VOLATILITY ANALYTICS NEWSLETTER – DECEMBER 12TH

EPIC VOL CRUSH GREETS FED MEETING – VOL FOR NEXT MONTH ALREADY IN RUINS – A FEW TRADE SCENARIOS FOR FED/POST-FED

VOLATILITY SUMMARY

I think this chart sums up how worried the market is about any 'push back' from the Fed chair tomorrow…:

The 9-day VIX, which I prefer as a measure of implied volatility since the vast majority of options volume is in the 0-2 day range now, suggests that nothing is going to occur this week in the form of a market move. Everyone is already snug in their beds awaiting the Santa rally to deliver more upside for Christmas.

And vol has been crushed so far out now, that even premium for the next Fed meeting is already nearly in tatters. A QQQ $390 put for January's opex, ***37 days away***, is only $3.80 or less than 1% of the underlying. Truly amazing. Either the market is wrong and short vol has taken things way too far or we are in for an extended period of nothing going on in the markets.

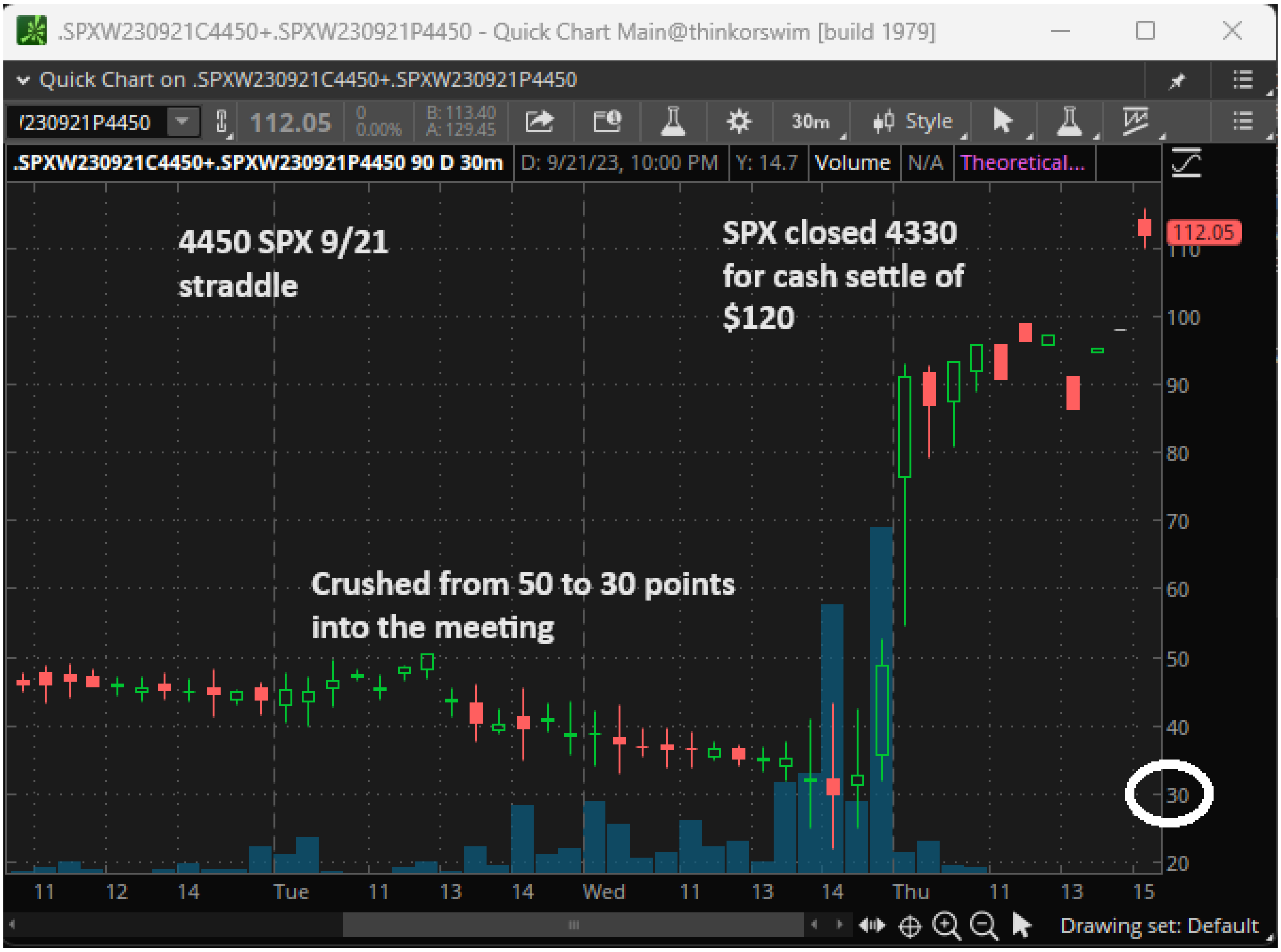
Speaking of QQQ, it performed quite the bullish magic trick yesterday, it was up when all the mag7 giga tech stocks were down:

QQQ	392.21	+0.01%	+.04	16.11%	1.039
AMZN	143.93	-2.37%	-3.49	20.86%	1.208
MSFT	367.22	-1.87%	-7.01	18.29%	0.512
AAPL	192.41	-1.69%	-3.30	15.71%	0.812
GOOGL	131.97	-2.24%	-3.02	20.59%	0.761
META	324.11	-2.60%	-8.64	20.18%	1.486
NVDA	466.8143	-1.74%	-8.2457	34.26%	0.654
TSLA	241.50	-0.96%	-2.34	45.87%	0.716
AMD	128.5214	-0.31%	-.3986	35.96%	0.481

Folks were rubbing their eyes in disbelief for a while, until it was discovered that the Nasdaq-100 is rebalancing the index next week to favor many of the other 93 stocks.

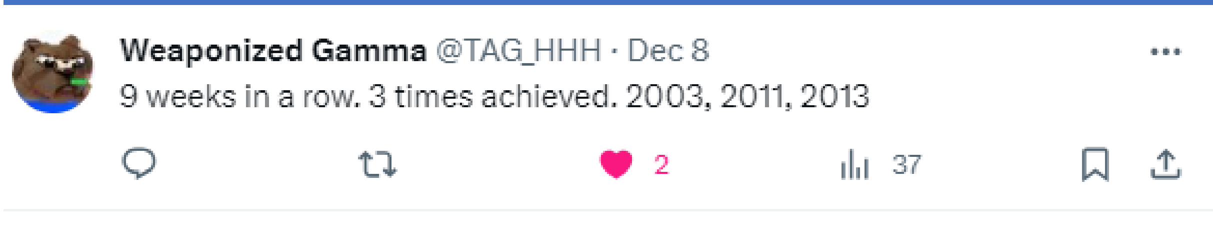
What it did though, was simply create what should have been an entirely predictable mag7 dip for folks to use buy quarterly opex call gamma, and as you can see, it most certainly worked out that way, using META as an example:

This vol crush is even more astounding when you consider that markets have dot plot shock amnesia, the likes of which sent the 9-day vix to 19 in September. A simple September 21st at the money straddle bought before the Fed meeting for 30 points turned into $120 the next day:



You know what the markets expect at this point. They have witnessed almost every data point on the economy that was released and every potential vol event result in an immediate spike higher. There hasn't been a -1% day since October obviously.

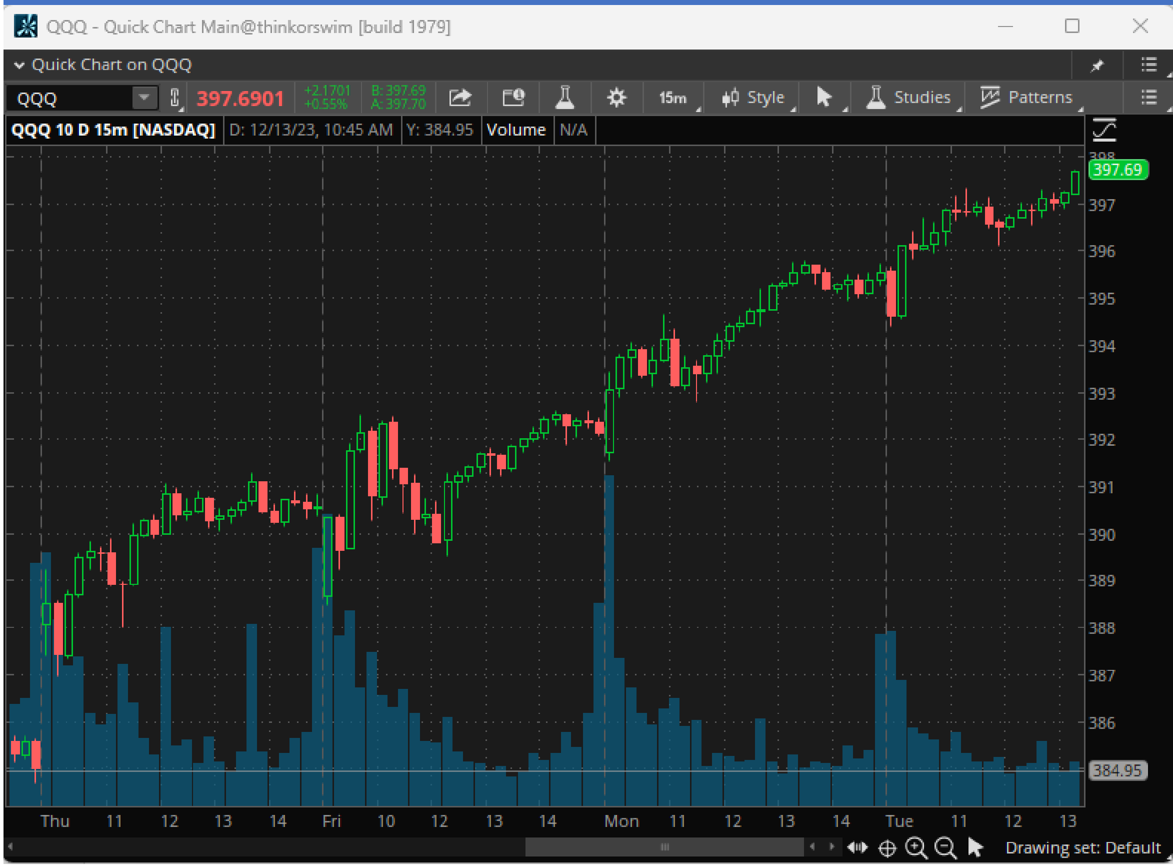
And folks continually think they are going to take the next dip and go long for the inevitable Santa rally even though we've been on a beeline higher for seven weeks now. The record for this decade was five, so we are in the process of destroying that. What is the all-time record for consecutive up weeks for the S&P 500? Since you were wondering:



So, ten weeks for the new all-time record of consecutive advancing weeks would put us on January 5th, the end of the defined Santa rally, how quaint.

If you look at how controlled stocks and the markets are by quarterly opex and this Fed event, look no further than a chart of MSFT this week. There is nothing, nothing but options at work on this, the pattern screams short vol/long call gamma:

And the crushing of event vol/quarterly vol, whatever scraps there is of it remaining has tethered QQQ into the ole 45-degree symmetrical tractor beam chart:



So, bluntly, here's the deal. Markets used to price in potential price movement due to an event/data release. ***Those days are over now with the proliferation of crowded short vol strategies***. ***Vol is now always oversold before the event***.

It's a whole new market paradigm, and why I think a volmageddon II is becoming inevitable. Short vol strats keep gaining funding, exploding in size over the last two years. Timing that is the difficult part. Until then, the asset bubbles will continue to grow.

Yet, for the here and now there is for the potential for volatility and an unclench between now and Monday. It's hard to imagine, especially seeing price action like the chart above. But it is the very excess helium balloon stability that breeds the potential for instability. It's my guess that any selling after the release tomorrow will be met with an up day into SPY ex-dividend Thursday, and then Friday might get very interesting. (see my charts from last week's letter).

Volatility Trades:

SPX opex/unclench put diagonal spread

Sell 4600 Friday SPX 4600 put

Buy 4595 Monday SPX 4595 put

Net debit: .40-.50

It's less than one half of one SPX point, set at where most of the open interest is for quarterly opex. Target, $3.

If markets rocket higher on Thursday, that would be a great opportunity to try extremely cheap Friday pm puts as well. Keep an eye on strangle/straddle prices, they might get so insanely low by noon tomorrow, that you get a great opportunity for long Thursday strangles for less than 15 points; the September straddle was far too low at 30 points. Upside vol is vol.

VOLATILITY ANALYTICS NEWSLETTER – DECEMBER 12TH

FED MEETING TO CLASH WITH CUT-TOPIA – LOW IMPLIED VOL MAKES LONG STRADDLE/STRANGLES ATTRACTIVE – TRADE FOR SPY EX-DIVIDEND/END OF QUARTER

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.

Exactly what we saw this week, false breakouts and magical recoveries.

Now, the main event, the Fed versus Cut-topia. (Trademark mine. Defined as the market Valhalla where assets live in their dream financial conditions even when rates in the real world are much harsher.)

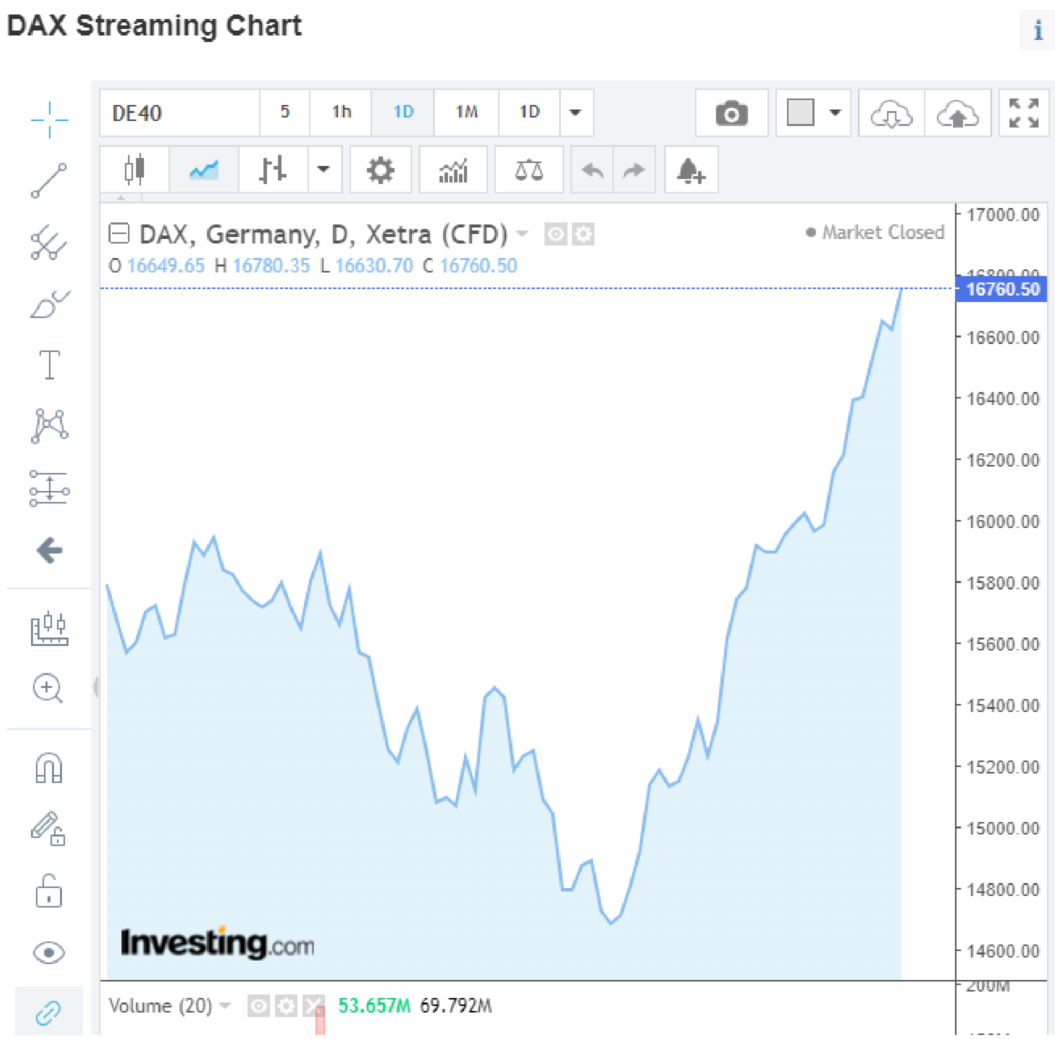
But consider this: how often does Jay don his Mr. Pushback mask, and will the market even care, considering that his last 'premature' was blown off faster than puts are smashed on a red tick. Even Bloomberg hosts are consistently making jokes that markets are 'laughing' at the Fed. And the headlines are in the same boat poking fun:

Markets

Bonds Up as Powell Pushback Lasts 'A Few Seconds': Markets Wrap

updated 22 minutes ago

Asset markets aren't just partying here, look at the German index, DAX. The chart looks like a meme stock going parabolic:



Global financial markets are embracing Cut-topia, and the ECB is now considered first to go since the economy there is worse off. Thus, the chart above, QE/rate cut FOMO-tastic.

https://www.reuters.com/markets/europe/goldman-sachs-sees-ecb-lowering-rates-by-25-bps-each-meeting-april-2023-12-07/

But, in lieu of more macro blather or sentiment/positioning charts that markets could care less about today, time to focus on the Fed meeting/quarterly opex/SPY ex-dividend implied vol, or rather the lack of it.

