-2.05	-32.08%	17.99%	.19	.00	208	59	
4855 / 4855	3.50	4.60	4.050	-3.64	-24.05	-117.8...	18.94%	.19	.00	39	4	
4860 / 4860	2.30	3.50	2.900	1.22	-22.64	-94.89%	20.58%	.17	.00	19	16	
4865 / 4865	1.70	2.80	2.250	-6.41	N/A	N/A	22.19%	.15	.00	58	0	
											9.18% (±32.448)	
											10.48% (±42.652)	
Wednesday/Thursday spreads											11.01% (±50.013)	
4800 / 4800	1.90	2.50	2.200	2.90	1.60	+123.0...	10.62%	-.02	.00	472	265	POS
4805 / 4805	2.00	2.50	2.250	5.61	-19.49	-77.65%	10.54%	-.01	.00	40	11	
4810 / 4810	2.10	2.50	2.300	2.41	-22.51	-90.33%	10.43%	-.01	.00	132	49	
4815 / 4815	2.10	2.60	2.350	5.10	15.88	-147.3...	10.36%	-.01	.00	49	20	
4820 / 4820	2.00	2.50	2.250	1.90	.68	+55.74%	10.29%	.00	.00	109	18	
4825 / 4825	2.00	2.60	2.300	1.45	17.22	-109.1...	10.22%	.00	.00	56	8	
4830 / 4830	[illegible]	2.60	2.300	2.50	-2.28	-47.70%	10.19%	.00	.00	115	3	
4835 / 4835	1.80	2.60	2.200	.32	-20.58	-98.47%	10.15%	.01	.00	58	2	
4840 / 4840	1.70	2.50	2.100	2.10	5.25	-166.6...	10.12%	.01	.00	70	7	
4845 / 4845	1.70	2.30	2.000	1.80	N/A	N/A	10.06%	.01	.00	20	0	
4850 / 4850	1.50	2.10	1.800	.89	19.27	-104.8...	10.05%	.01	.00	6	83	
4855 / 4855	1.30	1.90	1.600	.10	N/A	N/A	10.05%	.02	.00	2	0	
4860 / 4860	1.00	1.60	1.300	4.71	37.22	-114.4...	10.09%	.02	.00	11	20	
4865 / 4865	-.10	3.20	1.550	-2.28	N/A	N/A	10.02%	.02	.00	3	0	

Today's ludicrous and incessant gamma ramp made unclench Monday more difficult to call. But breaching 4800 and holding it made this trade I often do easier than if I put it in the note yesterday, thus the delay. Wednesday is the worst day of the week, has been for a long time. And, it comes with the reaction to Netflix in the front and TSLA in the back, as well as the GDP print in the rear. Target, $5.

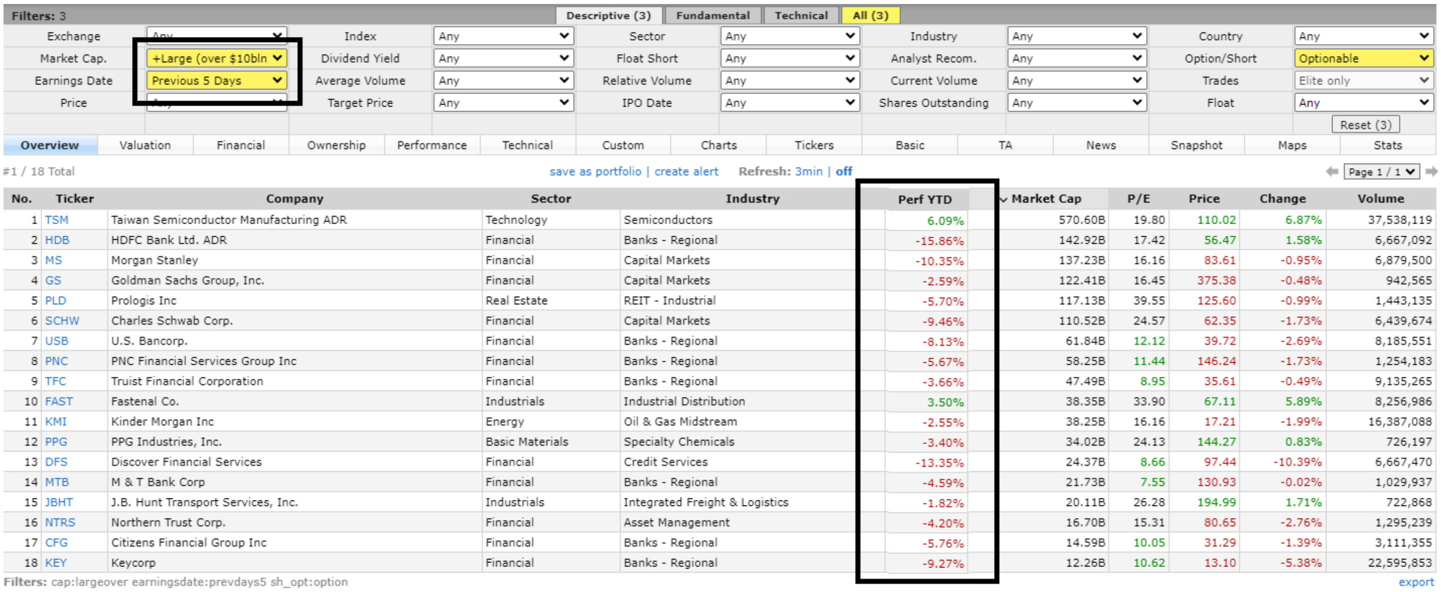
THE BEATS GO ON – QQQ OUTPERFORMANCE WHILE MOST STOCKS THAT HAVE REPORTED EARNINGS HAVE FAILED – THE RUBBER HITS THE ROAD NEXT WEEK – YET UNCLENCH MAY NOT MEAN MUCH

VOLATILITY SUMMARY

The chop zone remains intact…

…and you know what is primarily responsible, SMH/SOXX/AMD/NVDA/TSM et al. There is simply never too much good news, there is always something being said to continue the 'A.I. is the golden goose and the only game left in town for growth'.

When looking at how equities have performed after reporting thus far, it's not pretty. And you're once again hearing the same kind of refuse again, stuff like, 'There's a correction under the surface and that will eventually matter'. Granted, this chart below is mostly financials, but the poor performance is real and it's simply being countered by new highs in the names you know best:



No.	Ticker	Company	Sector	Industry	Perf YTD	Market Cap	P/E	Price	Change	Volume
1	TSM	Taiwan Semiconductor Manufacturing ADR	Technology	Semiconductors	6.09%	570.60B	19.80	110.02	6.87%	37,538,119
2	HDB	HDFC Bank Ltd. ADR	Financial	Banks - Regional	-15.86%	142.92B	17.42	56.47	1.58%	6,667,092
3	MS	Morgan Stanley	Financial	Capital Markets	-10.35%	137.23B	16.16	83.61	-0.95%	6,879,500
4	GS	Goldman Sachs Group, Inc.	Financial	Capital Markets	-2.59%	122.41B	16.45	375.38	-0.48%	942,565
5	PLD	Prologis Inc	Real Estate	REIT - Industrial	-5.70%	117.13B	39.55	125.60	-0.99%	1,443,135
6	SCHW	Charles Schwab Corp.	Financial	Capital Markets	-9.46%	110.52B	24.57	62.35	-1.73%	6,439,674
7	USB	U.S. Bancorp.	Financial	Banks - Regional	-8.13%	61.84B	12.12	39.72	-2.69%	8,185,551
8	PNC	PNC Financial Services Group Inc	Financial	Banks - Regional	-5.67%	58.25B	11.44	146.24	-1.73%	1,254,183
9	TFC	Truist Financial Corporation	Financial	Banks - Regional	-3.66%	47.49B	8.95	35.61	-0.49%	9,135,265
10	FAST	Fastenal Co.	Industrials	Industrial Distribution	3.50%	38.35B	33.90	67.11	5.89%	8,256,986
11	KMI	Kinder Morgan Inc	Energy	Oil & Gas Midstream	-2.55%	38.25B	16.16	17.21	-1.99%	16,387,088
12	PPG	PPG Industries, Inc.	Basic Materials	Specialty Chemicals	-3.40%	34.02B	24.13	144.27	0.83%	726,197
13	DFS	Discover Financial Services	Financial	Credit Services	-13.35%	24.37B	8.66	97.44	-10.39%	6,667,470
14	MTB	M & T Bank Corp	Financial	Banks - Regional	-4.59%	21.73B	7.55	130.93	-0.02%	1,029,937
15	JBHT	J.B. Hunt Transport Services, Inc.	Industrials	Integrated Freight & Logistics	-1.82%	20.11B	26.28	194.99	1.71%	722,868
16	NTRS	Northern Trust Corp.	Financial	Asset Management	-4.20%	16.70B	15.31	80.65	-2.76%	1,295,239
17	CFG	Citizens Financial Group Inc	Financial	Banks - Regional	-5.76%	14.59B	10.05	31.29	-1.39%	3,111,355
18	KEY	Keycorp	Financial	Banks - Regional	-9.27%	12.26B	10.62	13.10	-5.38%	22,595,853

Filters: cap:largeover earningsdate:prevdays5 sh_opt:option export

Did it matter last year? The real problem is that folks have to play defense by owning this stuff lest them miss out on one of the best years in tech again. Contrarian is not cute and folks learned their lesson in 2022, that being long value was a waste of time and mental energy, thus, the real fear:

Now, the celebrity quant Charlie McElligott is out and about a lot lately, and last week he was already postulating that Yellen could once again, light this thing in earnest at the end of the month with the refunding announcement:

Without further ado, find the (lightly edited) short version of this "crash-up blueprint 2.0" hypothetical as summarized by McElligott on Wednesday:

> LOTS of interest in that one from yesterday, where it seems clear that many macro PMs hadn't considered the right-tail optionality where the Fed has effectively outsourced the decision-making on the future path of their QT / balance sheet unwind to a politically-motivated (dovish) Yellen Treasury, which on behalf of the Biden administration, is looking to "run the economy / markets HOT" into this year's election, as the one lever they have to pull versus awful voter polling across nearly all other focus issues.
>
> And HERE is the point where this ties back into the "QT outsourcing" decision from Fed to Treasury: Because yet another QRA announcement of "more bills / not-as-much-coupon-as currently-anticipated" surprise means that money market funds will again stand ready to chomp that supply, which then knocks into an even more accelerated drain out of RRP, and as Logan outlined this weekend, the ever nearing RRP zeroing is the Fed's reaction function for their "QT tapering" / "outright cessation of QT" determination, in order to avoid systemic liquidity issues, as we approach the lowest comfortable level of reserves.
>
> If this were to be the case, instead of a resumption of bear steepening = equities pullback, you'd likely get a re-accelerated "buy the dip," bull flattening = equities rally, as a full-tilt dovish right-tail scenario for stocks to blow to new all-time highs (why not 5200?!), as "end of QT" is interpreted as "de facto QE" from a "change-of-change" perspective.

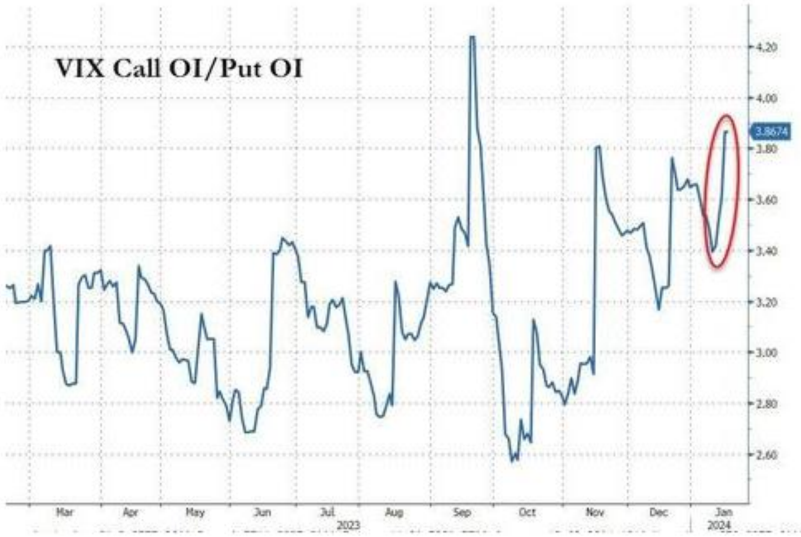
https://heisenbergreport.com/2024/01/10/why-the-path-to-new-sp-records-goes-through-janet-yellen/

https://finance.yahoo.com/news/stocks-headed-moon-yellen-whips-145600633.html

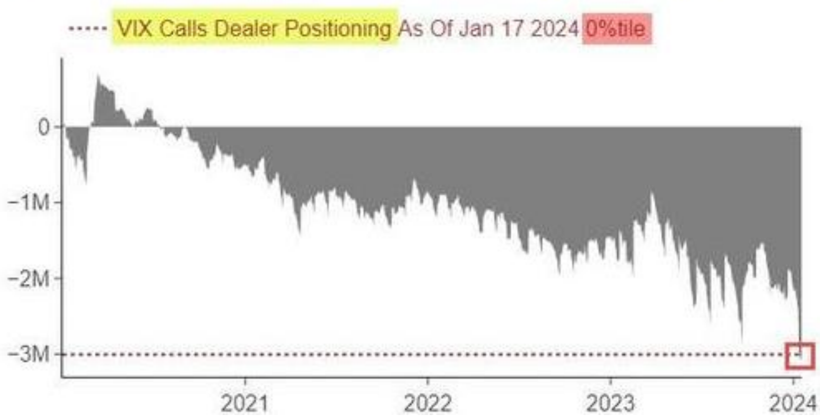
Which most certainly makes sense, anyone trying to be responsible stewards of capital, playing things somewhat conservative after the ebullient 2023 in tech getting steamrolled by yolos/call sweeping quant monsters with no conscience. Forcing them to toss chips back into the valuation is meaningless pool, Q/Es and market caps just being numbers.

And yet, a different Charlie was seeing things today, only a week later, that some of the seeds are being set for an entirely different path, one where we end up back in dealer short gamma soon after unclench:

The Nomura strategist explains, that we are witnessing a local counter-trend move in the US Equities Index Options "Skew–regime" into Jan Op-Ex, which is **largely a function of Dealers hedging the massive and ongoing "VIX Call" hedge demand–flows we've been noting**...



...and that is **pushing us closer to an environment where you could then actually get "crash-down"** *(although we aren't quite there just yet, without a fresh downside catalyst to take advantage of the Op-Ex "window for Vol expansion")*.



https://www.zerohedge.com/markets/hawkish-data-sparks-massive-ongoing-vix-call-hedge-demand-flows-nomura-fears-crash-down

Sure, were there folks out there looking for VIX calls for February? That is when you should be buying them, right? For the period after tech earnings are done and equities are freer to move in unison. For the QRA and the Fed meeting window.

When you look at these charts from Charlie, you easily get how this whole time period is quite confusing, thus the continual wide chops intraday:

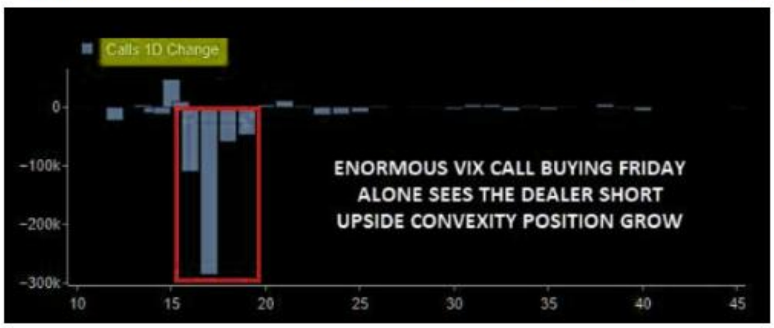
Watch 4750

Nomura's McElligott: "...we see SPX 4750 as a potential "downside acceleration point".

Source: Refinitiv

Picking off VIX dealers

That huge VIX call buyer on Friday (mentioned here) has dealers short strikes not too far up.



Source: Nomura

https://www.zerohedge.com/the-market-ear/market-tension-rises-vix-fear

This is why I keep repeating the observation that **in-order to see the conditions which would expose the market for "crash-DOWN," you actually need STEEP / HIGH Skew...**

...as that then indicates that Dealers are actually **in a "short downside Gamma / short Vega"-position** into a Spot selloff, which then makes for **"accelerant flows"** from Dealer hedging in futures that will feed the momentum of a downside break.

https://www.zerohedge.com/markets/hawkish-data-sparks-massive-ongoing-vix-call-hedge-demand-flows-nomura-fears-crash-down

I think what all this comes down to is pretty simple:

Is there a catalyst for the drop in stocks? If not:

Then the perpetual daily vol sellers and call buyers (especially in large cap tech) push the market out of short gamma pretty quickly, puts the dealers back into being short the upside and markets spike up as usual.

If there is news, then you have dealers and the short vol crowd being squeezed and it depends on what the news is. A slew of bank failures, that doesn't die quickly, a Middle East attack, that kind of selling is over at the open sometimes.

The bottom line, it's going to be tricky but considering that we've had a single -1% day since October, well, how tricky is it really? Put sellers are winning every day; yesterday, they shorted vol well out of a 50+ point hole in the S&P 500. Today, they got 40 points in the afternoon.

Tomorrow will be interesting. My plan is to look for cheap options for Monday, whereas the easiest trade will be calls if the market finishes weakly. I'm quite flat at the moment, having all of the trades in this note over the past few weeks working out quite well.

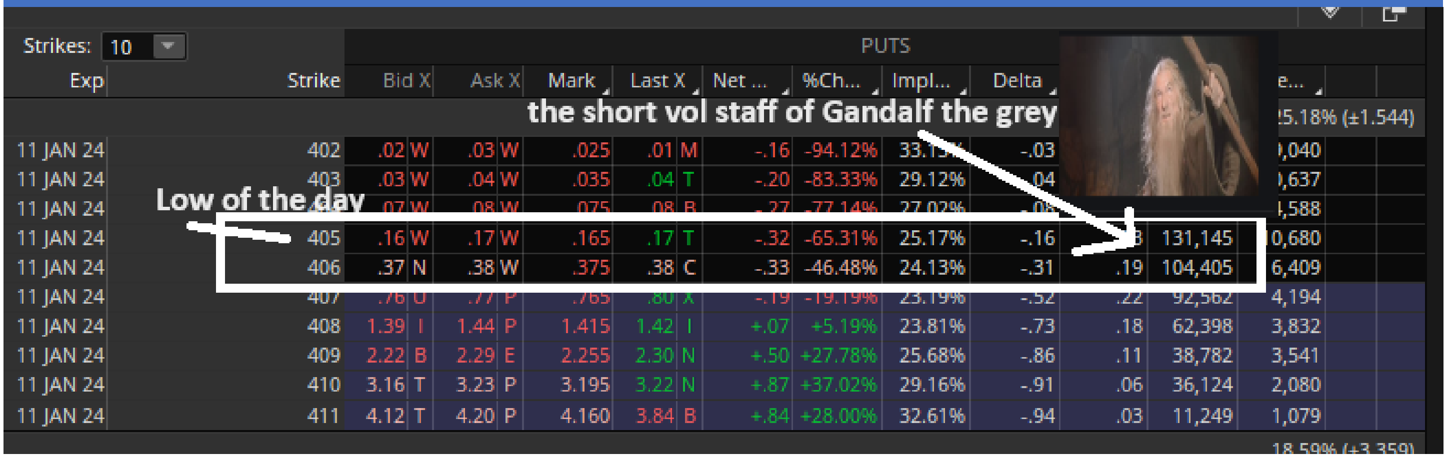
I will pen a short note tomorrow with the trades once the opex dust settles.

OPEX CHOP ZONE CONTINUES – LEAP CALL RESURRECTION ENDS WITH CPI – JPM EARNINGS REACTION MAY BE TELLING – VIXPIRATION TRADES

VOLATILITY SUMMARY

Another magical recovery, the chop zone opex theme continues unabated. I'm getting the feeling we are going to be here a while. Here being this area:

Surely, you aren't going to dissuade short vol from their daily trips to the mailbox to collect premium checks. This flourishing cohort helped halt the leap call selling induced slide off the CPI miss like Gandalf, thou shall not pass (…the strikes we sell short for daily income). The largest open interest in 0DTE put volume is precisely where the move lower was arrested, that's how this works, until it doesn't some day:



Exp	Strike	Bid X		Ask X		Mark	Last X		Net ...	%Ch...	Impl...	Delta			e...
11 JAN 24	402	.02	W	.03	W	.025	.01	M	-.16	-94.12%	[illegible]	-.03	[illegible]	[illegible]	[illegible]
11 JAN 24	403	.03	W	.04	W	.035	.04	T	-.20	-83.33%	29.12%	[illegible]	[illegible]	[illegible]	[illegible]
11 JAN 24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11 JAN 24	405	.16	W	.17	W	.165	.17	T	-.32	-65.31%	25.17%	-.16	[illegible]	131,145	[illegible]
11 JAN 24	406	.37	N	.38	W	.375	.38	C	-.33	-46.48%	24.13%	-.31	.19	104,405	6,409
11 JAN 24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4,194
11 JAN 24	408	1.39	I	1.44	P	1.415	1.42	I	+.07	+5.19%	23.81%	-.73	.18	62,398	3,832
11 JAN 24	409	2.22	B	2.29	E	2.255	2.30	N	+.50	+27.78%	25.68%	-.86	.11	38,782	3,541
11 JAN 24	410	3.16	T	3.23	P	3.195	3.22	N	+.87	+37.02%	29.16%	-.91	.06	36,124	2,080
11 JAN 24	411	4.12	T	4.20	P	4.160	3.84	B	+.84	+28.00%	32.61%	-.94	.03	11,249	1,079

And call buyers on dips have had so much success lately, and for so long now, they are certainly more than happy to support things as well. They just had another huge week.

You can pick any of the giga techs basically and look at the weeklies and leap charts; while the Russell 2000/IWM and many sectors languished during this week's market bounce, the herded popular stuff was the target for calls and they didn't disappoint as usual, MSFT, META, AMZN:

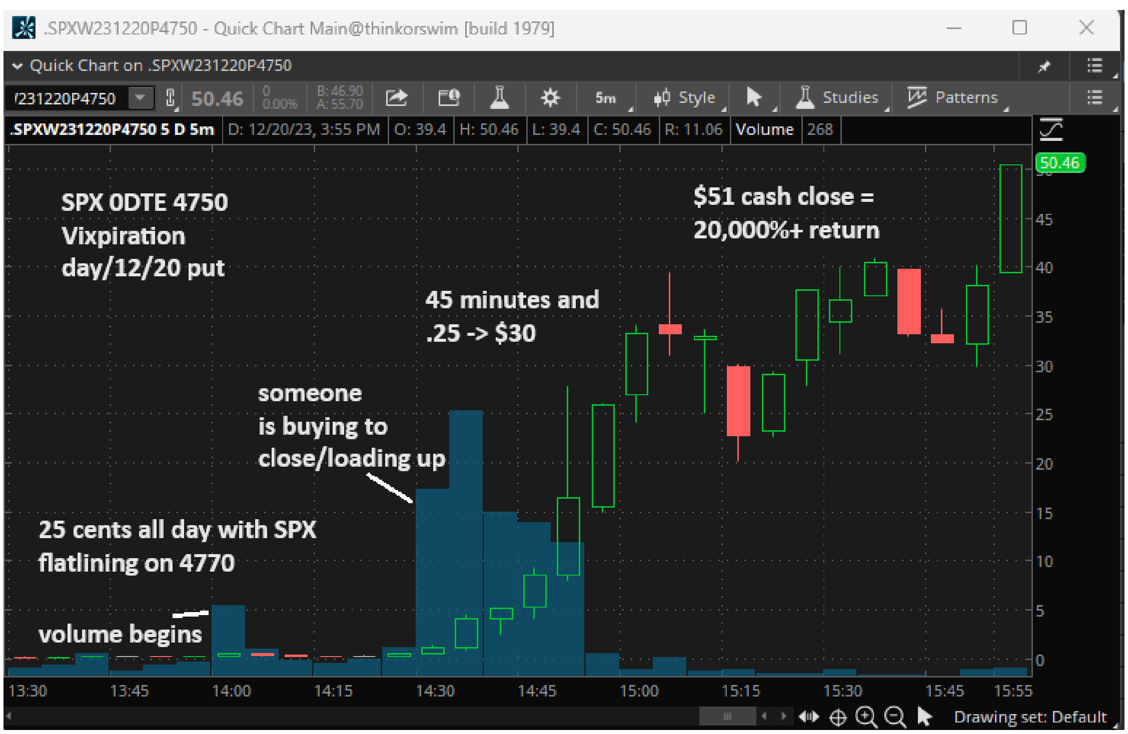
So, we have the recipe for more rangebound chop, short vol and long call, repeat until it fails. No real catalysts, data, auctions, Fed meetings or CPI which aids in promoting the range playground that 0DTE is very much enjoying.