Even though this week was a chop zone to nowhere as expected, I still believe there will be significant volatility next week and there are plenty of ways to take advantage of it. (Friendly reminder; upside vol is vol, the long call crowd knows this all too well.)

Short term straddles/strangles

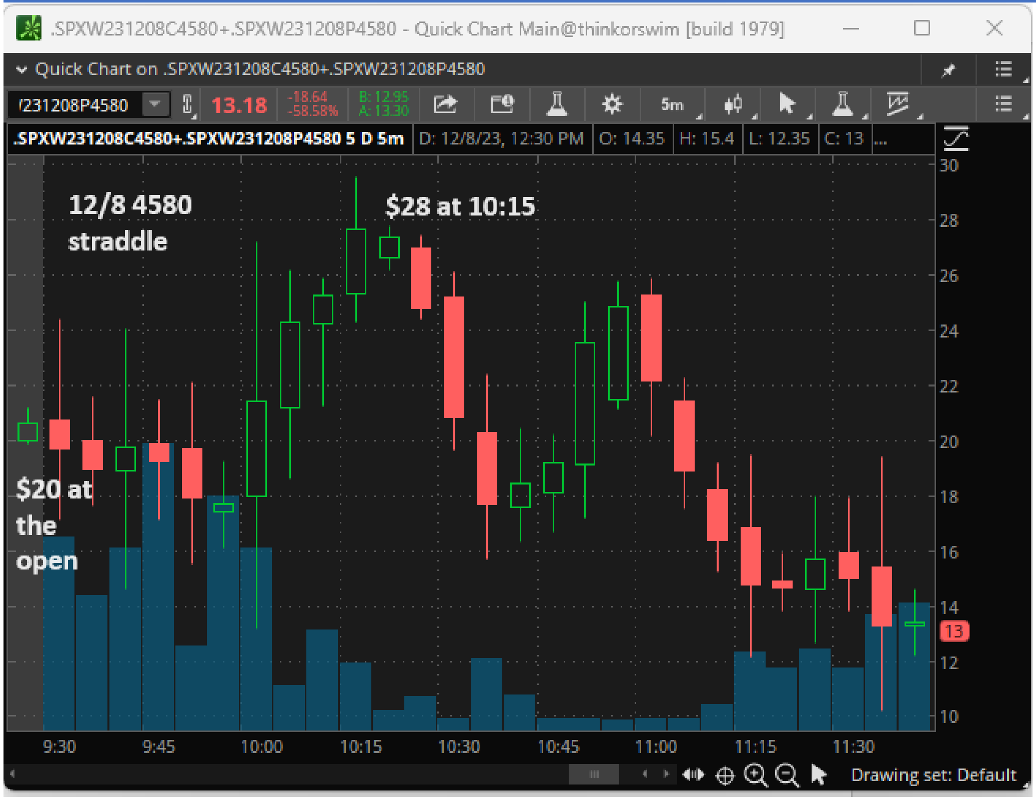
A theme here lately is that vol is often to be owned, instead of being sold as the proliferation of short-term short vol strats, extended positioning and herding concentration has made selling vol at very low prices incredibly risky.

In addition, intraday moves, implied vol and realized daily vol are not in agreement, and this is where the long strangle/straddle can really work especially in swings dictated by gamma and expiring options during a large quarterly expiration.

Here is a 30-minute chart of SPX lately, and notice the trend:

What is clear is that most days, from the open there is often going to be a 15-20 point move, and frequently when the short vol/call profit crowd shows up to fade that move a corresponding retracement. Today was a good example.

So, what if you bought a straddle today at the open? Let's examine how that performed:



You paid the equivalent of 20 points, and then in 45 minutes, the straddle is worth $28, which is a nice 40% return while you're having coffee, but what actually happened to each option? Here is the call chart:

Now, I know what you're thinking, should have just bought the call and taken the 150% return. Ok, that's fine, I'm sure folks are doing that under the auspices of Jay and his impending QE.

But, the benefit of this low implied vol strategy is that on a lot of days, you can sell the call and own a free put for a reversal or the forgotten concept of a down day from the open. And you don't have to choose which way it will go from 9:30 to 11am, you can just sell the side that works.

There will be a day when that free put turns into something big and you don't have to sweat when to close it, your funding for it is 'secured'.

Now consider an event like Fed day. The markets have been notorious lately for absolutely crushing vol before the event and in September it was a huge down day (as was Thursday) and vol came into the meeting at the same levels as now. Completely suppressed and was in progress of being crushed right into the meeting as usual:

So, my next note is going to be Tuesday afternoon, and I will explore looking at Fed meeting straddles/strangles. The above example is not to suggest that the market is going to sell off; it is merely to demonstrate that a big move either way can be harvested without caring if it's up or down due to suppressed vol.

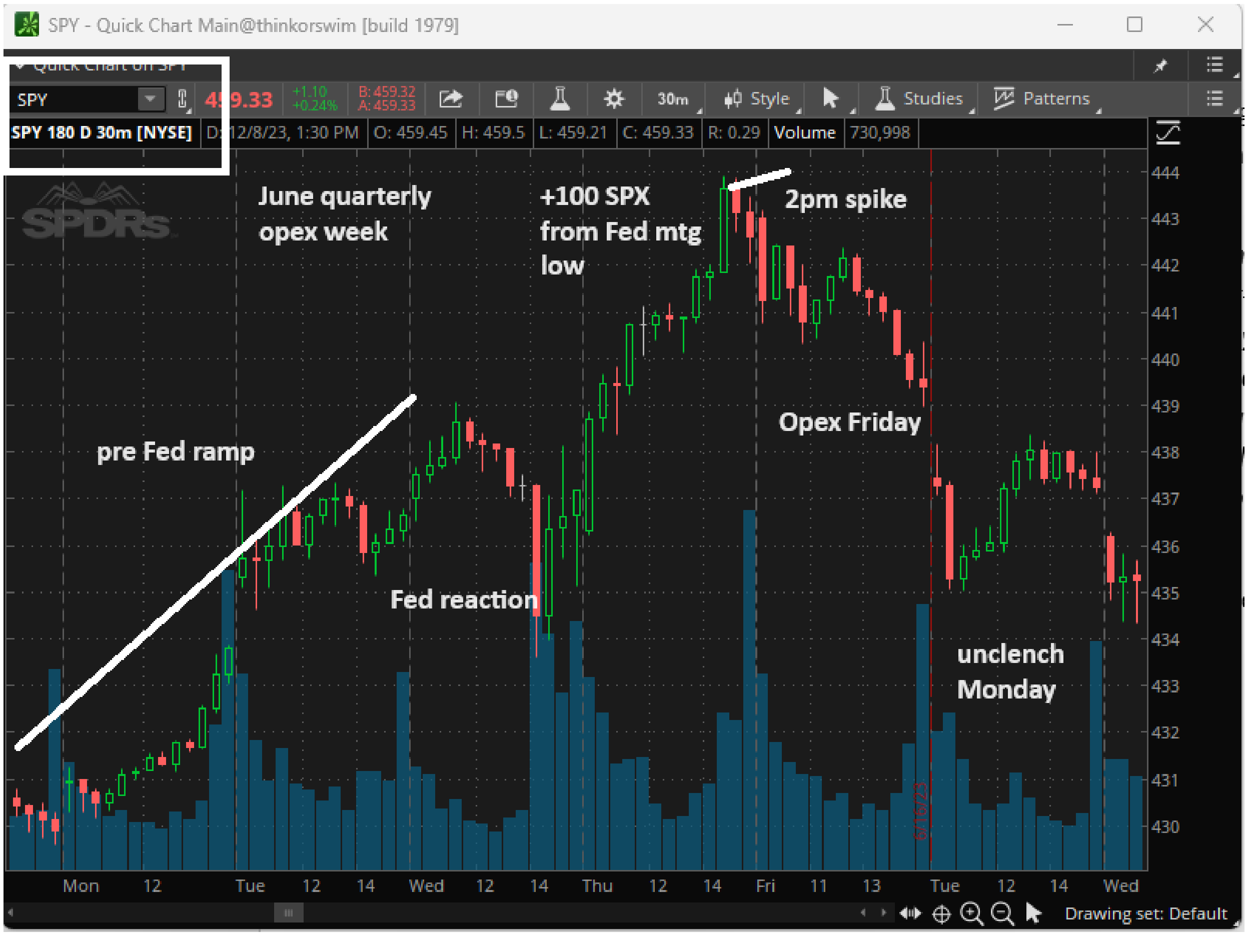
SPY Ex-dividend

This is a vol event in and of itself that no one seems to know about. What has been happening the last few quarters, is that the ex-dividend capture trade has spurred on huge call activity in SPY on the Thursday before SPY goes ex-div. Here are the comments I post on this every quarter about what transpires with div capture:

This is a unique situation and a trade I do every quarter. The premise is that the options in the back leg are priced low versus the Wednesday before because the ETF goes ex-dividend on Friday morning, and that is incorporated into prices in the back leg. But when you get there, there is demand for the Thursday and Friday calls due to folks attempting the dividend capture trade; people buy the calls, take SPY away from unsuspecting short call folks and collect the dividend, then dump the ETF on Friday morning. Quaint, eh? And if there is volatility during quarterly opex week, this trade could really balloon, and you're paying next to nothing for the opportunity.

The last few quarters this trade has been going bananas. Call volume has exploded and has been driving SPY/SPX through the roof on these Thursdays. Here is September, the Fed meeting wasn't during quarterly opex week:

And here was June, even more ridiculous post-Fed; it was a more benevolent seasonal time frame with the annual summer rally in motion:



So, if I know this pattern then the machines do and certainly a lot of folks as well. Now, last December was a different story, the market sold off post-Fed into quarterly opex, and I suppose that is possible, yet markets appear far too brazen to care a whit about what Jay is going to say, since his threats are empty at this point.

So, there is your set up for both a strangle/straddle play and a call calendar pair trade.

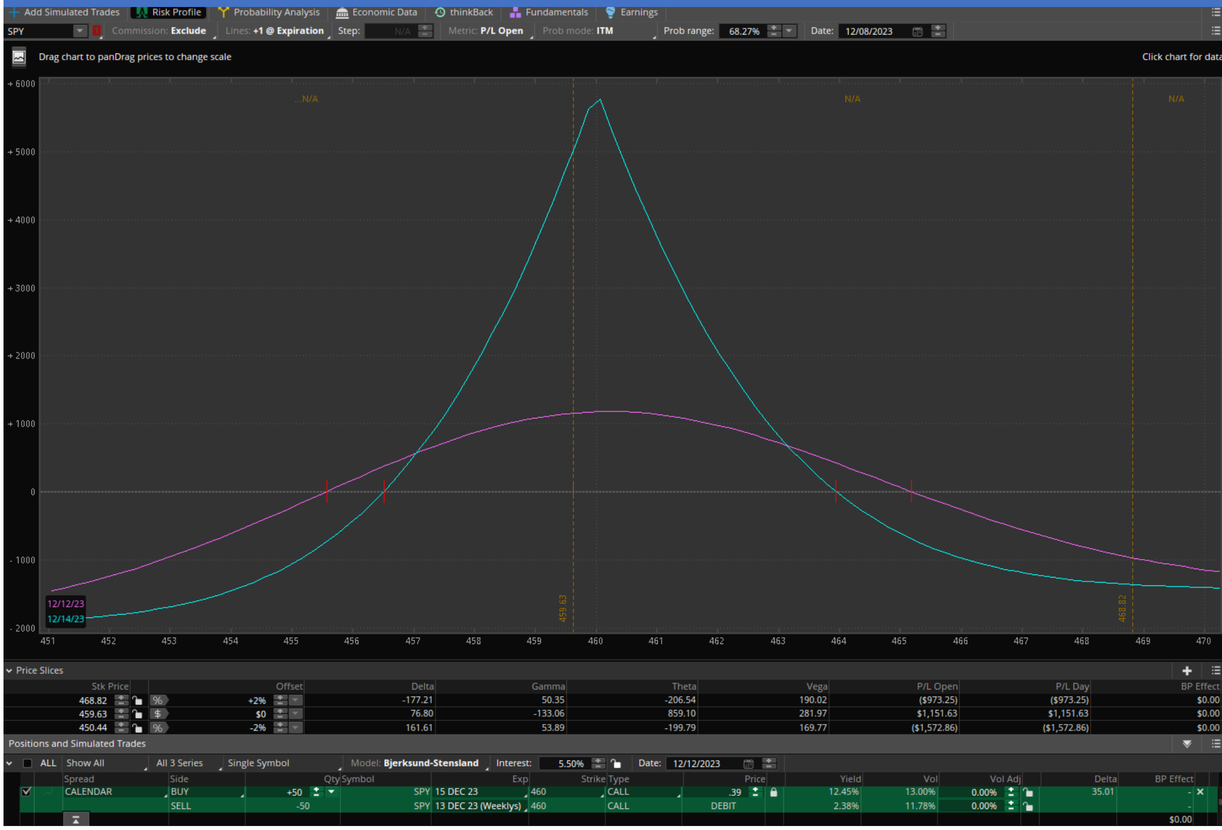
Volatility Trade:

SPY ex-div call calendar spread

Sell 460 Dec 13th call

Buy 460 Dec 15th call

Net debit: .37-.40



If you expect markets to spike higher off of CPI, and how can you not think that, every data point or vol event equals a spike nowadays, set it higher. 465s are .28. 470s are .13. Might be a good idea to do multiple strikes. Target, $1, and if it fails for some reason, heading into Wednesday, the calls might just magically come back to life on Thursday.

- MONDAY 0DTE SHORT VOL/LONG CALL WINS AGAIN
- IWM BREAKOUT ON 1ST OF THE MONTH – 0-3DTE TRADE FOR JAN
- BACK IN THE CHOP ZONE
- MARKET RECORDS EVERYWHERE
- TRADES FOR THE FED MEETING

VOLATILITY SUMMARY

From last week's note:

It will be interesting to see if once we get into next week whether this pattern of every vol event equaling an immediate spike up. Jolts/NFP/CPI/PPI/Fed meeting, there are a lot of them coming up, so 0DTE put vol smashers and call/call vert buyers are going to be busy harvesting what appears to be regularly scheduled easy money trades.

Another 'event', another post release spike/ramp. These markets are certainly consistent, managers expressing what Mandy Xu and Charlie McElligott describe as folks 'hedging right tail crash up risk', which basically means they are long a lot of calls that dealers need to hedge by quickly buying futures/stocks when the market rises. (See the Nov 28th note; I went into a long diatribe about current short put vol/long calls dealer dynamics.)

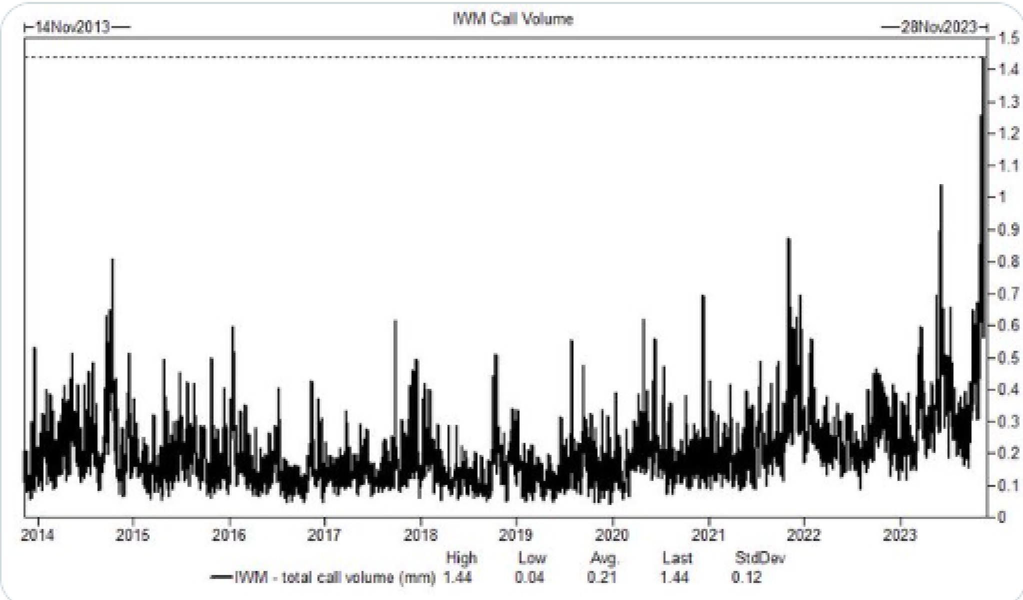
Yet, it quickly evaporated, which means that huge amounts of quarterly opex options gamma are starting to whip things around, thus the chop zone part of the opex cycle. We know folks are long a lot of calls, so when the spikes occur there is call supply. I mean, if you were a brilliant enough manager (panic longed/FOMOed early enough to stick save your year is more likely the truth) to go long calls on Santa hopes/seasonality in late October/early November (and we all know there was record call volume), then you are a seller of said calls now or damn soon lest you see your upside trendvol profits evaporate.