But, there is ye olde vixpiration on Wednesday, often the real unclench. And if we continue to drift up into that again after today's minor hiccup, it might be something again. I mean, we've only had one -1% day in twelve weeks and you know how that went down:

December 21st note:

The magic of vixpiration strikes again. And, consider this, if you have vix calls as a hedge, they are useless during this timeframe, they didn't budge, because they are based on January vix futures which opened the day at 14.6 already. That this how short vol etfs work, the front month comes to spot vix eventually and the ETF rolls every day in to the back leg, which why SVIX works most of the time. It keeps selling more expensive longer dated vol.

And that circles us right back to yesterday's 0DTE, because the best (I'm all ears to another if you know it) way to hedge a downdraft is with short-dated options:



I mean, 10 SPX contracts for 25 cents turned $250 into $50,000. As Yakov Smirnoff used to say, 'What a country!'. You can see in the SPX chart when the put volumes (and it wasn't just 4750, there were a lot of strikes in SPX/SPY/QQQ trading for next to nothing that the strats were short):

People clearly think of overly shorted stocks as being ripe for an attack and thus causing a spike, why not overly shorted vol being subject to the same thing? It's pretty cheap and easy to attempt as noted above.

Then the short gamma vortex machine turns on, a mini-volmageddon situation. And there's no escape, when folks are forced to buy back short puts, that equals more dealer selling since they are removed of the long puts sold to them, and then there are those new puts dealers are short for the day, requiring more immediate selling.

Take a gander at vixpirations and leap/January opexes over the last couple years:


SPX - Quick Chart Main@thinkorswim [build 1979]
Quick Chart on SPX
SPX
4760.45
SPX 5 Y 1D D: 1/11/24 O: 4792.13 H: 4798.5 L: 4739.58 C: 4760.59 R: 58.92 Volume N/A
2023 January opex
Vixpiration
LEAP drift
unclench up
4200
4150
4100
4050
4000
3950
3900
3850
3800
3750
12/26
1/2
1/9
1/16
1/23
1/30
2/6
Drawing set: Default


SPX - Quick Chart Main@thinkorswim [build 1979]
Quick Chart on SPX
SPX
4760.14
SPX 5 Y 1D D: 1/11/24 O: 4792.13 H: 4798.5 L: 4739.58 C: 4760.08 R: 58.92 Volume N/A
2022 January opex
Fed meeting
Vixpiration
LEAP drift
Tax selling off big 2021
unclench up
3875
3850
3825
3800
3775
3750
3725
3700
3675
3650
12/21
12/28
1/4
1/11
1/18
1/25
2/1
Drawing set: Default

Are expectations too high? Of course they are, JPM earnings are tomorrow and you know what that chart looks like, it's ridiculous. But the range will probably hold because, well, META and AMZN, MSFT, NVDA and AMD are not JPM, FDX, NKE. It's the other stocks' problems (call it OSP perhaps). And earnings don't begin in earnest for giga tech for a couple weeks, and that's about 25 dog years for 0DTE.

I'm even considering a scenario where leap opex unclench is up, should next week drip lower on those positions being closed or burning off. So, let's see how the market and JPM react tomorrow for more clues to post opex and the real earnings season. In the meantime, the range and 0DTE have the rule of the roost.

Volatility Trades:

SPX/Vixpiration put calendar spread:

Sell 4750 Jan 17th put

Buy 4750 Jan 18h put

Net debit: 2.00-2.30

	PUTS											
Strike	Bid X	Ask X	Mark	Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	
											9.04% (±2.601)	
Today/Tmw put calendar spreads											22.10% (±12.506)	
4750 / 4750	4.30	4.45	4.375	4.33	1.42	+48.80%	17.80%	-.17	.00	8,494	3,798	
4755 / 4755	5.15	5.40	5.275	5.30	2.34	+79.05%	17.34%	-.17	.00	3,427	727	
4760 / 4760	6.00	6.25	6.125	6.10	2.71	+79.94%	17.06%	-.15	-.01	5,404	1,481	
4765 / 4765	6.70	6.90	6.800	6.78	3.54	+109.2...	16.84%	-.11	-.01	3,688	895	
4770 / 4770	6.90	7.30	7.100	7.13	3.81	+114.7...	16.87%	-.04	-.01	3,536	1,299	
4775 / 4775	6.90	7.20	[illegible]	7.00	3.72	+113.4...	17.00%	.03	-.01	2,857	1,469	
4780 / 4780	6.40	6.80	6.600	6.70	3.83	+133.4...	17.22%	.10	-.01	1,957	843	
4785 / 4785	5.60	6.20	5.900	[illegible]	1.32	+40.00%	17.42%	.15	-.01	1,462	824	
4790 / 4790	4.50	5.40	4.950	[illegible]	1.55	+49.21%	17.76%	.17	.00	2,429	1,276	
4795 / 4795	3.30	4.40	3.850	2.76	-.10	-3.50%	18.73%	.16	.00	1,895	223	
											13.75% (±28.494)	
Vixpiration/Thurday											8.99% (±40.397)	
											9.76% (±47.98)	
4750 / 4750	2.00	2.50	2.250	1.84	-2.66	-59.11%	9.50%	-.01	.00	397	163	POS
4755 / 4755	2.00	2.50	[illegible]	5.05	3.33	+193.6...	9.47%	-.01	.00	139	51	
4760 / 4760	2.10	2.60	[illegible]	3.90	-.45	-10.34%	9.43%	-.01	.00	66	75	
4765 / 4765	2.00	2.60	2.300	1.05	1.25	-625.0...	9.40%	.00	.00	79	31	
4770 / 4770	1.90	2.40	2.150	3.60	1.55	+75.61%	9.36%	.00	.00	37	72	
4775 / 4775	1.90	2.40	2.150	.10	-2.35	-95.92%	9.35%	.00	.00	37	74	
4780 / 4780	1.80	2.30	2.050	-.43	-2.43	-121.5...	9.34%	.01	.00	60	64	
4785 / 4785	1.60	2.20	1.900	2.74	-1.45	-34.61%	9.35%	.01	.00	96	94	
4790 / 4790	1.50	2.10	1.800	9.04	9.12	-11400...	9.36%	.01	.00	141	77	
4795 / 4795	1.30	1.90	1.600	-1.79	-3.12	-234.5...	9.37%	.01	.00	102	15	

Long the Thursday of opex week put after the vixpiraton special opening quotation on Wednesday, target $5-6.

Another great way to do this trade is to pair the Wednesday put with the Friday morning special opening quotation SPX settlement puts for $3.30 or so. I like to do it both ways in case folks are forced to chase to close the major open interest expiration and thus implied vol rises in the standard expiration puts.

QQQ Vixpiration put diagonal spread

Sell Jan 17th $401 put

Buy Jan 19th $402 put

Net debit: .25-.30

Target, .60. Here is what two-day wide spreads look like today:

	PUTS										
Strike	Bid X	Ask X	Mark	Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...
											25.19% (±0.62
400 / 399	.14	.17	.155	.14	-.13	-48.15%	61.89%	-.05	.01	1,362	1,141
401 / 400	.19	.21	.200	.18	-.13	-41.94%	56.00%	-.07	.02	4,671	4,705
[illegible]	[illegible]	[illegible]	.250	.22	-.15	-40.54%	50.00%	-.08	.02	4,219	1,292
403 / 402	.31	.33	.320	.32	-.10	-23.81%	43.97%	-.11	.02	3,016	1,828
404 / 403	.41	.43	.420	.43	-.03	-6.52%	37.90%	-.14	.03	4,229	1,550
405 / 404	.55	.57	.560	.51	.01	+2.00%	31.77%	-.17	.03	4,110	1,121
406 / 405	.72	.74	.730	.72	.23	+46.94%	25.46%	-.22	.03	9,420	2,350
407 / 406	.95	.97	.960	.97	.48	+97.96%	21.68%	-.25	-.02	13,799	1,118
408 / 407	1.20	1.23	1.215	1.16	.71	+157.7...	17.15%	-.20	-.26	8,869	1,789
409 / 408	1.25	1.30	1.275	1.31	.90	+219.5...	14.58%	.26	-.57	13,184	1,378
410 / 409	.80	.88	.840	.91	.64	+237.0...	17.54%	.45	-.01	5,533	895
411 / 410	.36	.43	.395	.37	.15	+68.18%	24.82%	.38	.06	4,328	570
412 / 411	-.03	.09	.030	.09	-.05	-35.71%	32.97%	.31	.06	3,046	100

If we get a drop that day, .25 could easily pay .70-1.00 as you can see above.

MONDAY 0DTE A RIPPER AGAIN –LEAPS RESURRECTED BUT UNCLENCH CHOP COULD GET QUITE HEAVY FROM HERE – RECORD CALL VOLUMES HIGHLIGHT THE 0DTE RISK REVERSAL MARKET

VOLATILITY SUMMARY

December 5th note:

And so, the chop zone, where the markets might actually have a down day, yet that will magically be recovered the next day (or during an overnight ramp), and when morning ramps fail in the afternoon but conversely morning dips recover in the afternoon.

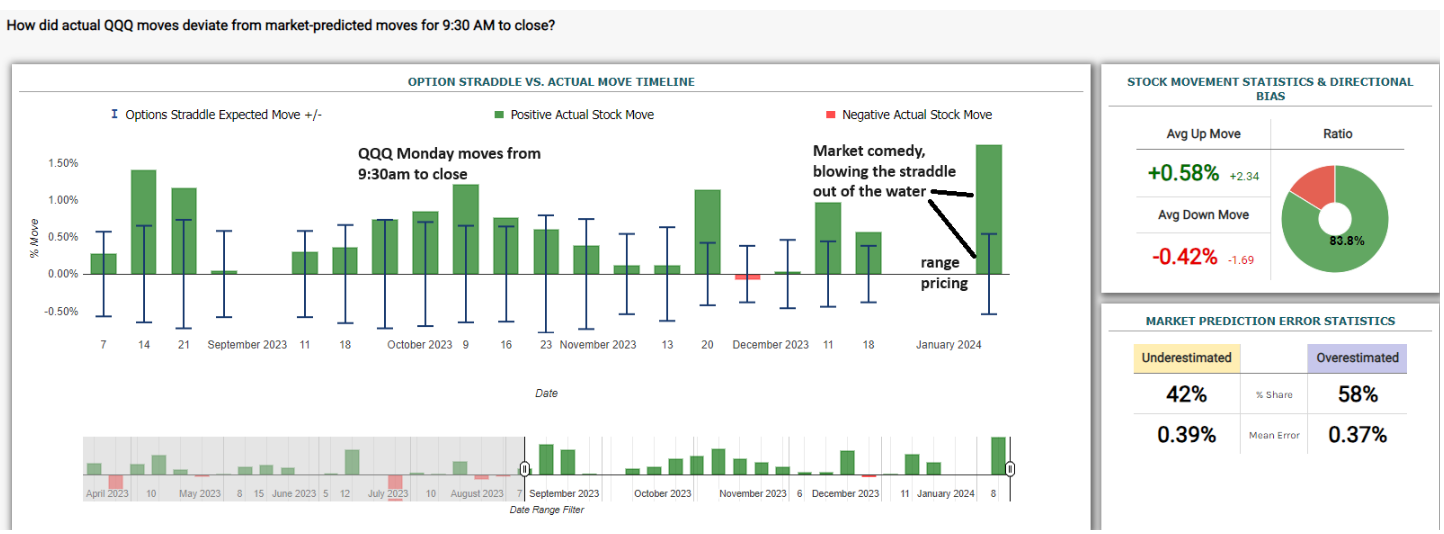
And we're back in the chop zone. When gamma is boss and the daily and intraday coasters are revving up. Where 0DTE risk reversals are the norm; quant/hedge funds sell some puts to buy some calls, then maybe buy the puts back or go long uber cheap puts in the afternoon.

And of course, you also have the consistent 0DTE short vol crowd (like for funds income; short vol is quite a diverse herd) that continues to grow, which by its very nature exacerbates intraday vol. Charlie the celebrity quant recently said that 0DTE has created 'its own daily market ecosystem' and that is exacerbated by monthly opex, even more so in January.

And so, the dealers are trading along, buying hedges when the puts are sold to them, buying more when they become short calls, selling when those calls are sold and selling more when puts are bought or bought back. Swings, day and night.

If we look back to a time before the ludicrous all-assets panic ramp on Cut-Topia hopes and rates crash, you can see how these times in the opex cycle often play out, heavy churn as the risk reversals and short vol are traded along with folks closing or rolling out of options, in this case the huge open interest in LEAPS:

The real story in 0DTE was yesterday of course, when the greatest market trend (ever?) continued to deliver. QQQ had it's largest open to close Monday move in basically forever, looking back through last year. This QE printing machine is on absolute fire:



I mean, if you simply bought QQQ/NQ futures/0DTE options on Monday mornings, and did nothing else, you would have a Sharpe ratio that would be illegal enough to trigger Madoff alarms. You would literally be an all-time great trader, months without a drawdown with large and consistent returns. You could work for a couple hours on Monday and take the rest of the week off and collect huge fees, it's that comical.

And knowing this all too well, I still ended the day yesterday quite aggravated if you can believe that. I was properly long NQ futures from Friday, sold out at noon considering the chop zone behavior of the afternoons during this time frame generally and with how large the move was up to that point, and still missed nearly half of it.

And, on top of that error in hindsight, what was I doing with just the futures anyway? I continue to try to reprogram the brain that in our new short vol mania environment premium is greatly underpriced and itself a catalyst for these moves, and so, missed the obvious trade:

Goodness gracious, and on a round strike target to boot, an obvious spot with open leaps hiding in plain sight. Which meant yesterday, constant and continual dealer re-hedging on the leap gamma, the synchronized tractor beam levitation on the deltas that eroded last week, the leap plague tax disaster I spoke of in the last note.

And, here is another error, in missing this trade, CES week. Everyone should have known that all these companies would be out touting new products, chips, lots of A.I. talk, right? What a catalyst for uber cheap calls. CES goes onto the trading calendar for next year's call trades.

Well, there is no Monday trade next week with the holiday and the next one will be after the leaps are gone, post-opex. That Monday will be an unclench into the onset of giga tech and other major company earnings (70% of SPX is still stuff that's not mag7, for now, who knows by next year), which means a couple things: first, the theme I've mentioned that earnings vol has been decimated due to a combination of dispersion trading (short individual name vol paired with cheaper long vol in the indices perhaps) and then these seemingly endless ramps in many stocks that have no significant put open interest or short interest to catch a fall on earnings that do not go well.

In the meantime, who cares, that is so, so far away in our 0DTE focused market, and those options saw record volume during the Friday chop, McElligott:

Charlie drove it home. "Both [the] selloff and rally were blunted to then finish unchanged by EOD, and on a day where the 0DTE flow as a share of overall SPX options trading was 99%ile on a one-year lookback and 100%ile for outright 0DTE SPX options volumes."

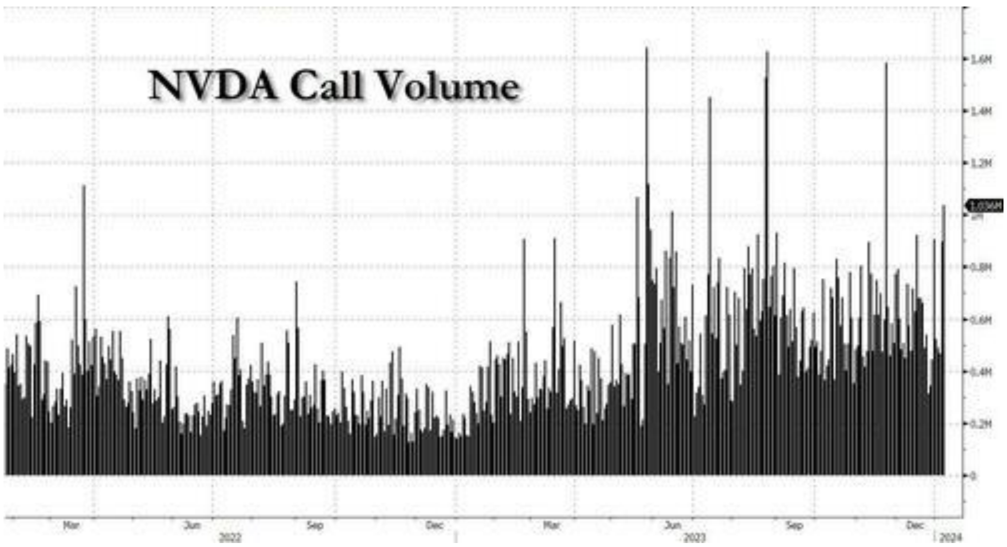
https://heisenbergreport.com/2024/01/08/how-market-makers-cashed-in-on-jobs-day-0dte-frenzy/

The SPX round strike 4700 gamma flip borderline was a swing traders paradise Friday, the 4700 put minted for those willing to continually ride this coaster:

And it sounds like a movie title, but Leaps Resurrected was the theme yesterday, Jan 19th NVDA $525 leap call for example:

These leaps are surging on the backs of the weeklies, of course, as they see crazy volume again:

"Five stocks accounted for ~40% of the move in the Nasdaq, with NVDA along contributing ~10%. Importantly, **960k NVDA calls traded today (20day average 600k), the 5th largest call buying day for the stock in the last 1.5 years."**



https://www.zerohedge.com/markets/what-was-behind-todays-tech-eruption-goldmans-top-tech-trader-explains

Enjoy the chop and embrace the short vol craze. They are subsidizing your low risk/asymmetric return potential trades, and you don't have to be right very often to do well.

Volatility Trades:

QQQ 10-yr auction Jan 10th put, $402 strike (will start this higher if QQQ ramp continues)

Net debit: .10-.15 (.22 at time of writing)

Simple, a cheap shot at a Wednesday afternoon dip, and if you recall, Wednesdays have the best record for poor price action. And….CPI is Thursday morning, and maybe a few folks want to lighten up using this bounce/leap re-hedge ramp before that number perhaps.

Further, CES news winding down and maybe a move in yields off the auction. Keep in mind that while folks are forgetting that Janet tossed nitrous onto call gamma in November, the next and most certainly greater supply reveal in treasuries is right around the corner. Would you want to buy the 10-yr now after that giant CTA buying spree or wait until February when yields have a decent chance of being higher post the refunding announcement? Maybe ye olde auction tail dip pre-CPI?

And, the leaps continue to re-inflate, the NVDA call is now $20 from $13 when I started the note. Which means, if these leaps deflate, so does QQQ and quickly. This I the kind of thing I will probably do a few times over the course of the next week.

MARKETS ARE READY FOR THE NFP SPIKE, BUT WILL IT HOLD – MORE SHORT VOL MONEY COMING – CPI LEADS EARNINGS SEASON DEBUT OF BIG DOW COMPONENTS – MORE CHEAP EARNINGS VOL TRADES

VOLATILITY SUMMARY

On Tuesday I referenced the LEAPS plague that swept over brokerage accounts worldwide, where the tax calendar flip unleashed clouds of murder hornets that stung folks holding dear tech January calls. Well, murder hornets have extra long stingers and can sting multiple times, and that is precisely what these people must be feeling right now.

People are wondering why AAPL keeps falling, yet folks were also wondering why bad news kept coming in December, yet AAPL didn't flinch. Look no further than the in the money leap calls where the stings will stop hurting soon, because the target is nearly dead:

And, I'm old enough to remember the post-Fed S&P 5000 or bust mania, when Santa Powell sat the markets on his knee and gave them exactly what they wanted for Christmas (for Christmas, not for New Year's mind you….) when folks were hedging upside FOMO by adding 5000 calls across SPX vol surface, the egg nog was as spiked as the calls:

Well, it was fun while it lasted, and I'm sure a lot folks printed sleighfuls of money and didn't let poor Uncle Sam go empty handed by depositing a few bucks in the Christmas tax kettle. The wise choice with the benefit of 20/5 hindsight was to let this stuff go and pay the toll, but FOMO and greed combined to foil the flock.

(If you've never read the autobiography of Chuck Yeager, I highly recommend it. He had ludicrous vision, he would have sold his AAPL LEAPS:)

The best vision ever recorded was allegedly 20/8 in recently deceased (December 2020 at age 97) test pilot Chuck Yeager. A very small number of people (about 3-5%) are capable of a best corrected or even uncorrected 20/10-those are super tiny letters. Most (about 65%) healthy young people are capable of 20/15 vision. 20/20 vision is just an average, with many reasons

Incredibly, the 5000 January SPX call became and remains the largest open strike interest at a whopping 138k calls. The second largest is 4800, and these are in the ICU, down 80% from last week:

So, you get the idea, there are a lot of folks with an array of these to sell across indices and individual tech names, which means what? Overhead resistance on spikes and that is precisely what we have seen this week:

The real test will be tomorrow of course, NFP is a notoriously bullish day in general, and usually more so if the equity markets come in with a limp. Will it drop the crutches tomorrow and anticipate the greatest trend of the last several years, the nearly always up Monday?

Or will this overhead cap it at a round strike like 4750 and fade from there? Hard to say. What I do know, is that the torrent of short vol money keeps coming, making it easier and easier to be long vol regardless of if you are bullish or bearish:

ProShares expects to launch an exchange-traded fund (ETF) Wednesday that uses the short-dated options commonly referred to as "zero days to expiry" on the Standard & Poor's 500 index.

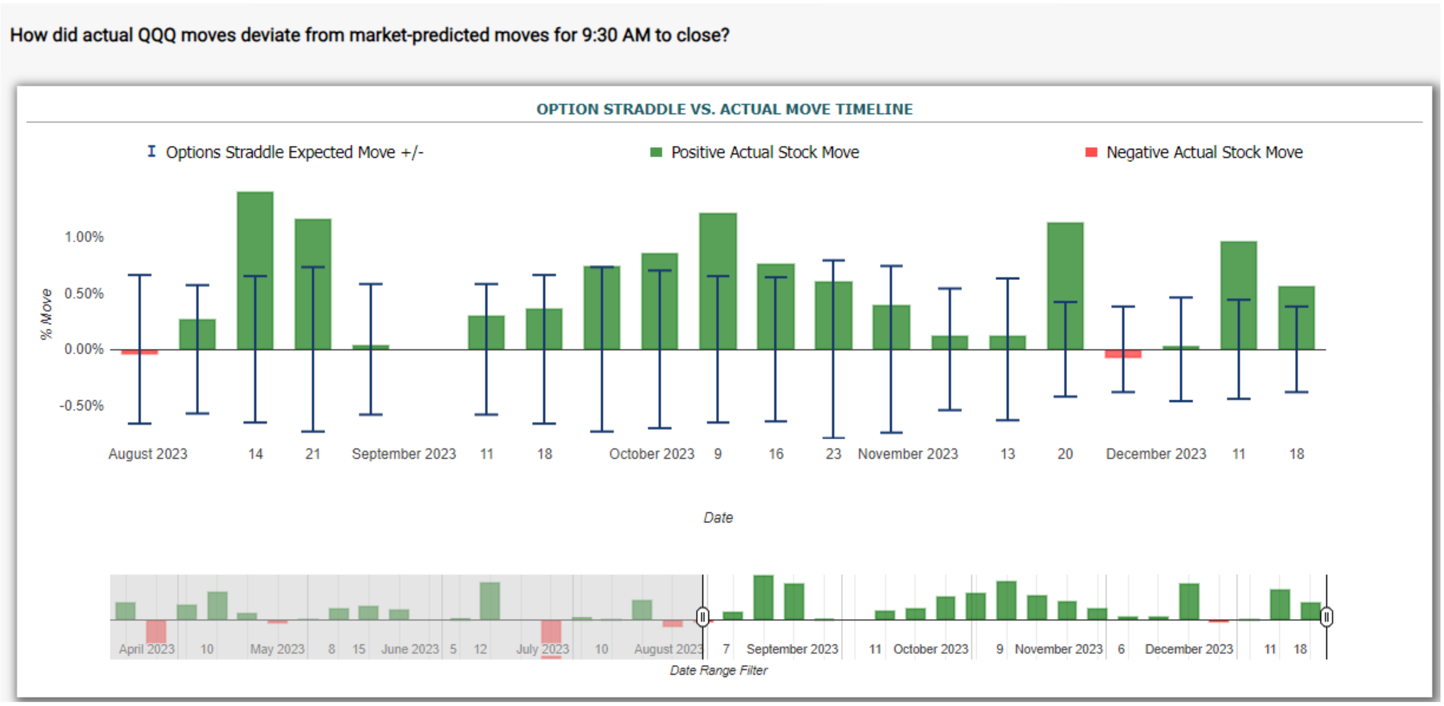
The fund's goal is to offer investors both the additional income that traditional options contracts may sacrifice, as well as upside potential should the stock market extend its rally.

The S&P 500 High Income ETF (ISPY.Z) seeks to replicate writing daily call options against the underlying index, generating additional income while giving investors exposure to the index's upside.