From the November 16th note:

SpotGamma @spotgamma · Nov 14

$IWM call volume. holy cow.

h/t @zerohedge



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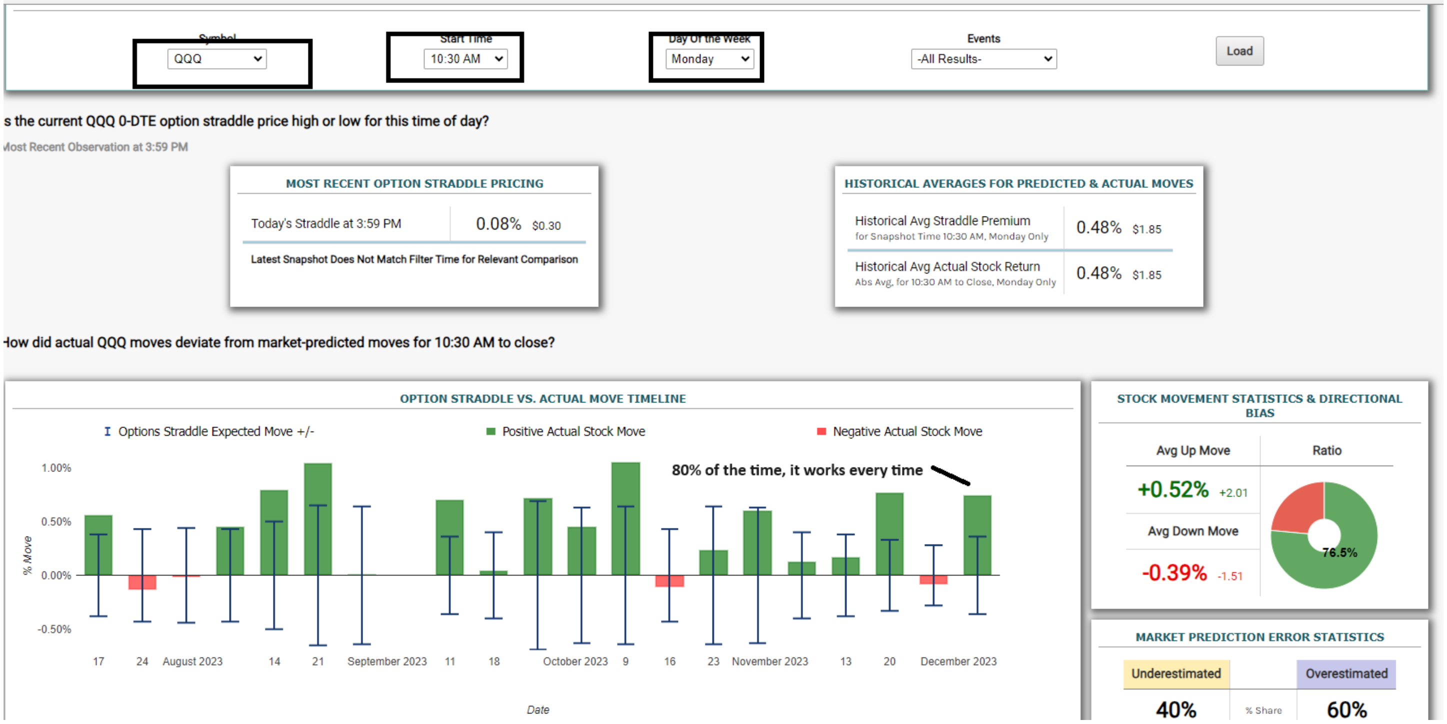
Goodness gracious, there is nothing to compare with that volume, ever. Now, here's the thing. Sentiment shifts faster than ever it seems and it's expressed with call buying. The options market has been democratized. Sentiment has gone from close to wondering where the Fed put was/recession is coming back to soft landing/we don't need a recession, literally overnight. Active managers are as invested (more like long calls, right) as they were during the July earnings season.

And it's obviously not just record volume of IWM calls that folks have hoarded; the giga tech herd stocks, which have started to exhibit a change in trend perhaps (MACD crosses lower for example), has a lot of the herdlings eyeing a slew of vol potholes in the windshield from now to the Fed meeting, like CPI/NFP/treasury auctions. That means, time to sell some calls.

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.

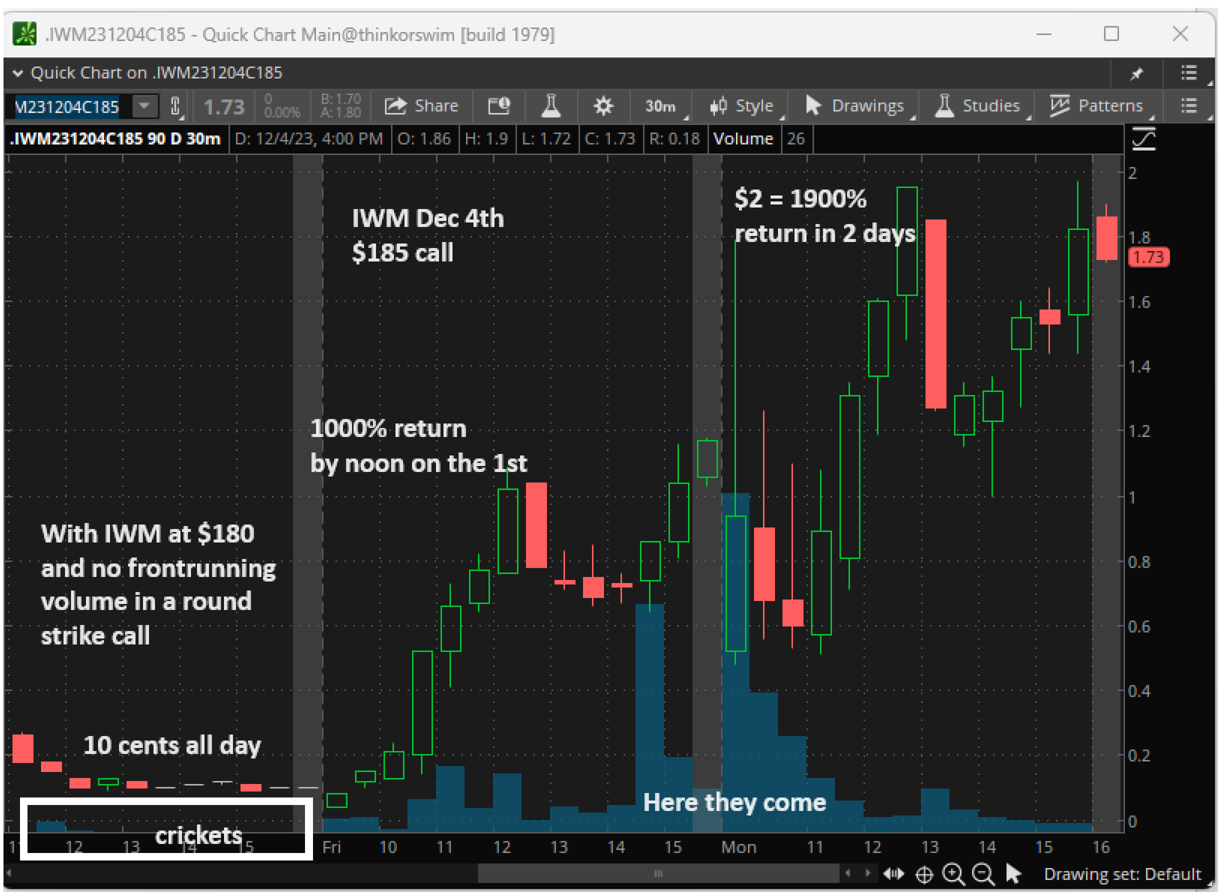
Speaking of market consistencies, Monday was another waltz through options Never-Never Land (as in never fails) for the 0DTE crowd:



This shows QQQ drift from 10:30 am on Mondays to the close, and it is comically consistent, to the point that not only did being long/buying calls do the trick it went so far as to often surpass the straddle price in the magnitude of the upside move. Yesterday was one of those days, as indices finished at the highs of the day at the close. I suppose if this begins to fail it will represent a significant change in market tone, it has been going on for months now.

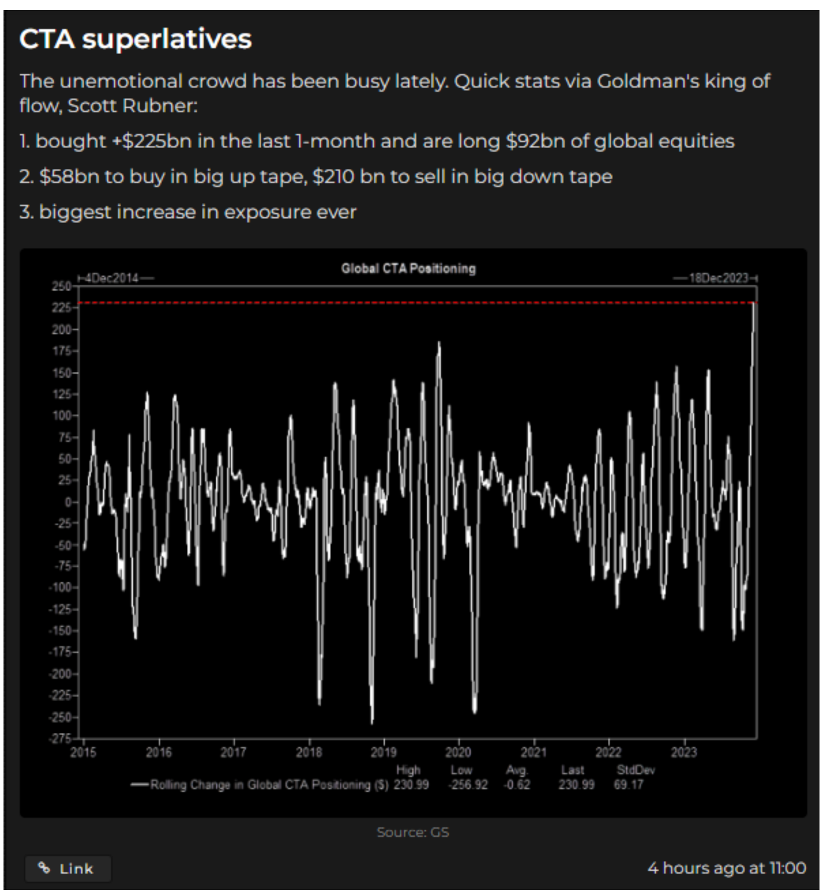
Another consistency that deserves watching or considering using short-term option strategies toward is IWM and the end of the month/beginning of month pattern. Like the end of month gamma ramp I discussed on Friday, it seems to have a following already, and in the options world, self-fulfilling strategies often work (we can call it dealer convexity wag perhaps) and are not generally front run it seems. I mean, you can't buy the 0-1DTE option until you are there right?

How do we use this pattern? Ideally, find a call that's 2-4% out of the money that will cost you 10 cents or less:



Now on to the inconsistencies, lots and lots of records this year. Divergences galore, crisis-like bond returns, large-cap tech fund herding/index concentration on a massive scale, they just keep coming. A few more, like CTA equities record buying. U.S. equities:

Global equities record buying:



And on a weekly basis, this would be the most consecutive weeks higher this decade in the S&P 500:

Urban Carmel
@ukarlewitz

If $SPX holds today's gains it will be up 5 weeks in a row. It has not been up 6 weeks in a row this decade

11:20 AM · Dec 1, 2023 · 82K Views

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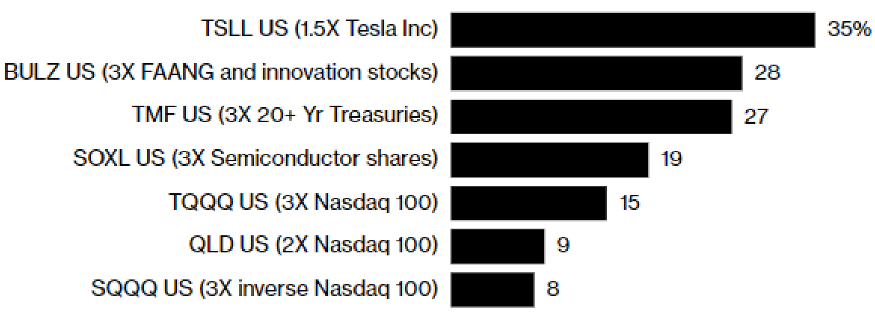
And, pole vaulting onto the derivatives fueled upside bandwagon is coming from some unlikely sources, like….Korea? This is just amazing:

Korea's Retail-Trading Army Is Going All-In on US Leveraged ETFs

- Individual Korea investors own over 20% of some US-listed ETFs
- 'Straight vanilla is boring,' they want leverage: BI's Sin

"So many people buy SOXL here that some buy it without even knowing that it's three-times leverage," said Park Eun-hye, a 35-year-old employee at a semiconductor firm in the city of Hwaesong near Seoul. It's hard to find people here who aren't buying the ETF, she said.

Korea Investor Holdings as Percent of Total Assets



Source: Bloomberg, Korea Securities Depository

Individual Korean investors have plowed $2.3 billion into the largest US-listed leveraged and inverse ETFs this year, almost triple the amount in a similar number of funds in 2022, according to data from Korea Securities Depository compiled by Bloomberg. Their willingness to take on such volatile positions has been put down to reasons such as an insufficient pension system, high living costs and a general penchant for risky investments.

Source: https://www.bloomberg.com/news/articles/2023-12-03/retail-traders-in-korea-are-sinking-billions-into-exotic-us-etfs?sref=1zxv5xkq

"It's hard to find people that aren't buying the ETF"….Well, they certainly have a lot of company over here.