The new ETF will trade on the CBOE BZX Exchange and have a fee of 0.55%.

https://www.reuters.com/markets/us/proshares-launch-sp-500-etf-with-zero-day-call-options-2023-12-19/

It's simply mind-bending, how QQQ has performed from the open to close on Mondays for months, this might hold a critical clue to when the market's tenor begins to truly change, if this begins to fail…:

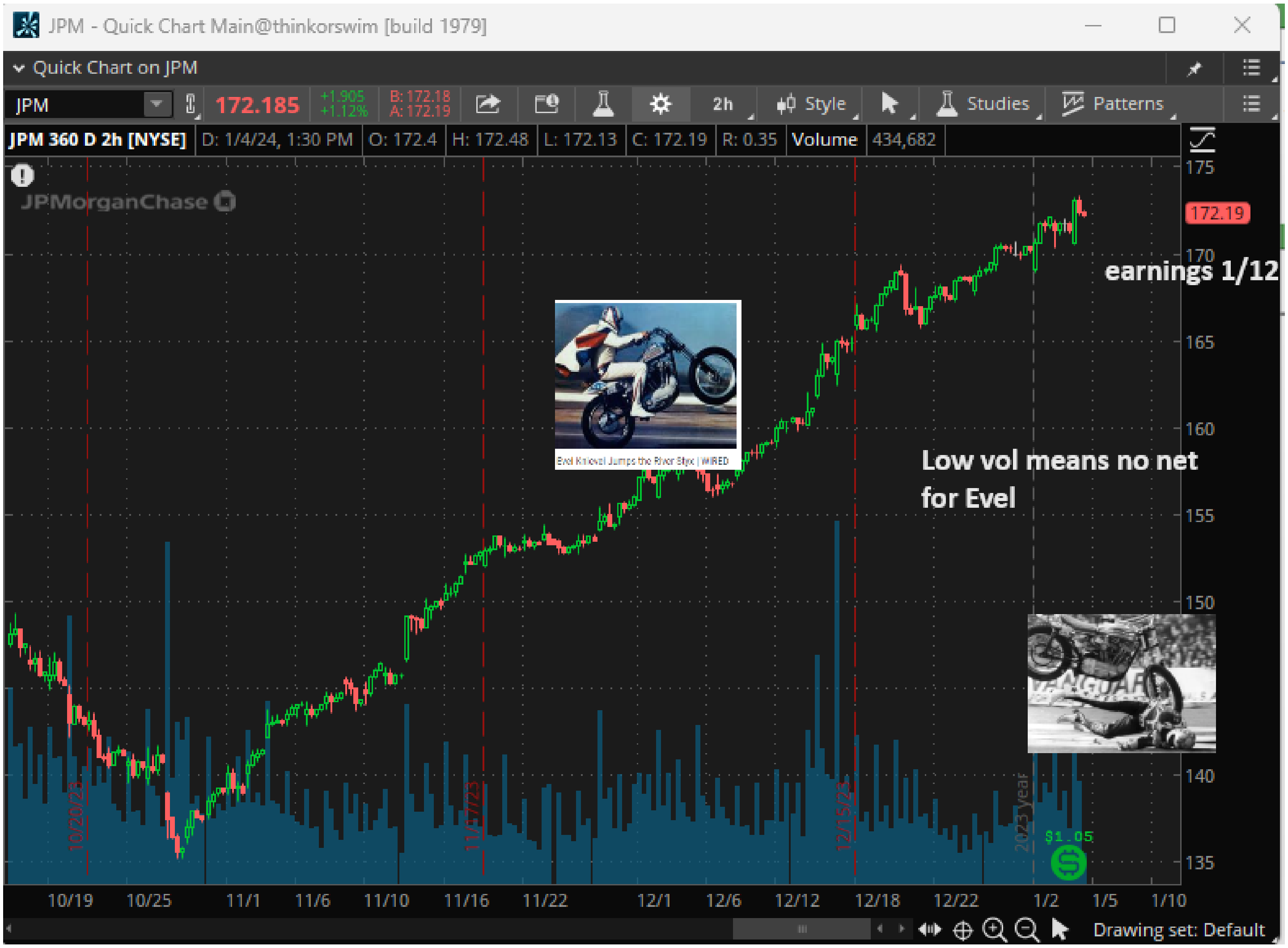


Volatility Trades:

JPM long Feb $170 put

Net debit: approximately $3

Have you noticed the trend here? It's ridiculous. I recently highlighted similar ramps in NKE and FDX that did not end well, and implied vol here is so low for earnings, it's like Evel Knievel is trying another ramp jump without a put vol net:



With earnings on a Friday, why bother paying that for one day when you can own 43 days for around the same price. The vol surface is so compressed so far out in time, you don't even need it to have a bad reaction on the release, you can wait weeks to see your premise work out.

But if it does react poorly, you can simply kill it then, or kill some then and leave a runner, lots of options when you're buying six-week puts for less 2% of spot near the money.

DFS long Feb $100 put

Net debit: approximately $1

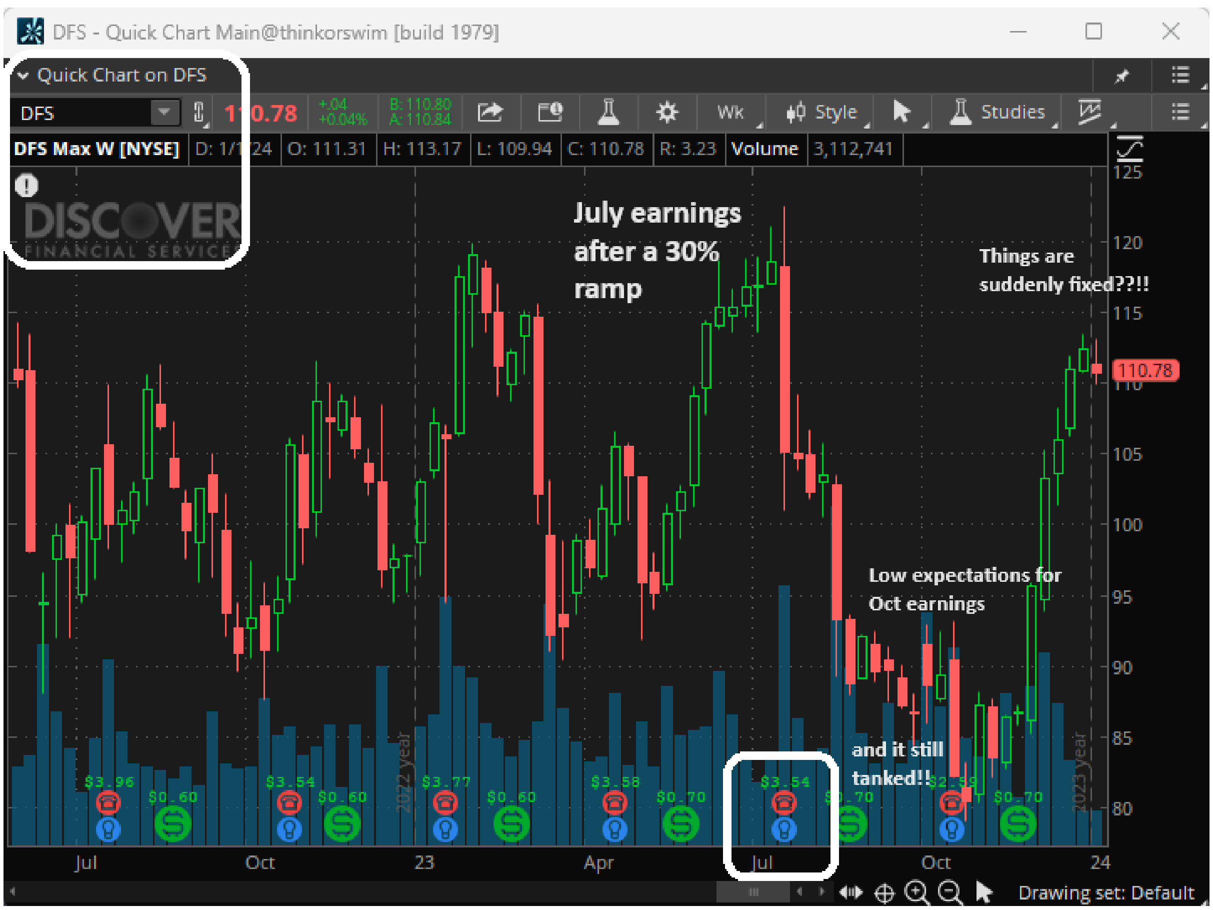
We looked at COF on Tuesday, this is another stock that has suddenly seen an amazing resurgence. On what, more debt at higher rates for stretched consumers? Makes perfect sense.

What really happened was probably that most of the short interest was purged into year end, as sentiment for the consumer is magically healed now:

https://www.marketbeat.com/instant-alerts/nyse-dfs-options-data-report-2023-12-31/

Folks were thinking about student loans in October and now, that's not a problem for some reason because consumers have just used their credit cards to fill the hole around the holidays.

In July, earnings were met with a crash in the stock, and when expectations were low for October earnings it tanked again, and then the magic rally, as if the Fed just decided to back this debt. Last time I checked, the Fed bails out the banks, not the credit card borrower:



And, this pattern of rallying/short covering into earnings with a poor result is pretty common with DFS:

Stock Price Performance - Last 12 Quarterly Earnings										
	Before Earnings (Not Including Day of Earnings)					Day of Earnings				
Date	2 Weeks	1 Week	3 Days	2 Days	1 Day	Earnings Move	Opening Gap	Open-to-High	Open-to-Low	Drift Open-to-Close
18-Oct-2023 AMC	+5.2%	+1.2%	+2.7%	+1.1%	-1.3%	-7.9%	-7.4%	+2.9%	-1.9%	-0.5%
19-Jul-2023 AMC	+4.8%	+2.3%	+2.8%	+1.2%	+0.1%	-15.9%	-12.6%	+0.4%	-5.1%	-3.8%
19-Apr-2023 AMC	+8.6%	+6.7%	+4.5%	+3.0%	+2.1%	-0.6%	-1.5%	+1.5%	-2.2%	+1.0%
18-Jan-2023 AMC	+1.1%	-4.4%	-3.5%	-4.5%	-2.9%	-0.4%	-5.8%	+5.9%	-2.1%	+5.7%
24-Oct-2022 AMC	+4.3%	+3.3%	+2.6%	+3.3%	+1.3%	+4.3%	-0.3%	+4.8%	-0.5%	+4.6%
20-Jul-2022 AMC	+12.4%	+10.2%	+5.6%	+4.3%	+0.9%	-8.9%	-8.0%	+2.2%	-2.6%	-1.0%
27-Apr-2022 AMC	-5.0%	-9.9%	-4.8%	-5.0%	-2.2%	+8.4%	+9.3%	+1.7%	-5.8%	-0.8%
19-Jan-2022 AMC	-1.8%	-7.3%	-8.4%	-7.1%	-4.2%	-1.4%	+0.9%	+1.2%	-3.0%	-2.3%
20-Oct-2021 AMC	+5.1%	+8.1%	+2.9%	+2.3%	+1.4%	-6.1%	-0.4%	+0.7%	-6.8%	-5.8%
21-Jul-2021 AMC	+6.1%	+2.1%	+4.3%	+7.6%	+3.5%	-1.3%	-0.4%	+0.6%	-3.9%	-0.8%
21-Apr-2021 AMC	-0.4%	-2.9%	-3.8%	-2.2%	+1.7%	+1.1%	+0.8%	+2.4%	-1.3%	+0.4%
20-Apr-2021 AMC	-2.1%	-3.0%	-5.1%	-5.4%	-3.8%	+1.7%	-0.8%	+2.5%	-1.2%	+2.5%
Simple Average Returns - Last 12 Earnings										
Avg Return	**+3.2%**	**+0.5%**	**0.0%**	**-0.1%**	**-0.3%**	**-2.3%**	**-2.2%**	**+2.2%**	**-3.0%**	**-0.1%**

So, $1 and 43 days with earnings in the window is a pretty cheap way of seeing how things might go this time around.

As for NFP and 0DTE, if there is a down open post the number, that would probably be a feast for short vol put sellers and 0DTE call buyers.

On Tuesday, I will examine CPI vol (nobody cares anymore, so markets vulnerable to a surprise/move) and DIA vol for UNH and JPM earnings, which are a big chunk of DIA, and of course, DIA vol is in the gutter while UNH has the largest influence in the index.