Volatility Trades:

SPX Fed day put calendar spread

Sell 4525 Dec 13th SPX put

Buy 4525 Dec 15th am SPX put

Net debit: $2-2.30

It's time to do some cheap Fed pairs trades. For about 2 S&P points, you own the reaction to the Fed meeting. I will aim to close this by Tuesday's close or early Wednesday morning. Target $6. An example of how I did with these trades in September with about the same implied vol going in and at the same entry prices, closing them on Tuesday the 19th:

Ticker	Catalyst A	Catalyst B	catalyst	catalys	Strategy	# of Contracts	date	date	Holding period	Strike A	Strike B	Strike C	distance	Cost	or Closing	G/L $	G/L %
spx	fed				put cal	10	6-Sep	19-Sep	13	4460	4460		sep20/22	2.80	6.00	3200	114%
spx	fed				put cal	10	13-Sep	19-Sep	6	4425	4425		sep20/22	3.70	7.10	3400	92%

QQQ put calendar spread

Sell $383 Dec 13th put

Buy $383 Dec 15th put

Net debit: .43 (filled) - .46

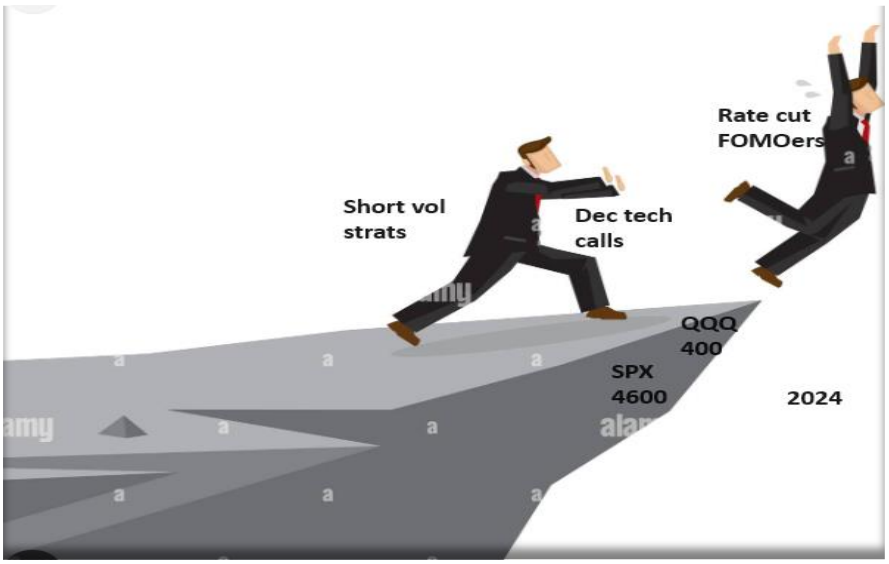
Target, .80-.90. Same story as above. How I did with these in September at similar vol/price, closing them on Tuesday:

Ticker	Catalyst A	Catalyst B	catalyst	catalys	Strategy	# of Contracts	date	date	Holding period	Strike A	Strike B	Strike C	distance	Cost	or Closing	G/L $	G/L %
qqq	fed				put cal	50	5-Sep	19-Sep	14	372	372		sep19/22	0.74	1.33	2950	80%
qqq	fed				put cal	100	11-Sep	19-Sep	8	371	371		sep20/22	0.42	0.92	5000	119%

VOLATILITY ANALYTICS NEWSLETTER – DECEMBER 12TH

FOMO REIGNS AS GIDDY MARKETS IGNORE FED HAWKISHNESS – BEARS NEAR EXTINCTION – END OF MONTH GAMMA RAMP RETURNS – TRADE FOR JAN VOL

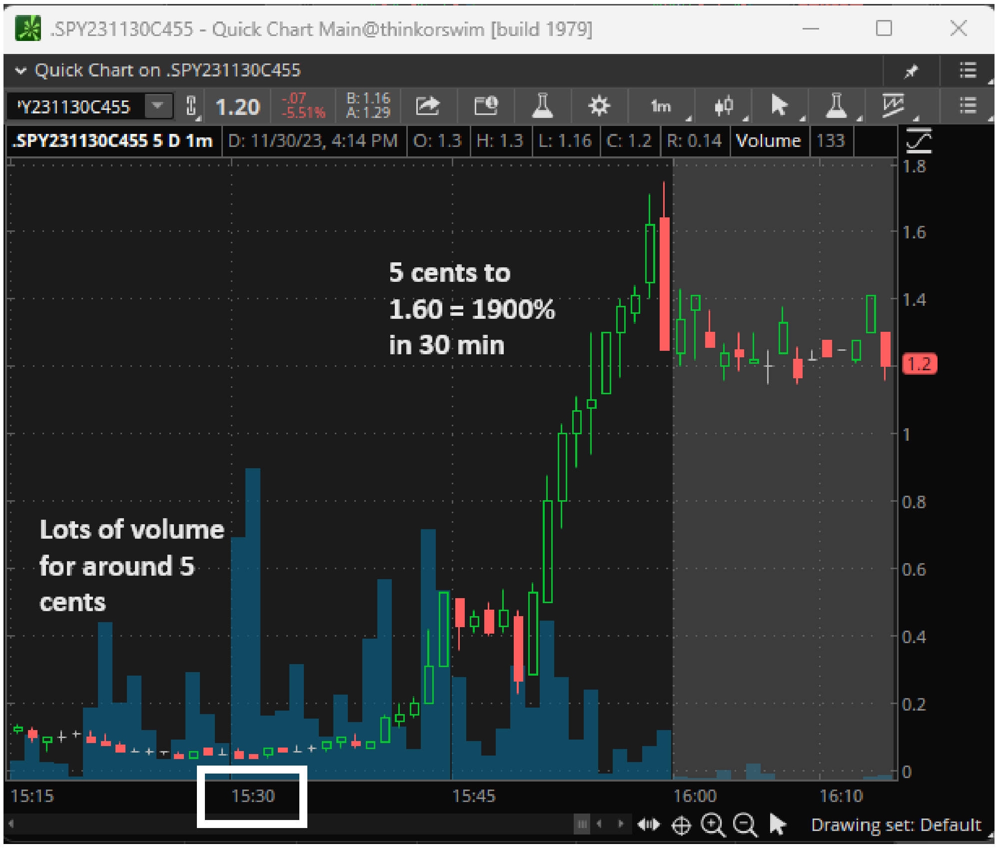
VOLATILITY SUMMARY



(What 0DTE put vol selling and giga tech calls are doing to sentiment and managers into end of year, causing rate cut delusion and massive FOMO)

Yesterday we saw the end of month/end of day gamma ramp, that again astonished onlookers with a last 30 minutes of the month spike:

And the usual 0DTE suspects were involved, loading up on calls at that time, for example the $455 SPY call saw big volume right around 3:30 pm and then:



I don't know how I missed this, but I did. And even when I recently wrote specifically about how I missed it prior time:

August 2nd note:

And, speaking of cheap options, I completely forgot the gamma gaming that occurs at the end of months and quarters. Kicking myself really, because I have a catalyst spreadsheet, with observations gleaned over the years and this is on there:

15	EOM/EOQ	last day	EOD gamma ramp
16			

Very clearly stating, to watch at end of quarters and months for the end of the day gamma ramp. I was asleep at the wheel and look what happened:

Have you ever made 1000% in 10 minutes? Well, you could have by simply buying an at the money call at 3:50pm:

So, I believe one of the keys to the end of month gamma ramp is how the month performed up to that point; if it's nicely positive, the gamma markup spikey price action is probably more likely.

IWM/small caps love the first couple days of the month and today it's in breakout mode. This is a trade many folks have been eyeing with tech valuations in absurd territory and crowded to the hilt. The next phase of the rally perhaps.

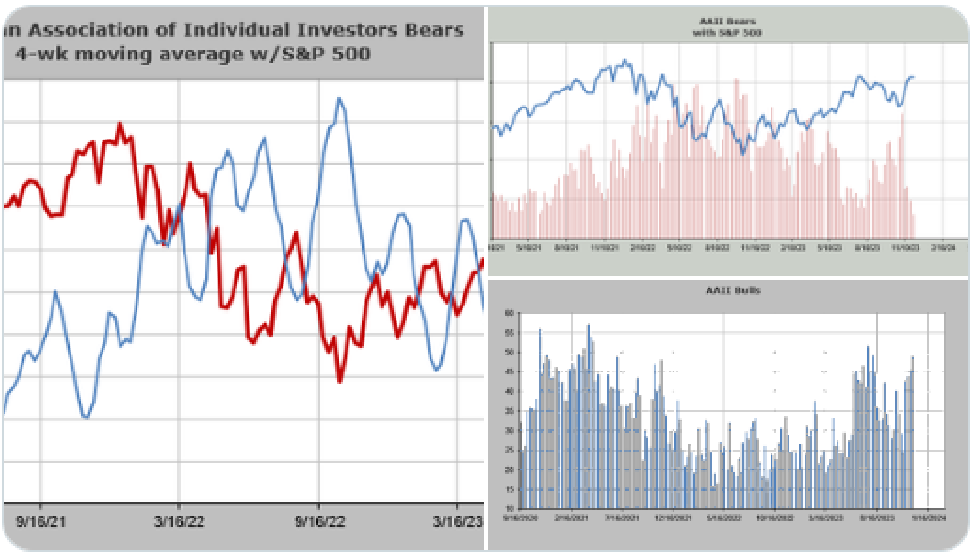
Further, people believe this is where the Santa trade works best, small caps have a great history from the 24th through the first week of January. But no one is going to wait for that; next year's Santa rally talk will probably creep into October, since folks spent the whole month of November talking about it this year:

On top of the massive tech herding flows lately, bearish sentiment is now officially dead and buried. We are looking at the lowest levels since June 2021:

Helene Meisler @hmeisler · 3h

AAII Bulls 48.8, highest since summer when they were 51.
Bears are now teenagers at 19.6. The lowest since June 2021.

Folks have finally gotten in the pool.



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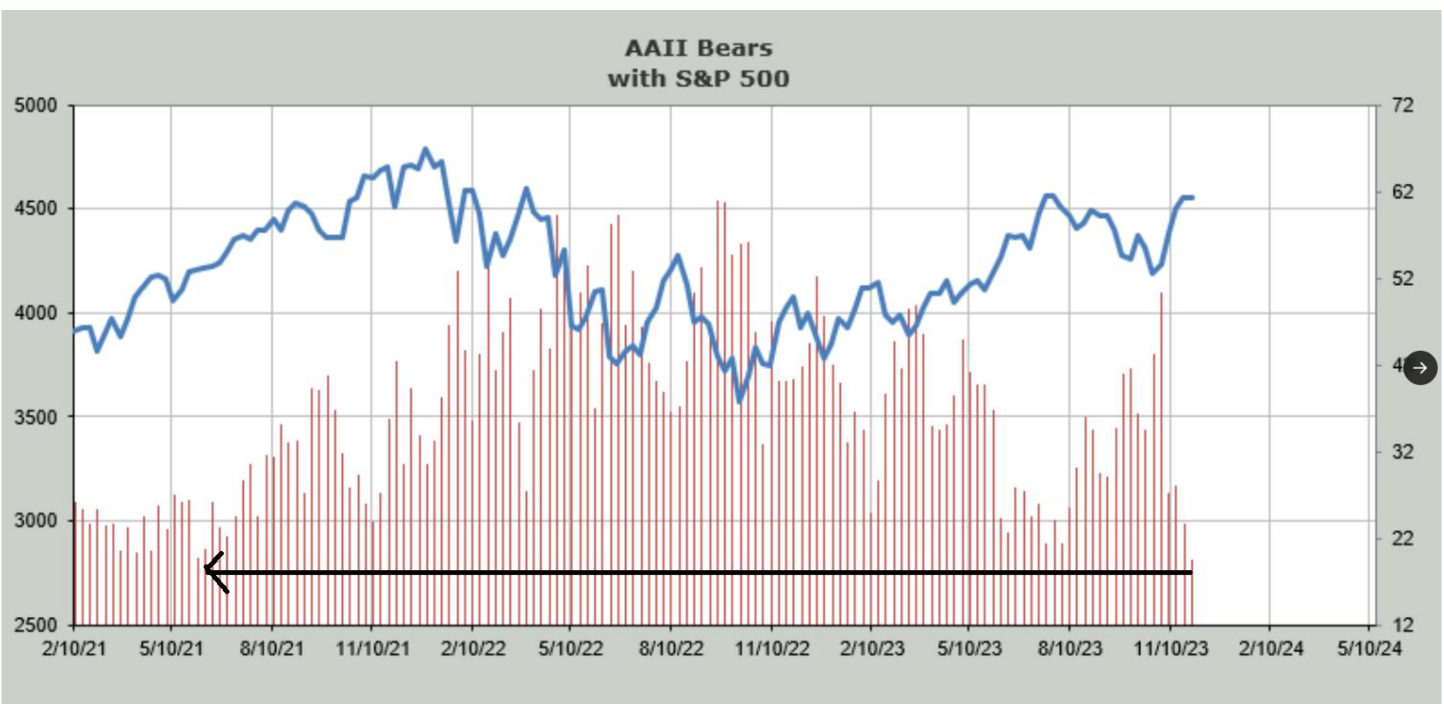
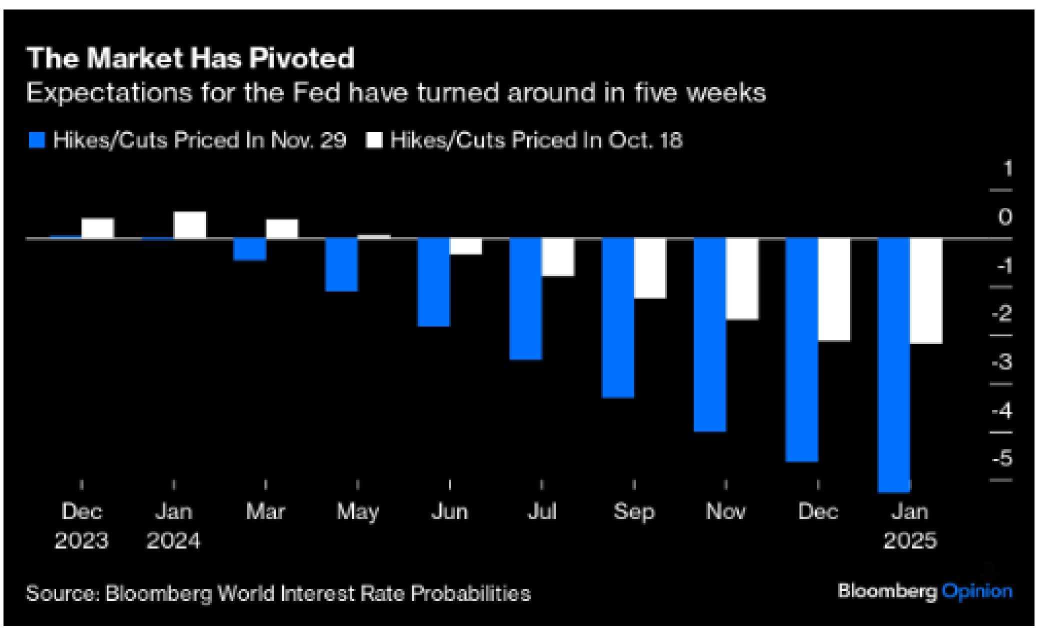


So we went from the highest bearish sentiment in a couple years to the lowest in three years in only a month.

And, on what? The 125bps of cuts that are suddenly priced in already? That is essentially the rub, folks expect cuts and bonds are having a ludicrous rally on that premise but so are stocks as if a recession won't matter to earnings. Can you have both? The markets certainly believe so at this point.

And it doesn't matter what the Fed says about being restrictive for longer or that it's too early to think about cuts. Williams and Powell reiterated it yesterday and today and the markets chuckled at their poor attempts at humor, bonds and stocks ramped. The easing ship has already left space dock and it's two galaxies over from Fed commentary:

It's also quite something that the market has converted the evidence into an unambiguous reason to predict that the central bank will cut rates. Since the notion that rates would be "higher for longer" peaked on Oct. 18, this is what has happened to future levels of the fed funds rate as predicted by the futures market. Only five weeks after the market was discounting two 25-basis point cuts by January 2025, it's now expecting five:



https://www.bloomberg.com/opinion/articles/2023-11-30/election-year-schizophrenia-for-us-economy-is-already-here?srnd=undefined&sref=1zxv5xkq

VOLATILITY ANALYTICS NEWSLETTER – DECEMBER 12TH

Even Bloomberg is making jokes today:


Markets

Bonds Up as Powell Pushback Lasts 'A Few Seconds': Markets Wrap

updated 22 minutes ago

Even with the bond and stock markets schizophrenic euphoria, it is getting really difficult to anticipate volatility this month. But it is the first day of the month, almost always an up day and especially for small cap stocks. And Fridays have become much more supportive lately, as you can imagine nobody wants to be short into Mondays that have quite the record of printing money for 0DTE long call gamma trades.

It will be interesting to see if once we get into next week whether this pattern of every vol event equaling an immediate spike up. Jolts/NFP/CPI/PPI/Fed meeting, there are a lot of them coming up, so 0DTE put vol smashers and call/call vert buyers are going to be busy harvesting what appears to be regularly scheduled easy money trades.

Volatility Trades:

SPX January put butterfly spread

Buy 4530 Jan 19th put

Sell 4460 Jan 19th put

Buy 4390 Jan 19th put

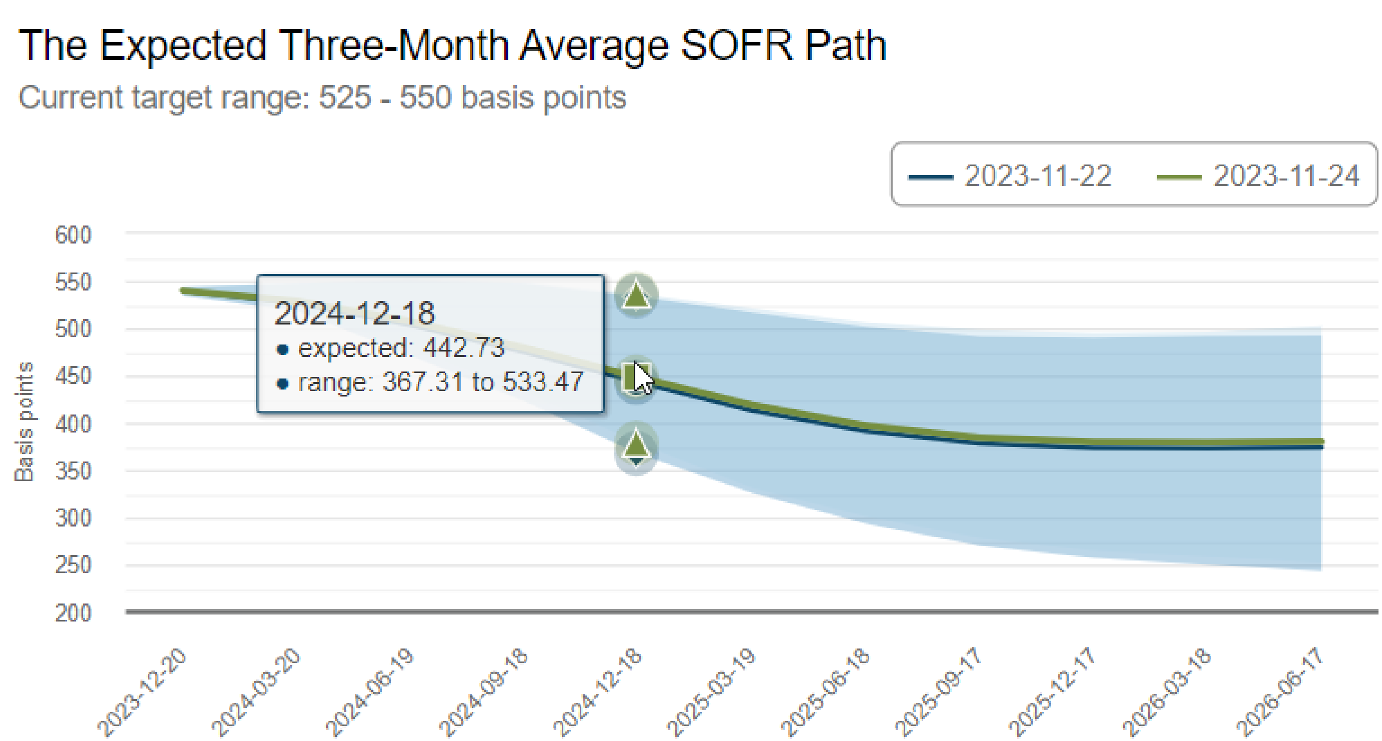
Net debit: $5.25 (filled)

Continuing to look ahead to renewed volatility early in 2024 while vol is extremely cheap. For 5 SPX points, $70 wide and only 1% below spot. Target, $15.

SHORT VOLATILITY STRATEGIES PROLIFERATE; VOLMAGEDDON II NEARING? – LONG CALLS/SHORT PUTS MARKET FLIPS DEALER ASSUMPTIONS AND MARKET BEHAVIOR – TRADE FOR CPI/FED

VOLATILITY SUMMARY

Now that everyone is done their buying now and paying later, we can discuss the short vol now and worry later cohort. Or maybe they don't worry at all, convinced that a slew of Fed cuts are on the way next year:



That is basically four cuts in the market, and with the ten year treasury rate nosediving lately (all that nonsense about tailing auctions, now as forgotten as a bad joke) financial conditions have eased markedly, which might bring back the ole hamster wheel of Jay talking tough again, which he will have an opportunity to do on Friday and obviously during the next Fed podium show open mic during quarterly opex week:

Untightening

A big driver of the gains from the October lows has been the substantial easing of financial conditions (thanks to lower bond yields, lower oil prices, weaker USD, tighter credit spreads).

Source: Daily Shot via GS

Link

Nov 27 2023 at 04:10

Although today was a bit of a blast from the past with the 7-year auction not going well, dealers forced to take a huge chunk and it tailing the market yield pre-auction:

zerohedge @zerohedge · 27m

Buyer strike: Dealer award (mandatory bid) doubles from 10.98% to 20.29%, highest since Nov 2022

> **zerohedge** @zerohedge · 29m
>
> 7Y high yield 4.399%, WI 4.378%, tails 2.1bps, biggest tail since Nov 2022

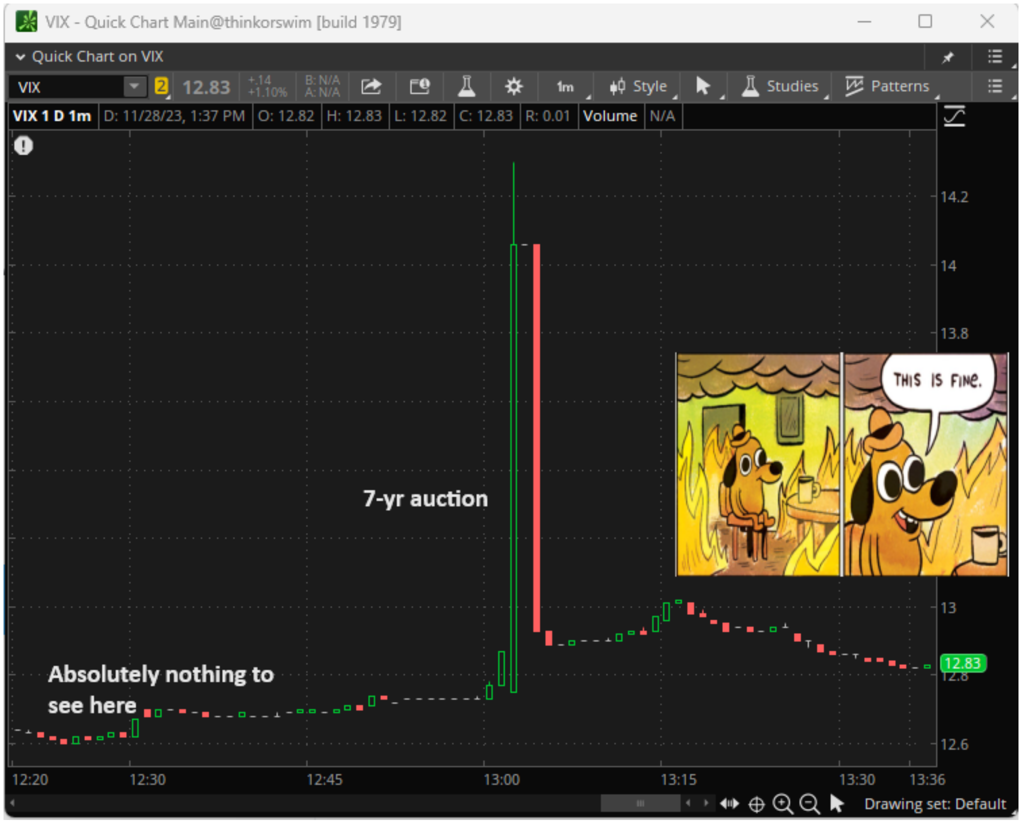
8 · 18 · 55 · 36K

zerohedge @zerohedge · 29m

7Y high yield 4.399%, WI 4.378%, tails 2.1bps, biggest tail since Nov 2022

10 · 31 · 62 · 67K

And, if you are one of those that think the VIX is broken, well, this is how it acted on the auction results:

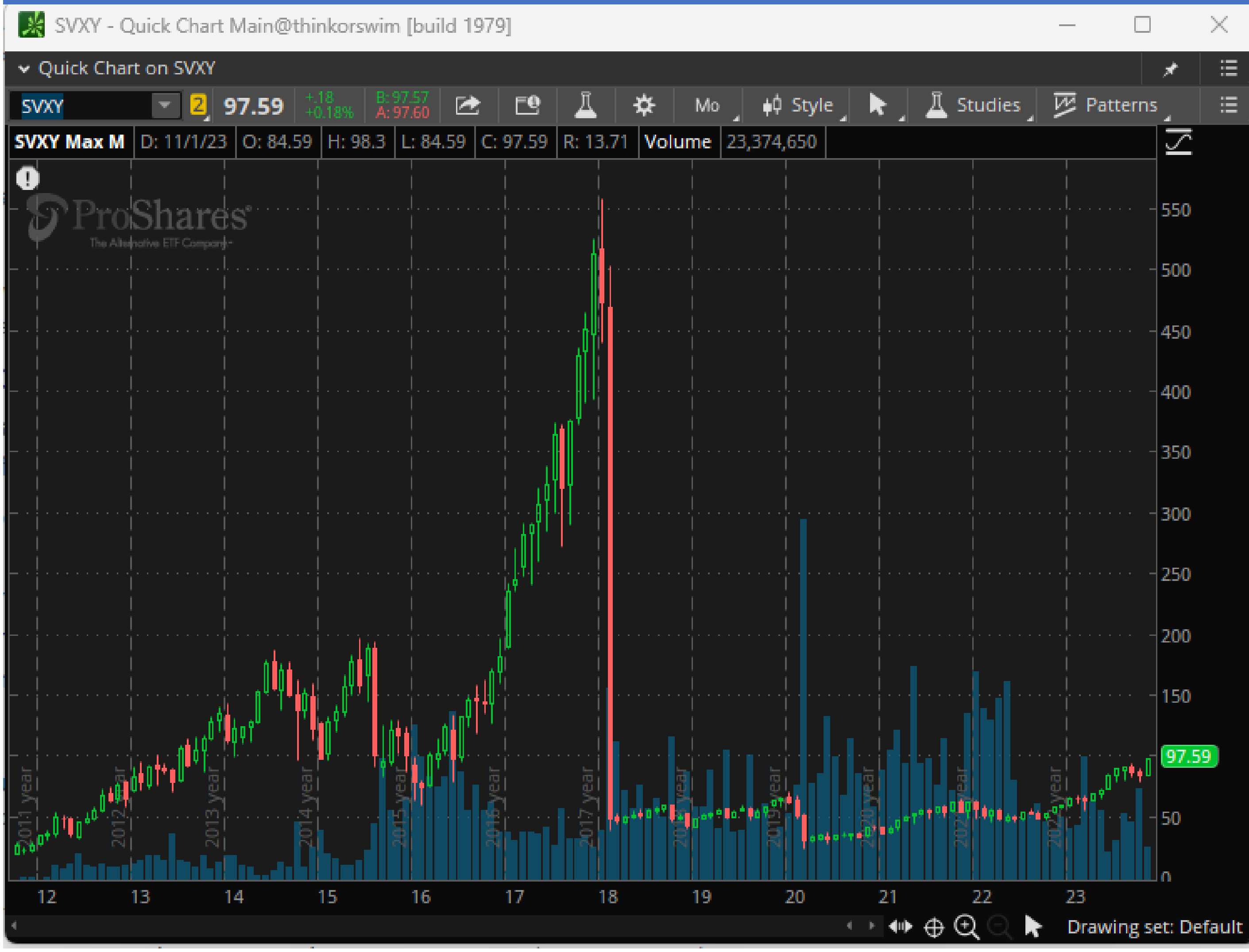


The important auctions are coming during Fed week, 10 and 30 year.

This kind of thing reminds me of volmageddon 2018, when shorting vol got absolutely out of hand. It was concentrated in the short volatility futures ETF space, which died a quick and spectacular death never to be the same. RIP XIV. A castrated SVXY still exists with a .5x inverse governor on it, but this chart will remind you of how it went down:

(For a longer walk down memory lane:

https://seekingalpha.com/article/4156919-xiv-and-svxy-what-really-happened)

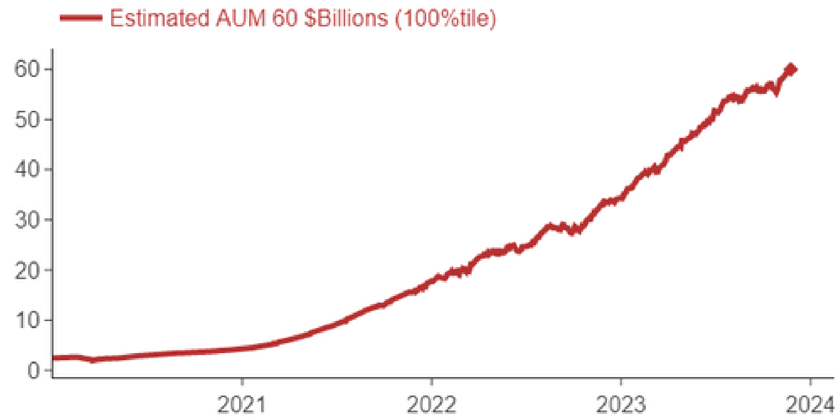


Today, with 0DTE mania and the like, we have a new and growing crowd of vol shorters, and they are diverse. One faction of the short vol mob includes ETFs selling vol for yield, providing regular monthly income, and their assets are soaring. For reference, volmaggedon caused losses in those short vol ETFs of less than $5 billion:

None of which should be a huge surprise, as McElligott notes that **we've seen fresh all-time highs made last week in US Equities "Options Selling" strategy ETF Assets Under Management**...

ETFs with Embedded Options Selling Strategies

Estimated AUM Since 2020



Estimated AUM Growth

- **Past Week:** +771 Millions
- **Past Month:** +3,544 Millions
- **Past 3-Month:** +6 Billions
- **Year to Date:** +26 Billions

Month AUM Growth YTD

...where **after the "Shock FCI Tightening" period from Aug to Oct, we've seen a powerful resumption of AUM growth in November,** and making +$26B YTD / +$60B overall, as VRP continues to look attractive.

Source: https://www.zerohedge.com/markets/nomura-warns-traders-are-hate-selling-index-vol-cta-drawdowns-surge-macro-regime-shift

Of course, 0DTE options have seen a surge of daily vol selling, which is why every dip essentially disappears these days. As soon as there is any downside vol, the quant strats come in and set another put wall. They are doing quite well lately, Charlie the celebrity quant calling it manna:

Keep calm...

...and sell daily puts. As McElligott calls it: "manna from heaven".

SPX Daily Options PnL Summary

Cumulative PnL

	1d	10d	20d	60d	ytd
Selling Daily ATM Straddle	0.2%	-0.0%	-0.5%	1.4%	10.4%
Selling Daily ATM Call	0.1%	-2.4%	-5.1%	0.7%	-2.1%
Selling Daily ATM Put	0.1%	2.4%	4.5%	0.7%	12.5%
Selling Daily Strangle	0.1%	-0.6%	-0.7%	0.9%	6.8%
Selling Daily 25d Call	0.1%	-1.7%	-2.7%	0.6%	-1.6%
Selling Daily 25d Put	0.1%	1.1%	2.0%	0.3%	8.4%
Selling Daily Straddle, Long Strangle	0.1%	0.6%	0.2%	0.5%	3.6%
Buy 25d Call, Sell 25d Put	0.0%	2.7%	4.7%	-0.4%	10.0%

Source: Nomura

Link

Nov 27 2023 at 14:20

And, risk.net just ran a story demonstrating how bank quant trading teams now see 0DTE vol as attractive:

Bank QIS teams take zero-day options plunge

JP Morgan sees better risk/reward profile for 0DTE-based trend strategies

Risk.net montage

Banks are beginning to incorporate zero-day-to-expiry, or 0DTE, options in their quantitative investment strategies, in a move they say could boost returns and improve downside protection.

JP Morgan is one of the first to do so with an intraday momentum strategy that incorporates same-day expiry options on the S&P 500, or SPX. The bank says the latest iteration of the popular strategy offers a better risk/reward profile compared with traditional futures-based versions.

And of course, the hedge funds:

Kris Sidial @Ksidiii · Nov 25

Ex: 100M firm looking to take in 25bps weekly in premium. Aka sell what gets us to $250k in premium this week.

S&P 1M vol at 11 needs more units (more risk) to get that premium target than S&P 1M vol at 22.

1 2 52 2.9K

Show replies

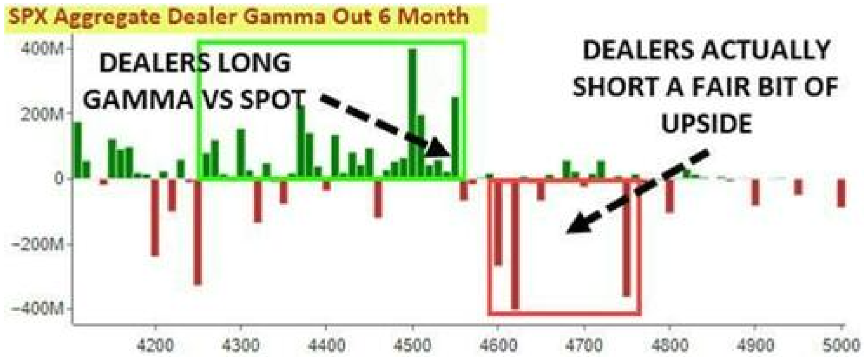
The selling puts to buy calls market is here, it is a ‘stabilizer’ when nothing else is going on. Market drops, puts are sold. Dealers now holding more puts hedge by buying futures. Since we’ve recently discussed the everyone is mega long tech/qqq/spx call dynamic, when dealers are short calls and there is news, you get these intraday spikes up, the result of dealers buying more futures/stocks to cover their short calls.

In essence it’s a reversal of how it used to be and how the dealer reaction function was modeled. It used to be assumed that dealers are primarily long calls sold to them (covered calls perhaps), having these dealers react by selling futures to hedge their long call position and subsequently buying them back on dips or when their calls burn off (charm/delta decay).