ROTATION HOPES MAY GET DASHED – EARNINGS IMPLIED VOL OFFERS SCREAMING BARGAINS

VOLATILITY SUMMARY

Portfolio managers got what they wanted for Christmas; stockings chock full of statements showing assets with inflated valuations. How quaint, December 31st mission accomplished and fees incoming. But, if there is one thing we've learned over the last several years, it's that the market doesn't care about valuations, that was a feature of old-timey markets, when assets didn't reside in differing neighborhoods of perma-bubble cul-de-sacs.

The tsunami of everything rising on soft-landing expectations (no need to call them hopes, that has been replaced with expectations at this point...) is going to make getting the typical 30-60% in QQQ a tad more challenging. And rotating into other things like 'value' (cough), it's not like that stillborn theme delivered in 2022.

Today the Dow/DIA is out of the gate much stronger than tech as QQQ/TQQQ/FNGU/SOXL, its components and associated leap calls see tax sellers. The market's irony/comedy here is in a scenario playing out all over the tech LEAP call universe today. Suppose you were really smart and bought January 400 QQQ calls in October and were just trying to get to the new year to avoid tax until 2025:

It’s like the short-term tax rate was just taken out of that call as we flipped the calendar, how cruel. And you know that from here on out, a lot of folks will most certainly be looking for Friday’s prices in this stuff in the hopes they get that back, which equals sellers above and that equals dealer hedges coming off.

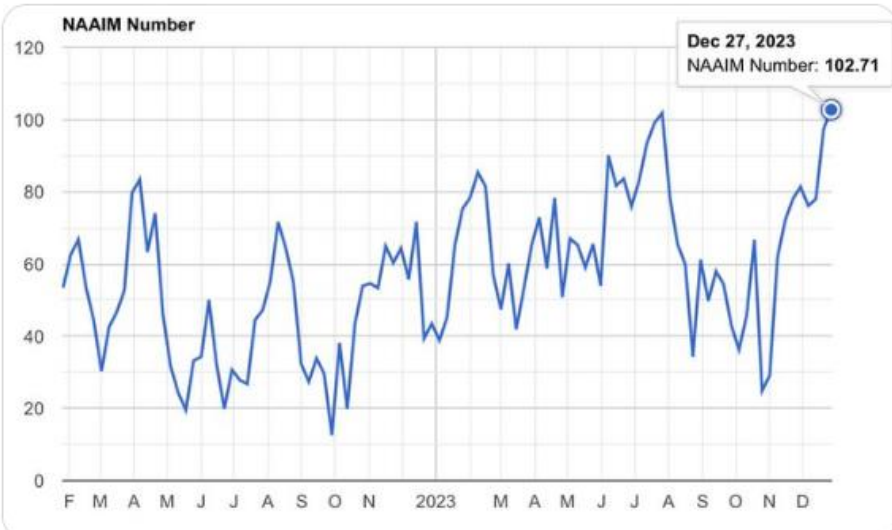
Beyond the tax situation, all types of sellers could come from a slew of places at this point if sentiment worsens, NAAIM sentiment is in rarified air:

tom 🖍️
@tomthetrader1

Highest NAAIM reading for the year— in fact highest since November 2021.

Elevated exposure among active fund managers combined with a greed dominant environment has preceded all of the meaningful declines throughout the past 2+ years

Easy to get lost here in the euphoria



Regarding the Dow, this relative strength is the same thing that occurred at the outset of 2022 as folks mistakenly imagined the 'value' canard would work as an investment theme that year, oh the folly of that, they sold tech and bought value and got double burned as value stunk and tech subsequently did what tech almost always does; brush it off and go on to post another ridiculous year that was high even for its lofty standards of return history, regardless of its 'valuation'.

Here is how the early 2022 Dow strength, rotation worked out:

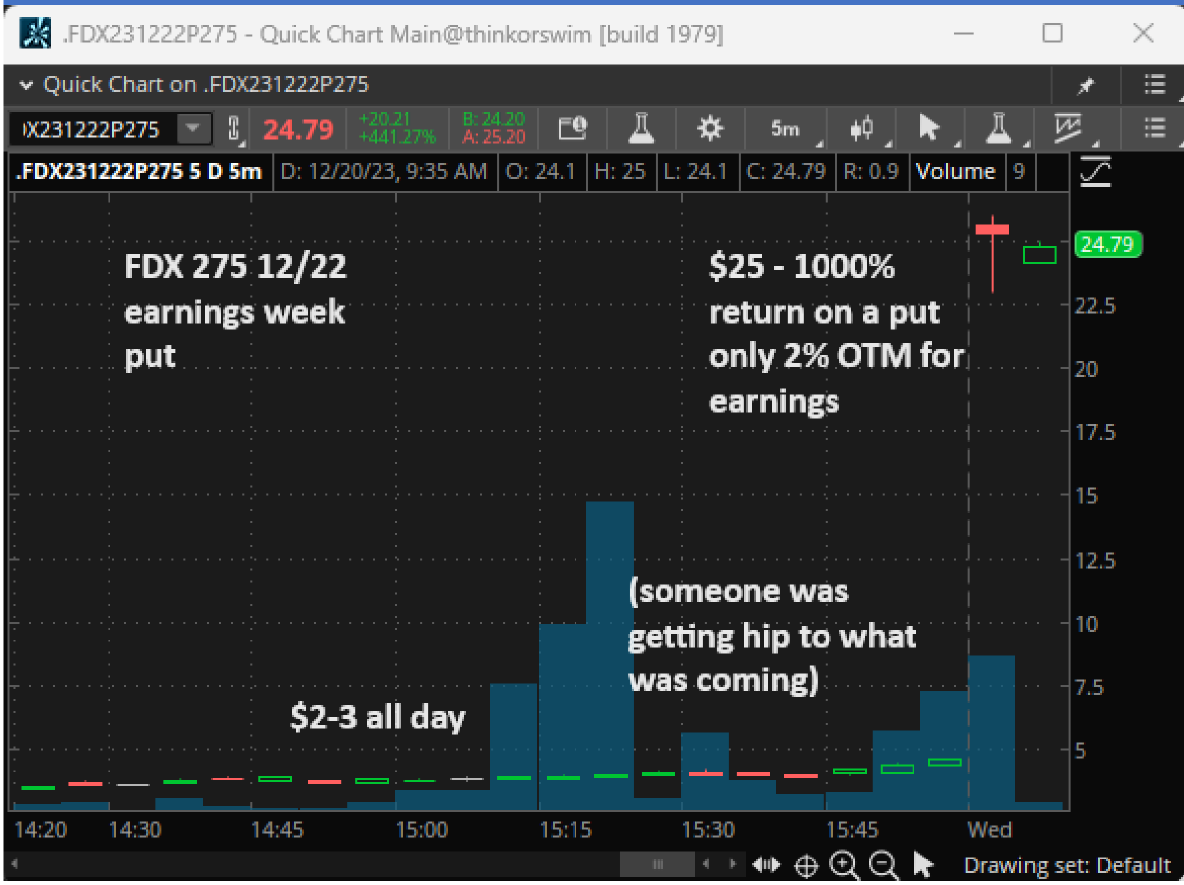
The year-end notes I perused over the weekend just made me shake my head, smelly garbage like CAPE ratios wafting as analyst takes. I've been hearing CAPE ratio warnings for a decade; it's a joke and it doesn't matter. People that are bearish on CAPE, valuations and other of your grandfather's CFA (church of finance) metrics (ERP) have been so burned for so long now, that they should at this point be ignoring that refuse and have other and better reasons to expect more challenged markets/stocks. Like, as a great example, the decimation of implied vol/herd crowding of short vol/lack of hedging perhaps?

And that is today's trading topic, as we look to earnings season. Vol has been annihilated not only in the indices, but in individual stocks. And just like these vol sellers act with little regard for event risk vol, they don't seem to have much respect for earnings vol either. If they are going to crush Fed meeting vol before the meeting (a regularity now which makes the event oodles more risky, and exacerbating the actual move on the event), these consistent and regular vol selling strats/dispersion trades are making earnings vol far too cheap.

Firstly, recall this excerpt from my December 21st note:

Another reason why I expect more vol next year (outside of this vol structure) was seen in FDX earnings yesterday. A lot of stocks have already priced in promises they won't be able to keep:

When will the markets remember that all-time highs/52-week highs in stocks then requires more good news? Another vol topic I will tackle as we get nearer is vol dispersion trading, where individual vol in the names are sold versus the indices vol or vice versa. One can easily make the case that implied vol in the stocks for earnings is already oversold, one we can look right to FDX puts as one example:



FDX was $280 before earnings and the $275 put was only 2.50 after a giant rally in the stock. Why? I can't imagine that stocks/indices will waltz into earnings with these opportunities available, but if so, January is going to be quite an interesting month. A lot of these every day up and buy the trend stocks at the open behavior is going to end up resulting in FDX situations.

Now consider what happened right after that when Nike reported earnings:

Coincidence? Or perhaps a how lot of the endless year-end ramps will meet the cold hard reality of earnings season?

Volatility Trades:

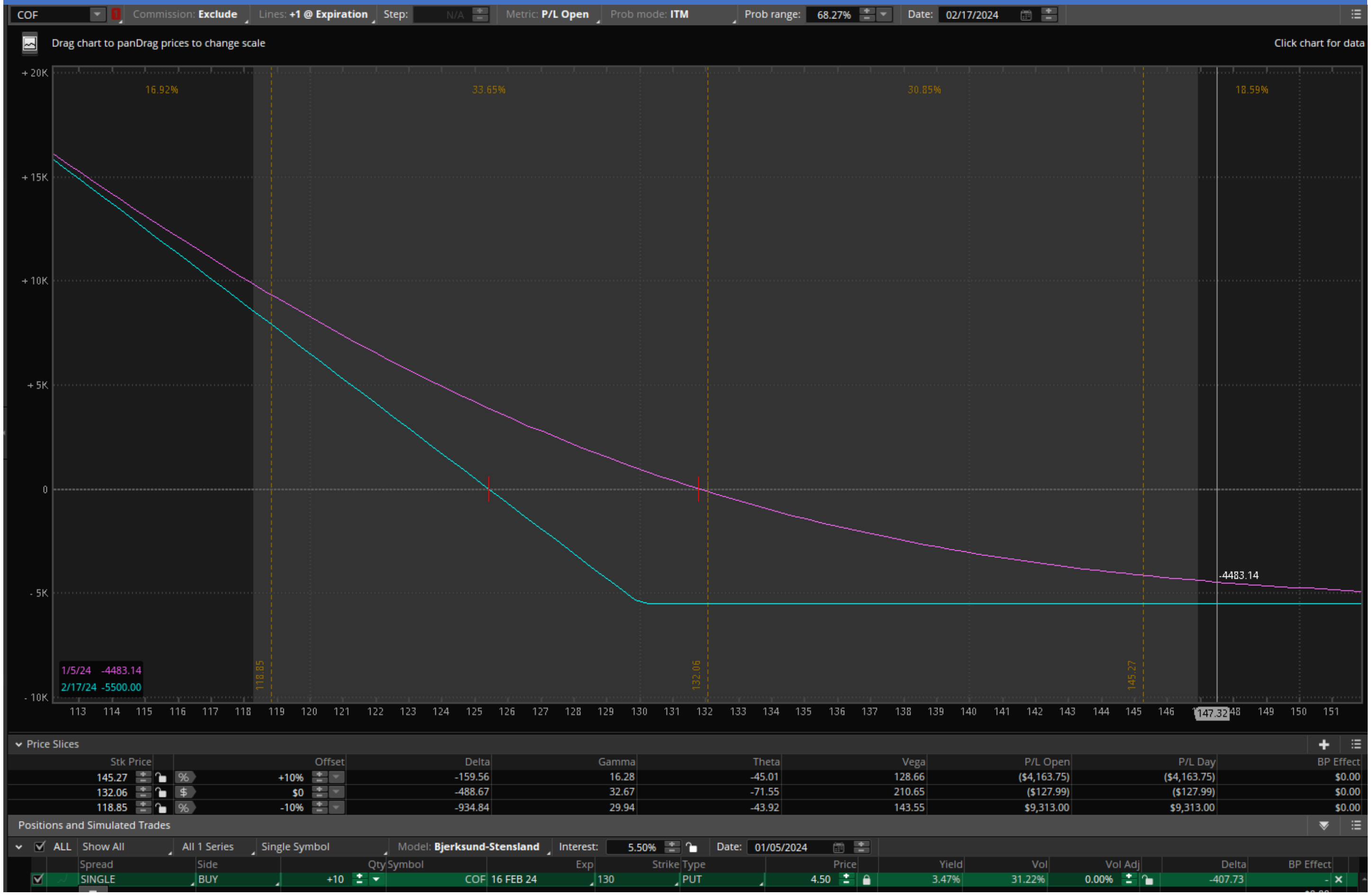
DIA Feb long put vol:

$375 put - net debit: $3.75-4.25

Vol is cheap, this is 45 days out, holds the vol of almost all Dow stocks earnings events in the window and the cost is a mere 1% of spot near the money. You can use dips to sell nearer term weekly options against it over and over again if you wanted to go that route as well. Would be surprising to end up with this longer dated put for free.