Now, dealers are short calls in indices/giga tech and when the market goes up, they have to quickly buy more to hedge upside convexity. (You saw it today, when for no reason the market spiked up on Waller commentary. Bowman said numerous things to the opposite of Waller, but that didn’t matter, the upside spike needed the immediate hedging.)

Also, it was assumed that dealers were short puts, that folks bought as protection for market drops. (*Oh, how old timey! Who in their right mind needs to waste money on insurance!)* When folks used to buy puts, the dealer sold futures to hedge against a drop/their convex downside exposure to puts sold. Now that selling puts to dealers is the thing to do, dealers are long more puts and thus as the market drops they are buyers of futures:

But **this 'easing'-fest, has then helped fuel more of the same US Equities index Vol "hate-selling"** that has now seen Dealers get stuffed on both ATM and Downside Gamma, which **acts as a buffer for markets which makes it difficult to sell-off**...



...**although in light of the violence of the crash-up move seen in recent weeks, there are pockets of "Short Gamma" to the UPSIDE from here** (Dealers Short some Upside Calls into "crash-up") on further Spot rally that could feed "accelerant flows"

The result of all this quaintly described 'hate selling' of vol and risk reversal positioning (selling put vol to buy call vol) is that prices are as cheap as ever to hedge or position for a downside move/swing trade. First, you can see put vol crushed and call vol owned in this chart:

SpotGamma @spotgamma · Nov 21

Overbought?

This is our risk reversal reading which measures SPX call IV relative to put IV. It's just off of its highest reading ever...only bested by July '23.

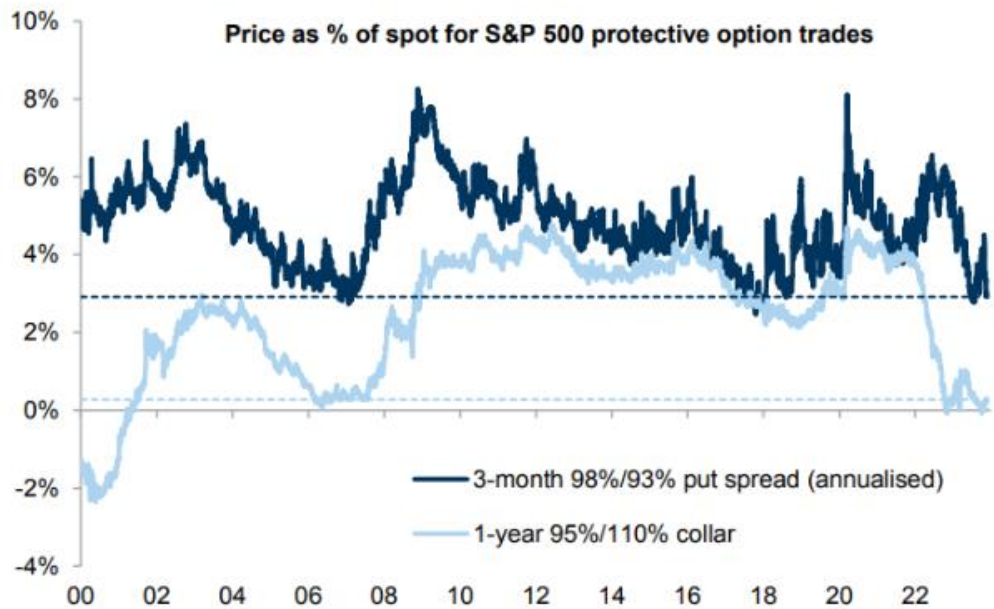
Interestingly in July the SPX put in a top at 4,600...

20 59 266 61K

The result being that a put vertical spread to hedge is as cheap as it's ever been, and that is saying a lot if you remember the pre-Volmageddon days of 10 VIX:

They note that three-month put spreads on the the S&P 500 are trading close to all-time lows. For longer investment horizons, they like equity collars – a strategy where near at-the-money puts are financed by selling out-of-the-money calls.

Exhibit 5: We like put spreads in the near term and 1-year collars



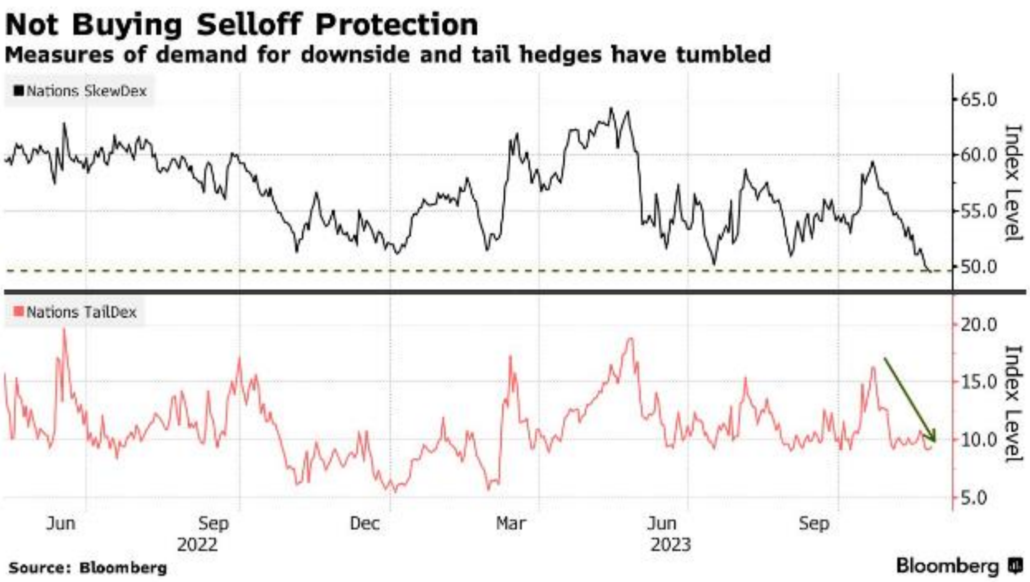
Source: Goldman Sachs, Goldman Sachs Global Investment Research

Source: Goldman Sachs *Source: Goldman Sachs*

https://www.bloomberg.com/news/articles/2023-11-28/goldman-says-sharp-drop-in-volatility-is-opportunity-for-hedging?srnd=markets-vp&sref=1zxv5xkq

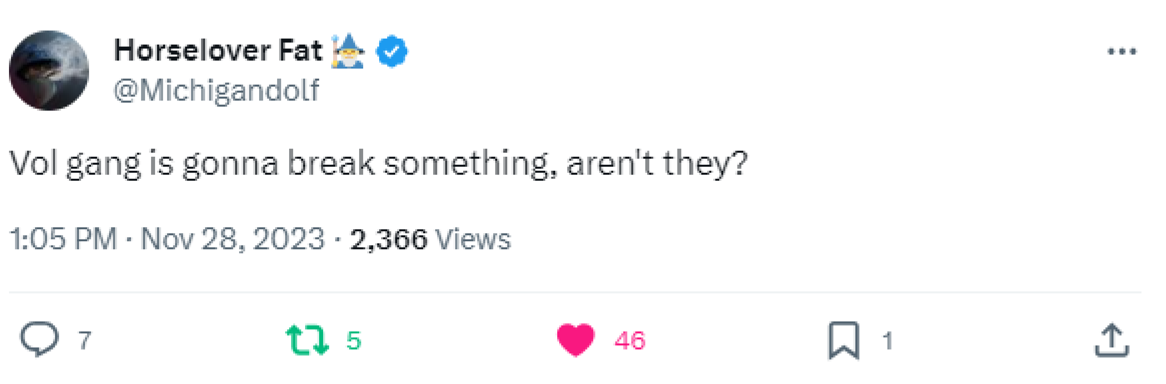
But clearly no one wants hedges, I mean, with everyone crowded in a few stocks that are wickedly overvalued, over-owned and at all-time highs? Fuhgeddaboudit:

"There has been absolutely no demand for hedging – the cost of protection using various metrics are all near lows looking out five years," said Amy Wu Silverman, head of derivatives strategy at RBC Capital Markets. "Additionally, volatility continues to be suppressed in our market due to volatility selling strategies."



https://www.bloomberg.com/news/articles/2023-11-27/stock-market-today-dow-s-p-live-updates?sref=1zxv5xkq

Folks are taking notice of all this short vol. They know what can happen:



Kris Sidial 🇺🇸
@Ksidiii

Also, please note. There is absolutely nothing wrong with selling vol opportunistically. There are sophisticated desks that express clean, thoughtful short vol trades in the equity market.

Unfortunately, the majority of short vol participants in this market are more geared towards "income generating" / "yield" programs that are not really vol sensitive.

People who are not in the hedge fund / asset management space would be surprised, but there are lots of smaller multi-billion dollar firms that run programs that target X amount of premium taken in on a weekly basis. If you have an understanding as to how derivatives work, you probably understand why that can be problematic.

6:12 PM · Nov 25, 2023 · **31.4K** Views

15 10 151 27

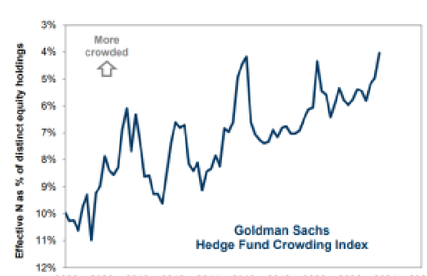
So, now we enter December, or the second half of the market's end-of-year game of chicken. The first part in October saw a lot of hedge funds degross and puke out some giga tech longs, which they obviously just herded back into with amazing speed *and in more concentration than before if you can believe that!* Believe it:

One of the key takeaways from the latest edition was that the bank's "crowding index" hit a record high. That was due to high concentration across funds and outperformance from popular stocks.

Exhibit 23: Hedge fund portfolio density increased
holdings as of September 30, 2023

Source: Goldman Sachs Global Investment Research

Exhibit 24: Crowding across hedge funds increased in 3Q
holdings as of September 30, 2023



Source: Goldman Sachs Global Investment Research

"Mirroring the increasing concentration in the equity market, concentration in hedge fund portfolios has risen; the typical hedge fund holds 70% of its long portfolio in its top 10 positions," Goldman's Ben Snider wrote, noting that the same dynamics pushed hedge fund exposure to the Momentum factor close to a record.

Goldman's Hedge Fund VIP list (the 50 stocks that appear most often among the top 10 holdings of fundamental hedge funds) has returned +31% this year. Not too bad, although you would've done quite a bit better with QQQ, and instead of paying two and twenty, you'd pay 20bps.

Source: https://heisenbergreport.com/2023/11/22/hedge-fund-crowding-hits-record-amid-mega-cap-rally/

Hedge fund exposure to momentum has rarely been as extreme as this, and the swing since 2022 has been astonishing.

Exhibit 16 : Fund portfolios have rarely been more tilted toward Momentum

Source: Goldman Sachs Global Investment Research

Momentum can be fun to ride, but it has a nasty tendency to suffer sudden crashes. Given how large some of the big tech stocks are in hedge fund portfolios — and how strongly they've rallied this year, at least partly as a result of the outsized hedge fund buying — any reversal could become violent.

https://www.ft.com/content/047d52a0-01a1-4db5-b342-f7f159d10d84

Does this scream 12 VIX to you? 30-day forward vol includes, and I'm sure I'll miss a few:

-Treasury auctions 10s/30s – you just saw the 7-yr break the VIX for 15 minutes

-CPI – (https://www.bloomberg.com/news/articles/2023-11-27/economists-see-stubborn-us-core-inflation-keeping-rates-higher?sref=1zxv5xkq)

-Fed meeting with SEP/Dot plot

-Quarterly OPEX

-JOLTS- one of the biggest market movers this year, if you can believe it

-Non-farm payrolls

So, while we may be propped here for now with short vol dominating/wagging the indices dogs, it certainly appears that December is going see more volatility the deeper we get into it. Simply the major expiration combined with all these vol events is enough, and with so many folks short vol, a pre-Santa surprise might be in store for managers itching to send out those statements stuffed with giga tech marked to perfection.

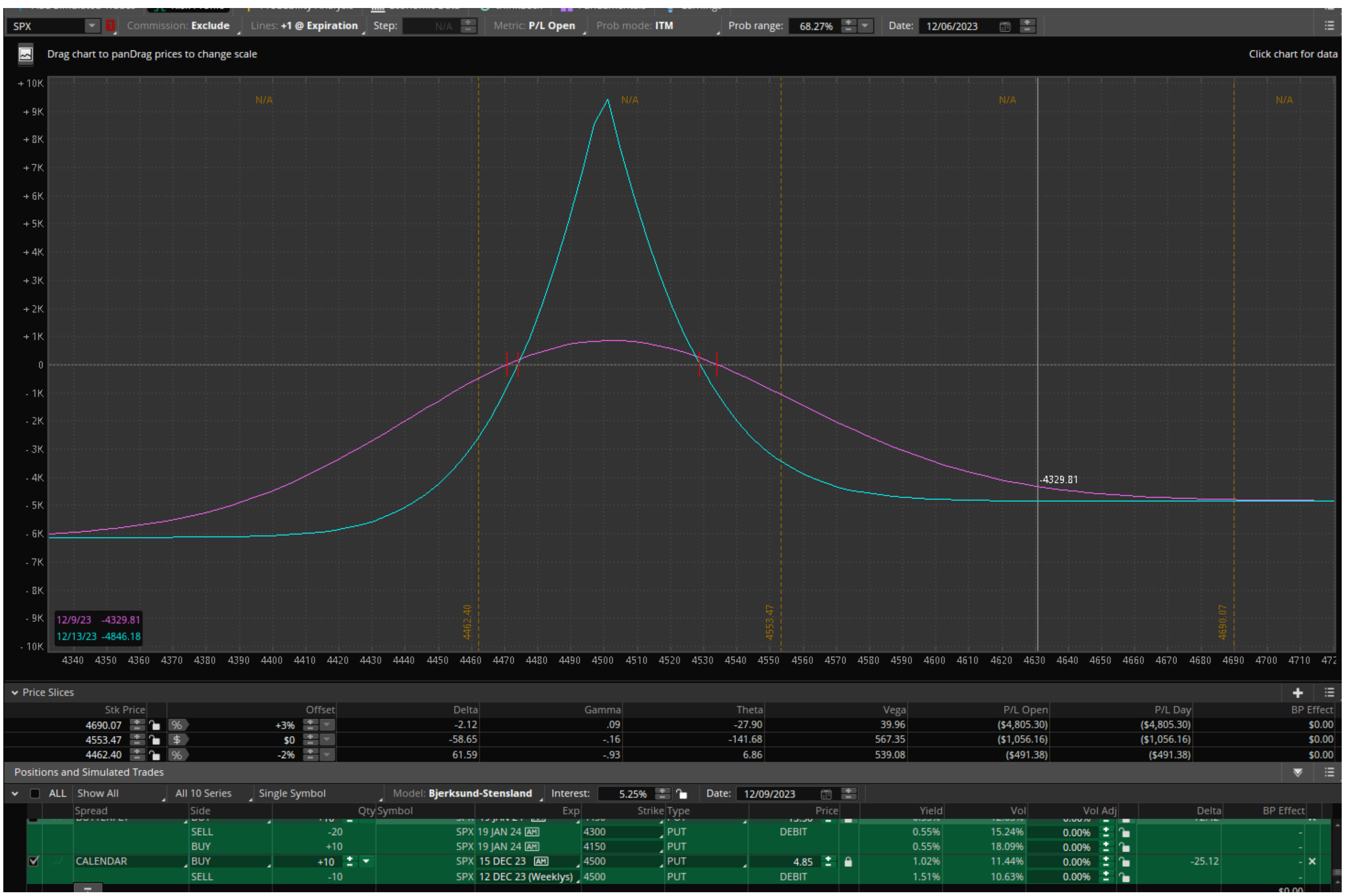
Volatility Trades:

SPX Fed/CPI put calendar spread

Sell 4500 Dec 12th put

Buy 4500 Dec 15th (AM) put

Net debit: $4.80-5



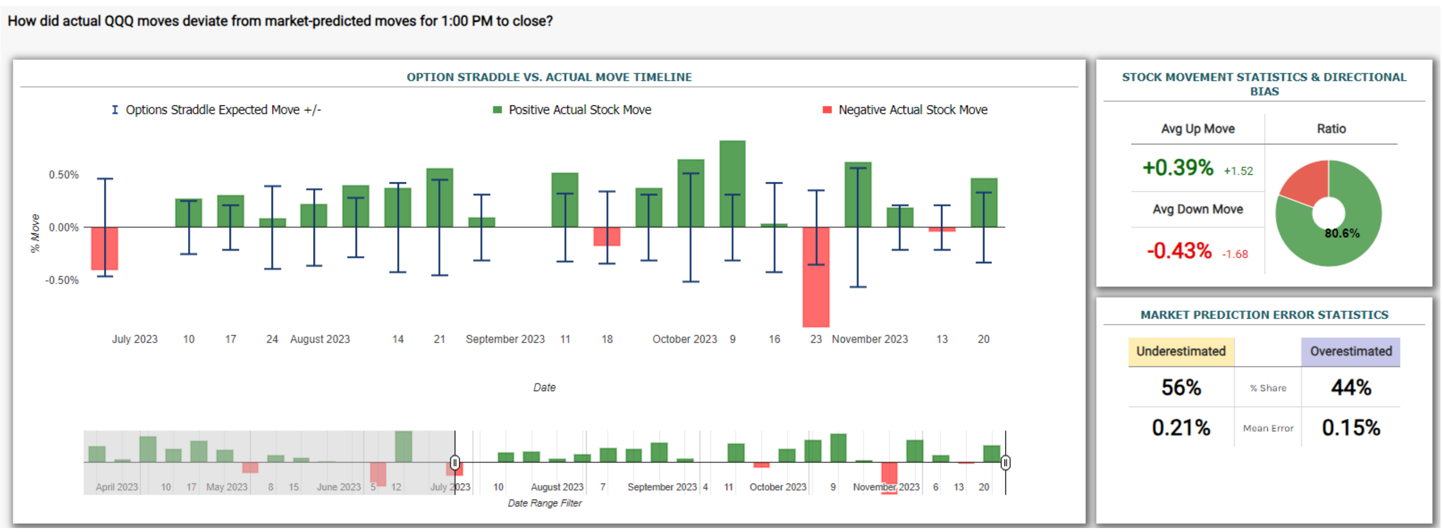
Quarterly expiration, CPI and the Fed meeting in the back leg for less than 5 SPX points 1% below spot price. Target $10-15.