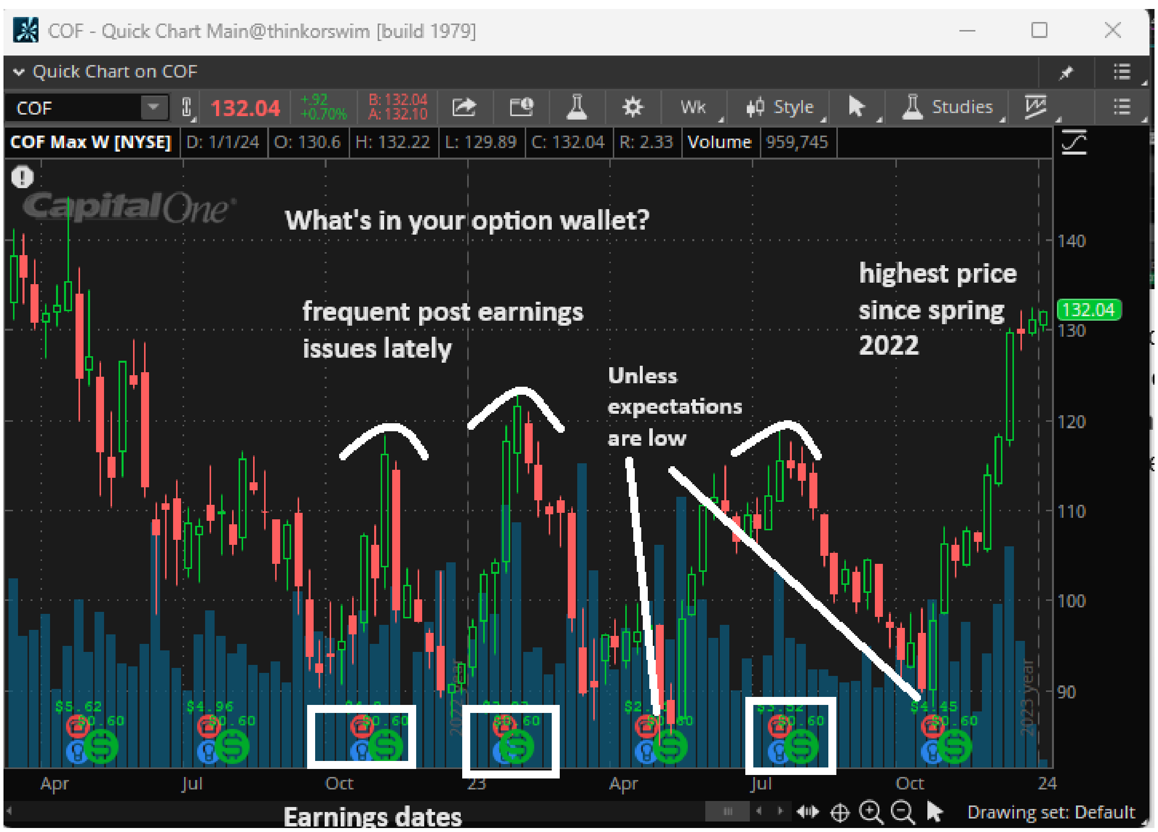
COF long post earnings put:

$130 Feb put – net debit : $4.50



45 days to expiration and earnings in the window for only 3.5% of spot at the money. Apparently, credit card stocks haven’t heard of surging credit card/pay later debt and spiking delinquencies. Why would a credit card stock care about that, it’s up 45% from the October lows, it’s clearly not forecasting a soft landing, it’s not even forecasting a no landing, it’s forecasting a takeoff in the economy because it has rocketed higher:

But, it has a nasty habit of crushing high expectations after it has rewarded low earnings expectations; it has earnings schizophrenia:



And you can sell weekly puts on dips against this as well.

Keep an eye on the Fed minutes and on cheap options for Wednesday afternoon, possibly an excellent 0DTE opportunity.

VOLATILITY ANALYTICS NEWSLETTER – JANUARY 25TH

BUBBLE STOCKS AND BONDS BEAT DOWN BEARISHNESS – THE MARKET AS A GIANT RISK REVERSAL – FLOWS TO SHORT VOL AND 0DTE BALLOON – TRADES FOR THE RETURN OF VOLATILITY

VOLATILITY SUMMARY

VA Newsletter – Dec. 19th

And it's not like this market behavior is going to stop anytime soon. If you walk to the mailbox and there's $100 in it every morning, you'd be crazy to not go check the mail. So, strats that are selling puts every day, who's going to tell them to stop collecting premium? They are now selling the open, and then selling more when the markets go higher on the same day; they are doing rounds of rolling up short puts.

If you are leaving home for a couple weeks, can you leave ten pounds of steak in a bowl and expect your dog to portion control? Obviously, he's going to eat it all as fast as possible. Is this how the markets have behaved the last two months, gobbling up all the returns for 2024 in bonds, tech stocks, meme stocks, gold, crypto, etc?

Certainly seems like it. Everyone thought the tech bubble was over last year; giga tech decided to make a mockery of that idea having the best year since the last great tech bubble. Referring to which, things are different now. Who was the donkey that invented the tripe that it's not ok to say that things are different? The entire structure of markets is totally different today than it was then.

Speaking of which, market participants continue to have a dog-like voracious appetite for more 0DTE steak:

Wall Street Quants Warm Up to Zero-Day Options Amid Trading Boom

- Banks such as Citi, JPMorgan adding 0DTEs in systematic trades
- Adoption shows rising popularity of a controversial product

https://www.bloomberg.com/news/articles/2023-12-27/wall-street-quants-warm-up-to-zero-day-options-amid-trading-boom?srnd=null&sref=1zxv5xkq

There is a lot to chew on in this article, they begin again by laying out how much 'safer' it is to sell vol now than before:

> The flurry of new products are expanding the list of use cases while potentially diluting concerns that 0DTEs' proliferation threatens market stability and risks reprising past disasters such as the 2018 Volmageddon episode. As trading flows spread out, the peril of a one-sided market is lessened, has argued by Cboe Global Markets Inc., the exchange at the center of the trading boom.

They discuss how there is a host of differing genres of 'investors' gravitating to short vol strategies:

> The deep pool of liquidity has lured users of all kinds, from market makers that flock to zero-day options to balance books to exchange-traded funds that sell them for premium income. Now, evidence is building that model-driven shops are capitalizing on the craze, too.

They discuss how 0DTE is expanding into other countries and asset classes:

> The zero-day game has shown no signs of abating, entering Europe and spilling into other assets in recent months. For quants, the race to roll out 0DTE-linked trades is likely just starting, said Citi's Cancelli.
>
> "In any new markets, people want to see performance for a few months or a few years" before fully embracing them, he said. "We're still in an early stage of competition."

And so, the markets are becoming one giant carry trade, a big chunk of which is a huge daily risk reversal, short-term puts sold short and calls bought. What can go wrong with a structure that sees dealers hedge long when folks are short puts, and dealers hedge long when folks are long calls? In all kinds of assets in a global push to short more vol?

The article does hint at the issues; here is the head of quantitative investment strategies at BNP with a comment on what happens when the market experiences a rare down day:

The challenge, he says, is closely monitoring positions and being nimble when the tide turns.

"We need to manage the position intraday. So it's not only income generation with 0DTE by saying, 'in the morning I will sell puts and OK, it's my income.'" Folleas said. "You may have to buy back the position if the market reverses."

Oh, really now. So, what happens as we race to a time when everybody is short every kind of volatility in every kind of asset, and when that gets too cheap they then start selling (they already have, don't kid yourself, look at the vol surface) vol 2-5 days out and next week and next month's vol in all assets under the sun?

Well, there are probably going to be more days like last Wednesday, vol shocks out of nowhere in the afternoon, for a start. And, what if the trend changes? I know it's already hard to imagine a short-term downtrend, but if you recall, late September and October weren't in any way kind to markets in the afternoons; 1pm was the time when trend 0DTE strats were adding puts in the afternoon that kept pushing the market lower. Right now, the trend is up, so 0DTE is the force for good but it doesn't have to be that way. Here's a reminder of 0DTE gone bad, the dark side of the force:

And then there will be the day when news hits, and I don't mean the kind of news that causes a Groundhog Day spike almost every time it's released. I mean like, something unexpected, the unknown/unknown news type. There will be a lot of folks stuck in horrible short positions that juice an immediate spike implied vol, and you have the vol vortex situation where it rapidly feeds on itself. As this carry continues to grow, the risks will continue to grow regardless of what the biased CBOE says about how it's not that dangerous while they rake in more and more cash.

In the meantime, the great all assets crash-up is probably winding down and a bit of reality may be finally coming to markets as the year turns. Simply because all those profitable LEAP calls and giga tech/A.I./meme stocks and 3x long ETFs that have giant gains, well it's a new tax year.

It wasn't long ago, in late 2021, when we approached the end of the year after surging to all-time highs during a huge year in giga tech. (Cathie Wood is around making noise all the time now, if that isn't a clue that things are bordering on ludicrous..) Here is how that played out in early January 2022:

What got the ball rolling in early 2022, besides all the long positioning in tech and leap calls? It was the Fed minutes on Wednesday January 5th. Since the Fed is a running joke now, and markets know better that eight or more cuts are most certainly coming, might those minutes surprise the market? On a Wednesday no less, the only day of the week that markets are occasionally allowed to actually trade down in the new short-vol risk/reversal dominated market?

Potentially. And, to make this vol idea even more interesting, vis a vis this Wednesday and the Wednesday only down day oddity, there is also something interesting going on in the vol surface regarding Wednesdays. You can pair up short Wednesday with long Thursday vol in calendar spreads for cheaper than any other one-day pairs of the week:

SPX put calendar spreads - one day wide

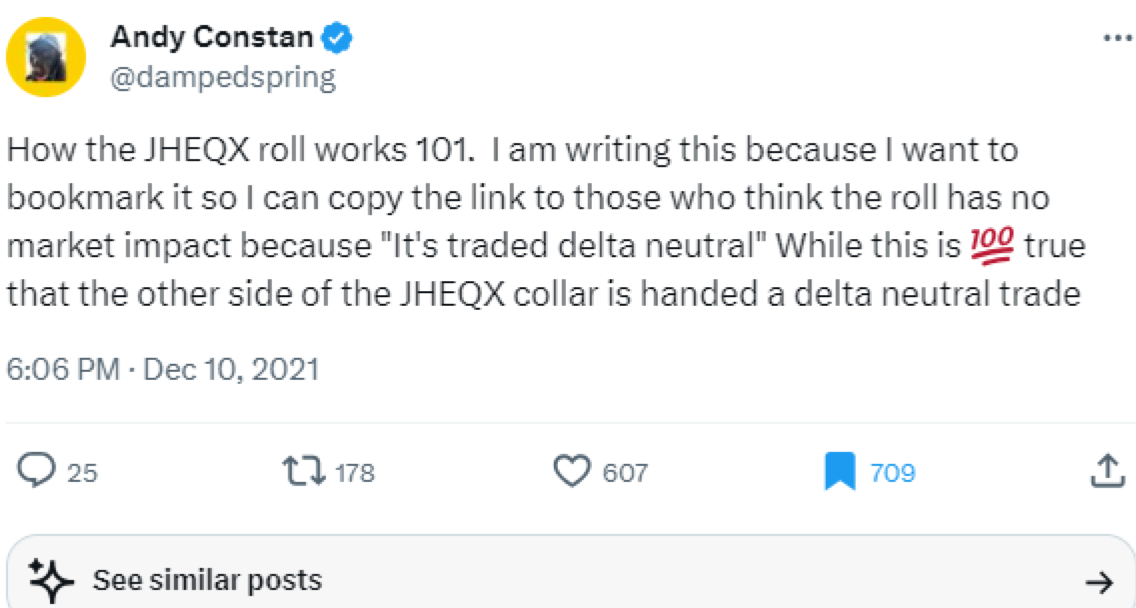
Fri/Mon											12.84% (±27.457)
4770 / 4770	3.60	4.00	3.800	3.90	.85	+27.87%	9.74%	-.05	.00	316	474
4775 / 4775	4.00	4.30	4.150	[illegible]	[illegible]	[illegible]	9.63%	-.04	.00	436	567
4780 / 4780	4.20	4.50	4.350	4.40	1.23	+38.80%	9.48%	-.02	.00	394	491
4785 / 4785	4.30	4.70	[illegible]	4.10	-5.17	-55.77%	9.40%	.00	.00	562	184
4790 / 4790	4.40	4.70	4.550	5.70	-4.94	-46.43%	9.30%	.02	.00	821	247
4795 / 4795	4.30	4.70	[illegible]	4.60	-6.89	-59.97%	9.25%	.04	.00	222	137
4800 / 4800	4.10	4.50	4.300	6.08	3.58	+143.2...	9.19%	.07	.00	471	2,259
4805 / 4805	3.80	4.40	4.100	3.20	-3.26	-50.46%	9.13%	.09	.00	150	264
Mon/Tue											8.49% (±38.522)
4770 / 4770	2.90	3.30	3.100	3.45	.90	+35.29%	8.33%	-.03	.00	74	385
4775 / 4775	3.00	3.40	3.200	4.00	1.65	+70.21%	8.30%	-.02	.00	50	267
4780 / 4780	3.10	3.50	3.300	5.50	2.27	+70.28%	8.23%	-.02	.00	17	422
4785 / 4785	3.20	3.60	[illegible]	3.90	6.37	-257.8...	8.20%	-.01	.00	63	184
4790 / 4790	3.20	3.60	3.400	2.93	7.13	-169.7...	8.16%	.00	.00	103	87
4795 / 4795	3.10	3.50	[illegible]	3.28	8.37	-164.4...	8.14%	.01	.00	139	78
4800 / 4800	3.10	3.50	3.300	1.72	-1.88	-52.22%	8.13%	.01	.00	471	2,259
4805 / 4805	2.90	3.40	3.150	5.10	-.04	-0.78%	8.13%	.02	.00	32	101
Wed/Thu											9.33% (±46.267)
4770 / 4770	2.00	2.50	2.250	2.55	-4.60	-64.34%	8.96%	-.01	.00	73	193
4775 / 4775	2.10	2.50	2.300	2.00	-.69	-25.65%	8.91%	-.01	.00	50	267
4780 / 4780	2.10	2.60	2.350	1.20	-5.80	-82.86%	8.85%	-.01	.00	17	348
4785 / 4785	2.00	2.50	[illegible]	[illegible]	-4.36	-58.84%	8.81%	.00	.00	47	198
4790 / 4790	2.00	2.50	2.250	[illegible]	???????	[illegible]	8.76%	.00	.00	103	87
4795 / 4795	2.00	2.50	[illegible]	[illegible]	-7.10	-77.01%	8.72%	.00	.00	63	61
4800 / 4800	1.80	2.30	2.050	3.10	-3.60	-53.73%	8.70%	.01	.00	56	609
4805 / 4805	1.70	2.20	1.950	1.33	-3.47	-72.29%	8.68%	.01	.00	32	48
Thu/Fri											10.16% (±54.331)
4770 / 4770	3.70	4.20	3.950	3.18	4.53	-335.5...	9.66%	-.02	.00	73	193
4775 / 4775	3.80	4.20	4.000	3.40	-.64	-15.84%	9.61%	-.02	.00	110	844
4780 / 4780	3.80	4.30	4.050	3.67	4.77	-433.6...	9.55%	-.01	.00	21	309
4785 / 4785	3.90	4.40	[illegible]	3.35	5.07	-294.7...	9.49%	-.01	.00	47	93
4790 / 4790	3.90	4.40	4.150	2.76	-5.76	-67.61%	9.44%	.00	.00	144	249
4795 / 4795	3.90	4.40	[illegible]	4.53	3.15	+228.2...	9.41%	.00	.00	63	61
4800 / 4800	3.90	4.40	4.150	3.15	3.85	-550.0...	9.36%	.01	.00	56	609
4805 / 4805	3.80	4.30	4.050	3.77	3.27	+654.0...	9.32%	.01	.00	40	47

Why is this? I'm not sure, but I noticed it a couple weeks ago and was able to get a Wednesday/Thursday calendar put spread a week ahead of Wednesday expiration for only $1 at the money and less than that out of the money; it's certainly something to keep an eye on (trades below). If you are near the money to close, they will be worth $3-6/3-6 SPX points. If implied vol rises, even more.

And you can grab them above spot if you expect a grind up or a bounce and get these for next to nothing, as in almost no debit. The risk being that closing them on a real drop in the market (what?) will be a $2-3 debit.

Also, in the windshield is the infamous JPM (JHEQX) collar, now a hilarious -$1.1 billion of short SPX calls that need to be rolled out to 5100 or something like that. For a great explanation on how they will wriggle out of this without disrupting/spiking an illiquid market with giant S&P futures orders, see Andy Constan's thread, written in December 2021, when markets as mentioned above were at all-time highs and this collar was similarly deep in the money:

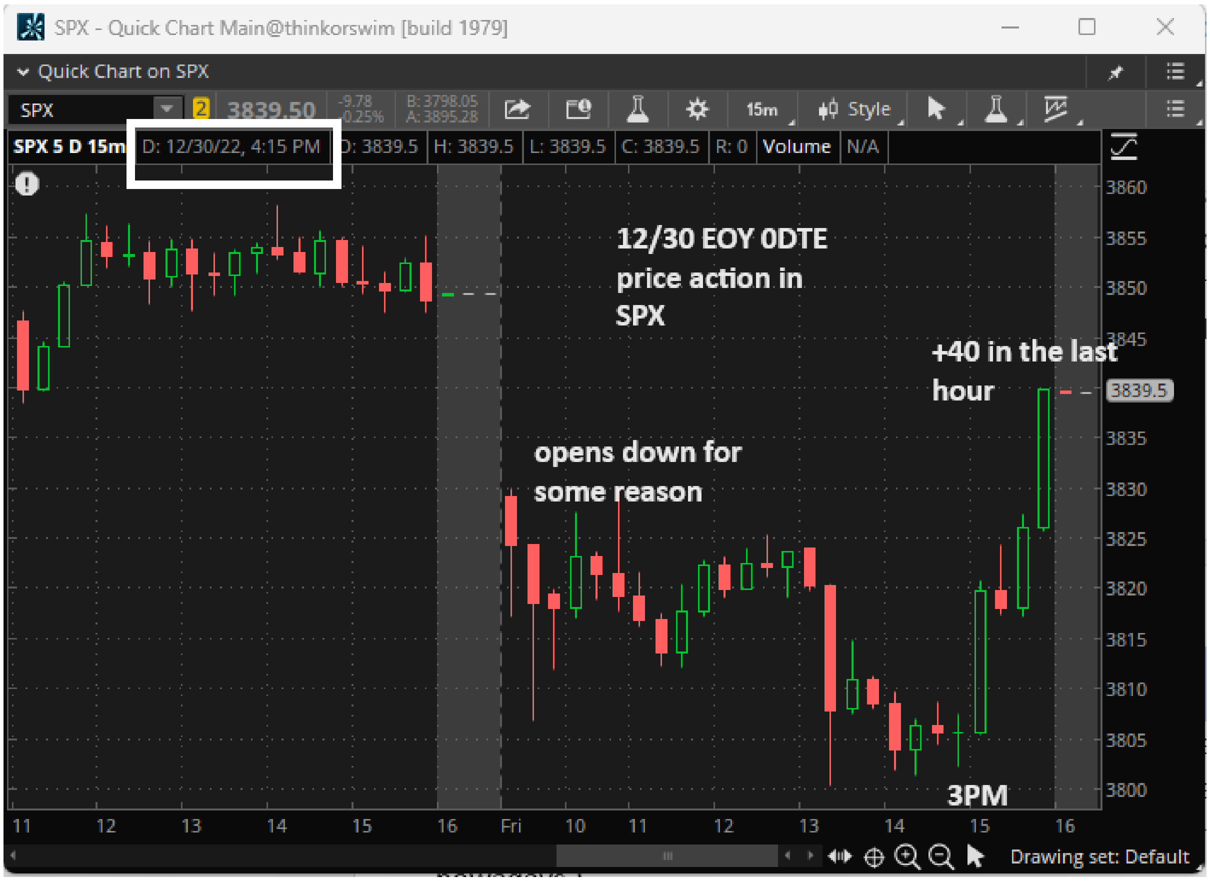
https://x.com/dampedspring/status/1469443456581918724?s=20



The gist of this is that dealers are short a lot of futures that are delta hedging the calls they are long from the JPM call sale to them, and they need to buy to close that hedge as this is rolled out. The ingenious solution is that JPM sells the dealers a one-day 0DTE call, so that the dealers can call away the futures they need to exit post-roll. How does JPM get those futures to hand over? Read this fascinating thread, quite educational. (Hint, JPM will be buying them during the day.)

And now, there's the topic of end of year/quarter shenanigans, and with 0DTE mechanics/quant strats/traders/yolos and more being such a factor, this could be downright comical tomorrow. (There is a lot of humor in markets these days, isn't there? Fincom is quite the thing nowadays.)

Last year, SPX was actually down over 1% on the last day of the year, but you can imagine what 0DTE + their window dressing cohort was going to do with this:



And if you are bored with 0DTE already, how about 0-5 minutes to expiration trading? I mean, there are lotto fortunes being made, like during yesterday's amazing end of day/last minute spike that printed more homemade QE:

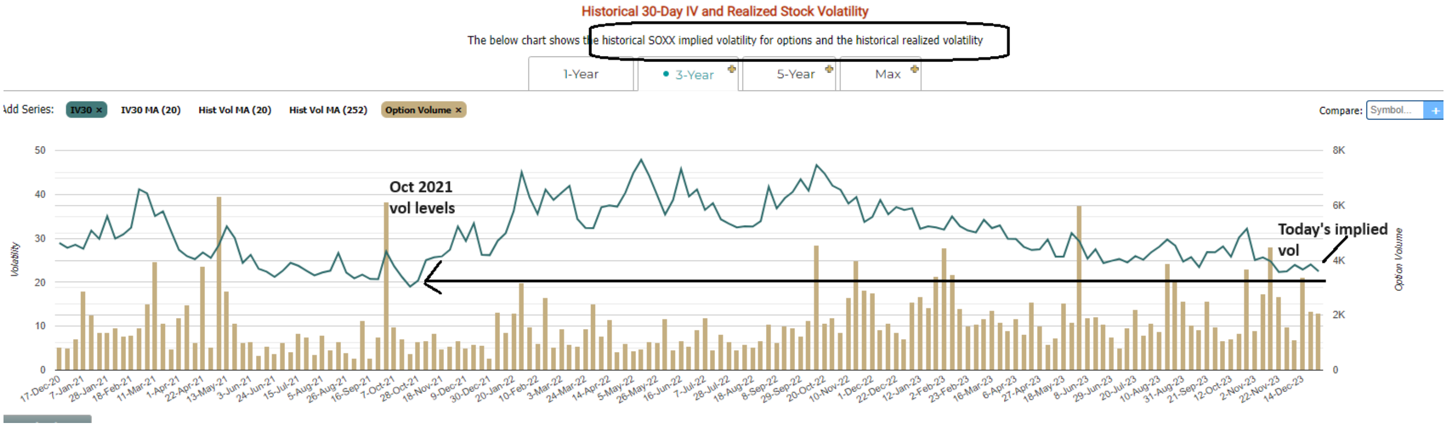
As they said in the article cited above regarding 0DTE, "This is only the beginning." Next year we might see the middle and the end, who knows? Things are changing quickly.

Volatility Trades:

Long SOXX Feb $550 put

Net debit: $8.

Do ya think vol is oversold? A 30% panic ramp meets implied volatility at levels from 2021:



A few tax sellers breathe on these stocks in January and this doubles in value; it was quoting $15-20 last Wednesday. If that happens again, you can sell January for more than you are paying for this getting a free calendar spread. Maybe even a credit. This ETF has far more holdings of recently parabolic AVGO than SMH, making it potentially more vulnerable.

And the back leg is a whopping 50 days out, which means it has all of the earnings season in the back leg. All of that for 1.5% of the underlying at a strike that spot price saw last week.

SPX/QQQ Jan 3rd/4th put calendar spreads

Sell Jan 3rd $4750/$405.78 put

Buy Jan 4th $4750/$405.78 put

Net debits: $1.85-2.00/.20-.23

As per commentary above, JOLTS/Fed minutes/Wednesday/Post-1st day of the month/year/tax sellers etc.

With dispersion vol trading yet another vol supply situation causing extremely low implied vol, we will start digging into extremely low earnings trades next week. Have a great new year.