VOLATILITY ANALYTICS NEWSLETTER – DECEMBER 12TH

THE TURKEYS ARE STUFFED WITH GIGA TECH CALLS – GOBBLE UP SOME SPY FED WEEK CALENDAR SPREADS

VOLATILITY SUMMARY

What can you say about Monday other than it's as close to homemade QE as you can get? These statistics are just astounding when you consider for the length of time it has been going on now:



You saw it again, the 'catalyst' was supposedly a meaningless 20-yr auction, when in reality 0DTE algos and humans that are not blind to this hoarded calls and forced dealers to be buyers of futures until 3:30pm when some of those hedges came off and the market actually ticked down for a few minutes.

Looking the above chart, I've mentioned that in several instances for the last few months in the timeframe on Mondays from 1pm to close, QQQ can actually outperform not only the call pricing but the straddle pricing. So, to put it more bluntly, more than 80% of the time tech stocks and QQQ rise in the afternoon enough so that long calls and long call verticals are winners. Over and over again.

And why not again this week? I'm sure a lot of folks were wondering (as I was) if the incessant panic grab of Santa calls and giga tech that continued after the short covering in IWM/KRE-like stuff ended (more on that in a minute) might show the markets an actual down day. Ho, not to be, it twas Monday after all.

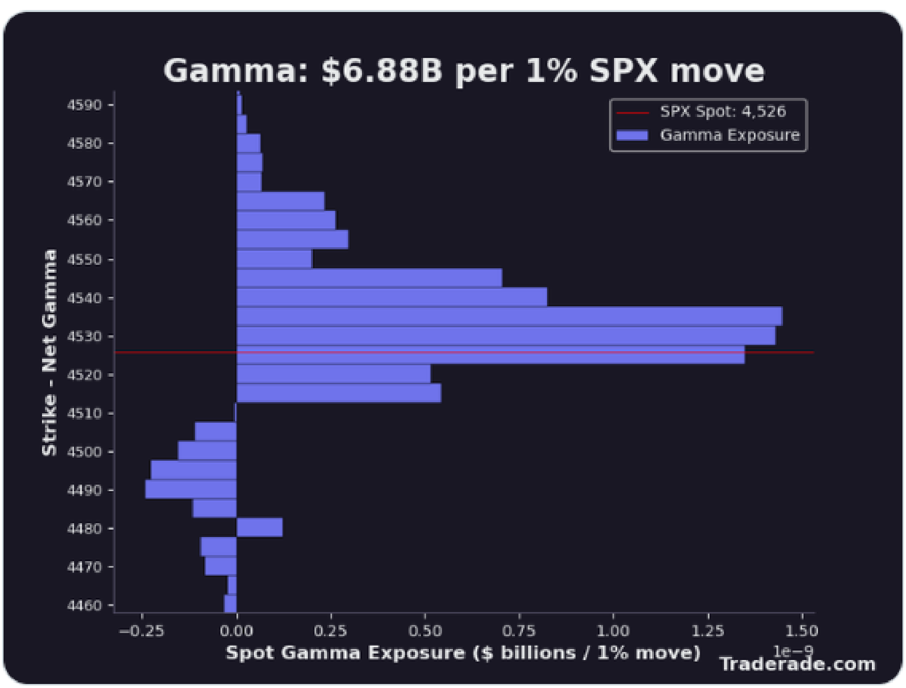
And gobbling up calls and futures they are, in the good stuff of course. Put call ratios in the mag7 were very much below 1 yesterday, meaning far more calls than puts traded.

AMZN	146.2008	+0.70%	+1.0208	28.09%	0.308
MSFT	375.2384	+1.46%	+5.3884	23.87%	0.532
AAPL	191.231	+0.81%	+1.541	20.18%	0.568
GOOGL	134.545	-0.57%	-.765	23.93%	0.474
META	338.0101	+0.89%	+2.9701	28.67%	0.712
NVDA	493.57	+0.12%	+.59	51.67%	0.587
TSLA	233.62	-0.29%	-.68	52.19%	0.643
AMD	120.3574	-0.22%	-.2626	43.67%	0.619

And with volume low this week, post-opex volume often is lower than usual and combined with the holiday week, 0DTE got to wag the market dog again. This great follow on twtr is all over it; here is a fine explanation of what we saw yesterday and then at the close:

Horselover Fat
@Michigandolf

The relative strength in $SPX this morning is due to the frantic Call Buying, imo. The Nasdaq and the Big 8 are just now approaching their OR Highs while the S&P rips. There will be great opportunities to fade this low volume push, but gotta be patient, we know how this game works and you can't fight these 0DTE players. Wait for them to close or show some interest in Puts. We're getting close now.



Traderade

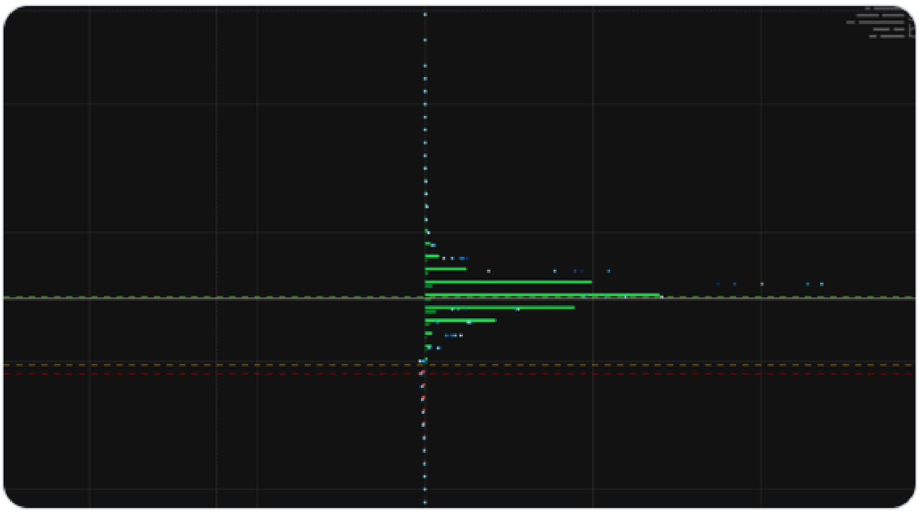
11:00 AM · Nov 20, 2023 · 93K Views

Horselover Fat 🧙
@Michigandolf

And just like that they pack it in for the day with a massive wave of closure.

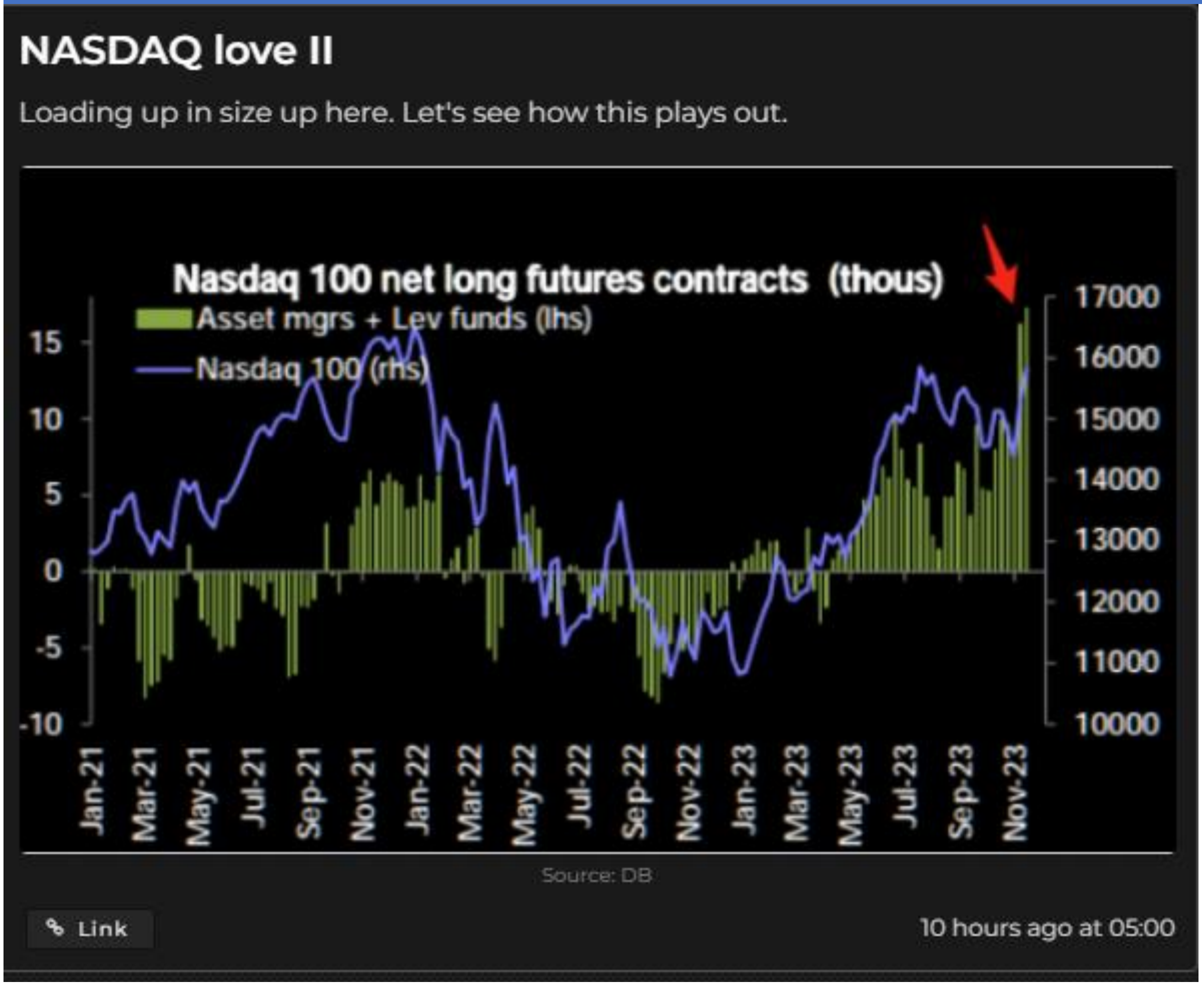
I hope people understand the only reason I'm posting these updates is to show the impact of SPX 0DTEs on ES right now. Arguably the strongest factor driving price. There's still so many incredibly brilliant people on here that are still in denial.

Data is data, don't shoot the messenger.



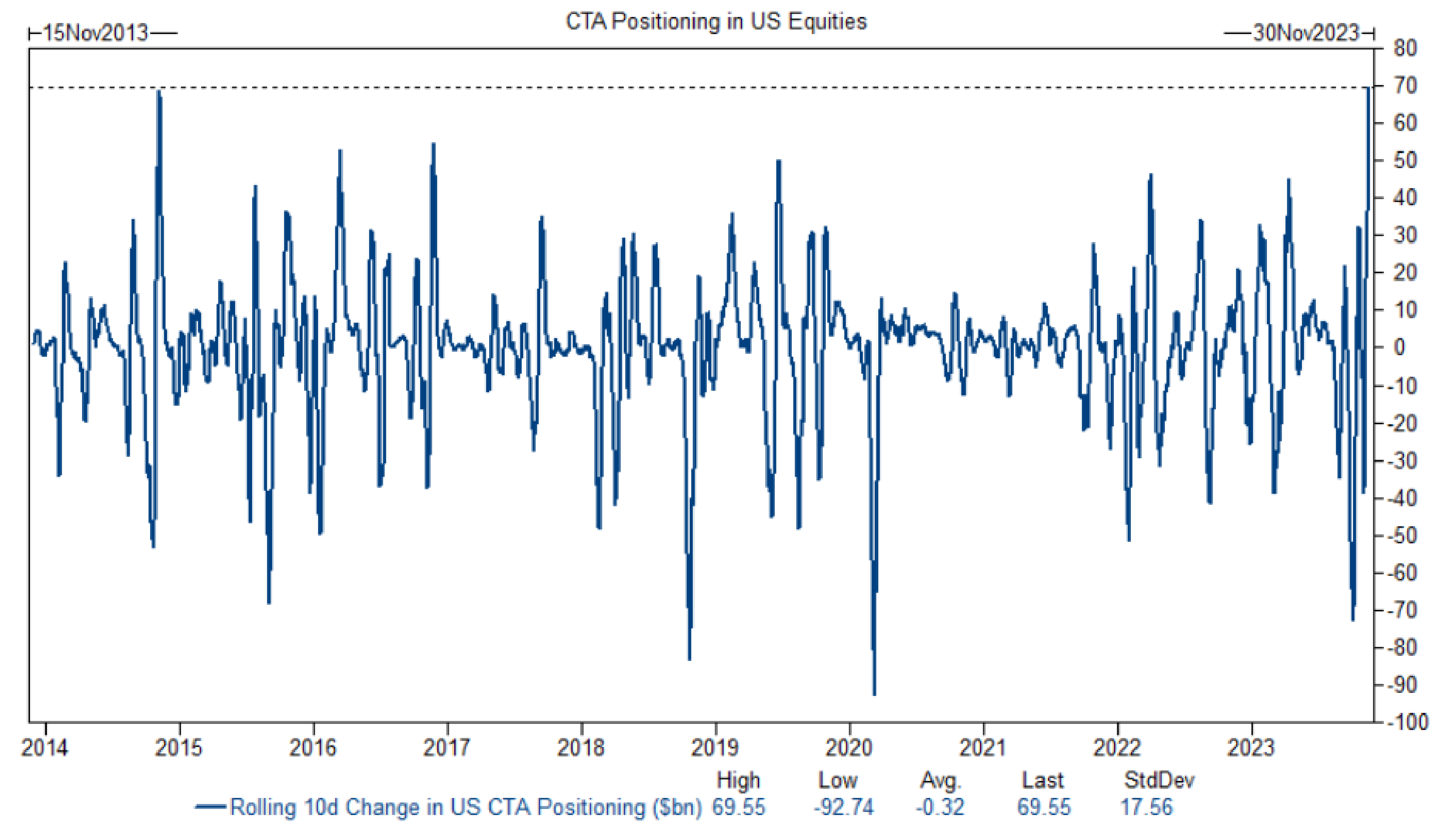
3:54 PM · Nov 20, 2023 · 3,605 Views

But it's not just 0DTE- that dynamic is dovetailing with folks still simply just getting long tech and associated derivatives in many forms. SPY/SPX/QQQ/Mag7 December and January calls for sure, but this is eye-opening:

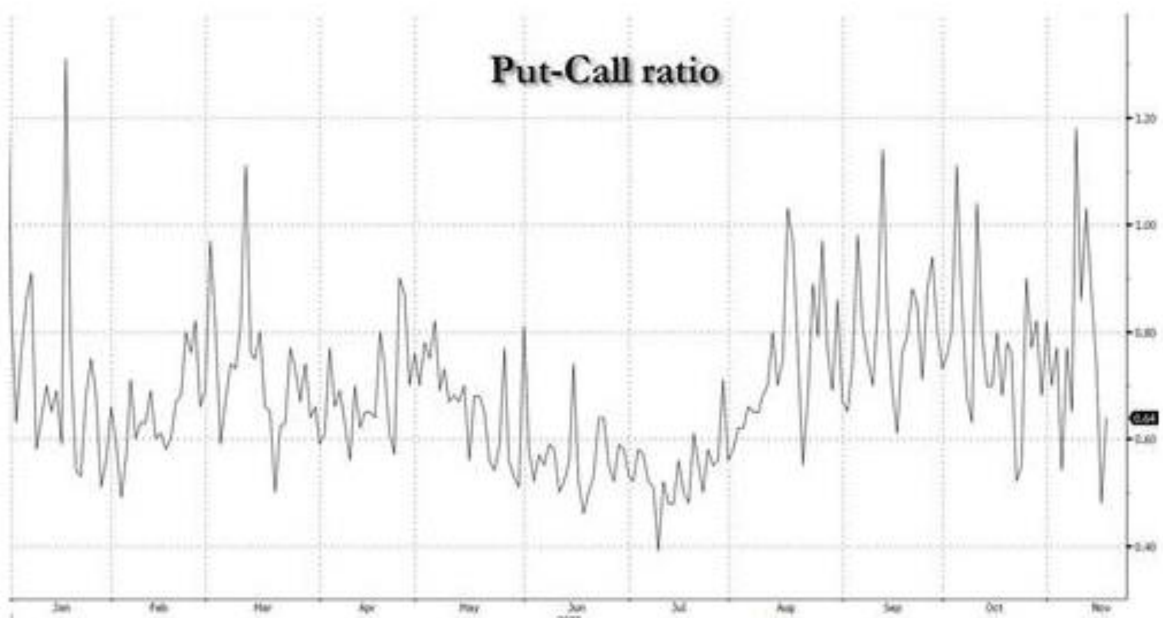


I mean, whatever's working right? And CTAs just did some record buying:

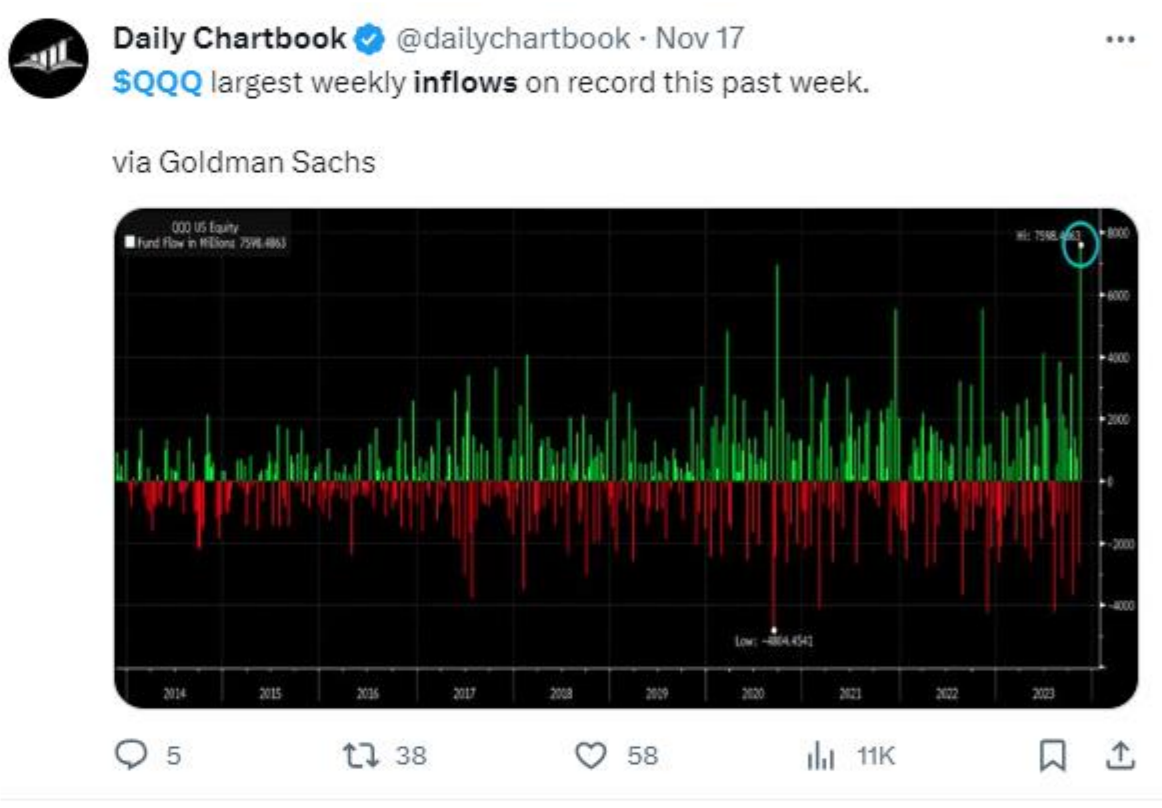
*Goldman's trading desk confirmed our observations from the start of the month, namely that "**over the last 10 days – CTAs have bought nearly $70bn of US equities…this is the largest 10d buying we have on record."***



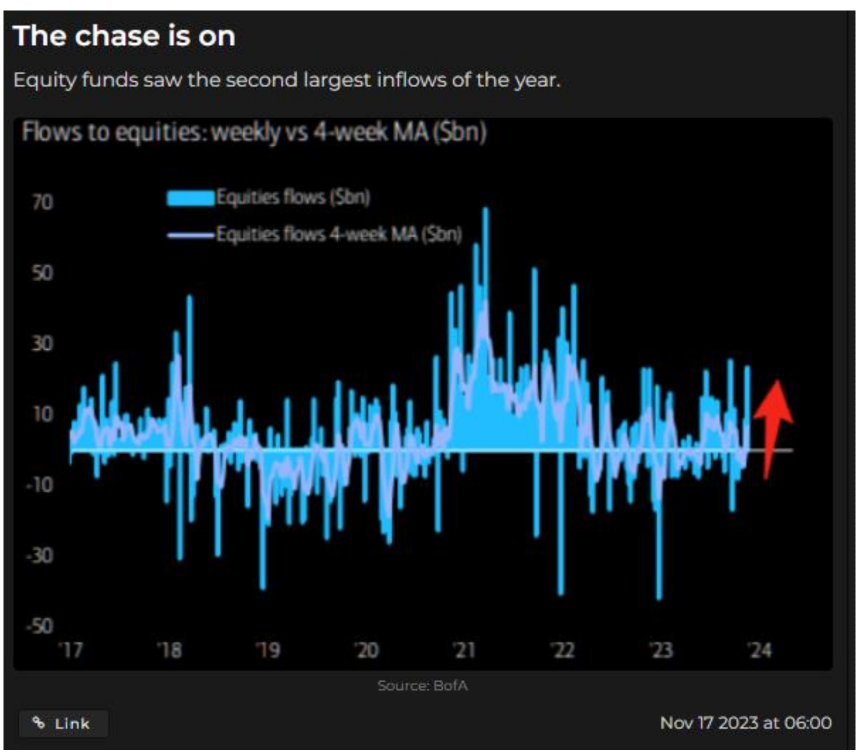
Put/call ratios in stocks are near the lows of the year, which was if you recall when the pre-tech earnings ramp was getting ridiculous:



And folks are just plain ole loading up on the tech stocks. QQQ set a record for inflows



As well as a few other things in equity land, like storming back into home builders (take a gander at an ITB chart for some humor) and emerging markets, but in reality, loading up on SPY is really just buying more mega tech since the mag7 comprise 30% of the fund/index:



Don’t forget giga tech buybacks of course, the ‘buyback window’ opened and I suppose that means that giga tech corporate traders just hit the vwap every day since it doesn’t care about buying back stock when it’s cheaper so as to be more accretive to shareholders, right?

But third, and most important, is that according to BofA, last week saw the "**largest weekly buyback in our data history (since ‘10)**" to wit:

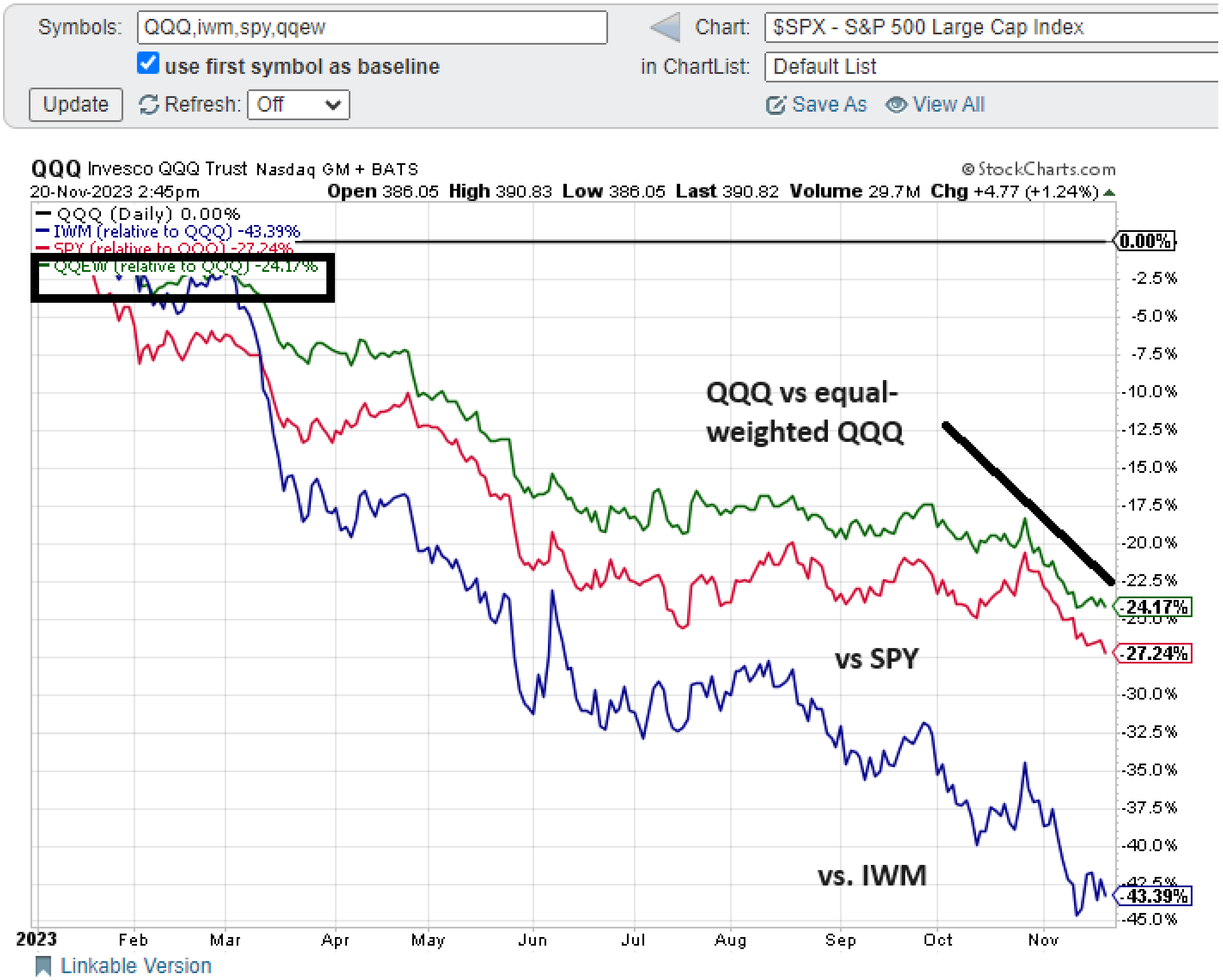
> Corporate client buybacks accelerated last week and are tracking above seasonal levels for the first time since May. YTD, corp. **client buybacks as a percentage of S&P 500 mkt. cap (0.17%) are below ‘22 highs (0.21%) at this time**

Exhibit 3: Corp. client buybacks as a % of market cap is above seasonal trend for the first time since May & this week’s inflows is the largest in our data history (since ‘10)
BofA corporate client buybacks as a % of S&P 500 market cap by week of the year vs. avg. since 2010

Source: BofA Securities

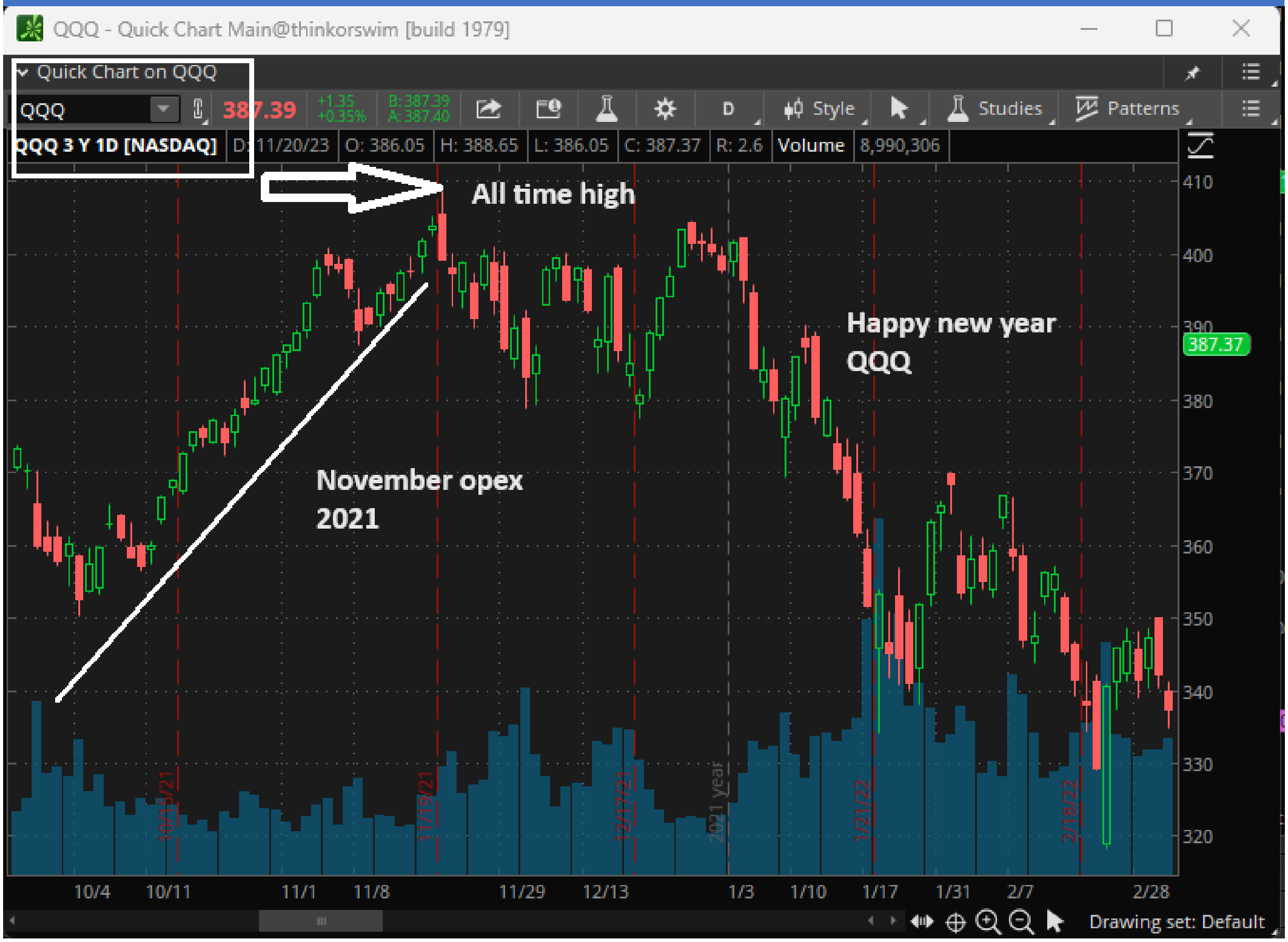
BofA GLOBAL RESEARCH

QQQ outperformance is so frothy, it is not only hitting a new high versus IWM (a record there as well, QQQ divergence from IWM) ***but QQQ is destroying in performance an equal-weighted version of itself!***



So, it's fair to say that in the blink of an eye, a tidal wave of long large cap tech crashed into markets this month as you can see and filled their holiday cornucopia with tech stocks, tech ETFs, tech calls, and tech futures. And a lot of it.

And so, I looked back at the last time we saw a huge November ramp, and when QQQ last hit it's all time high (it's a chip shot away now obviously), and wouldn't you know, it was the day after November opex in 2021:



So, while implied vol is remains almost ludicrously inexpensive versus the high realized volatility we just witnessed, it's time to carve into this stuffed bird with an eye on the Fed meeting and January's potential tech new year sobriety.

Volatility Trades:

Fed/SPY ex-div put calendar spread

Sell Dec 8th $445 put

Buy Dec 15th $445 put

Net debit: $1-1.25

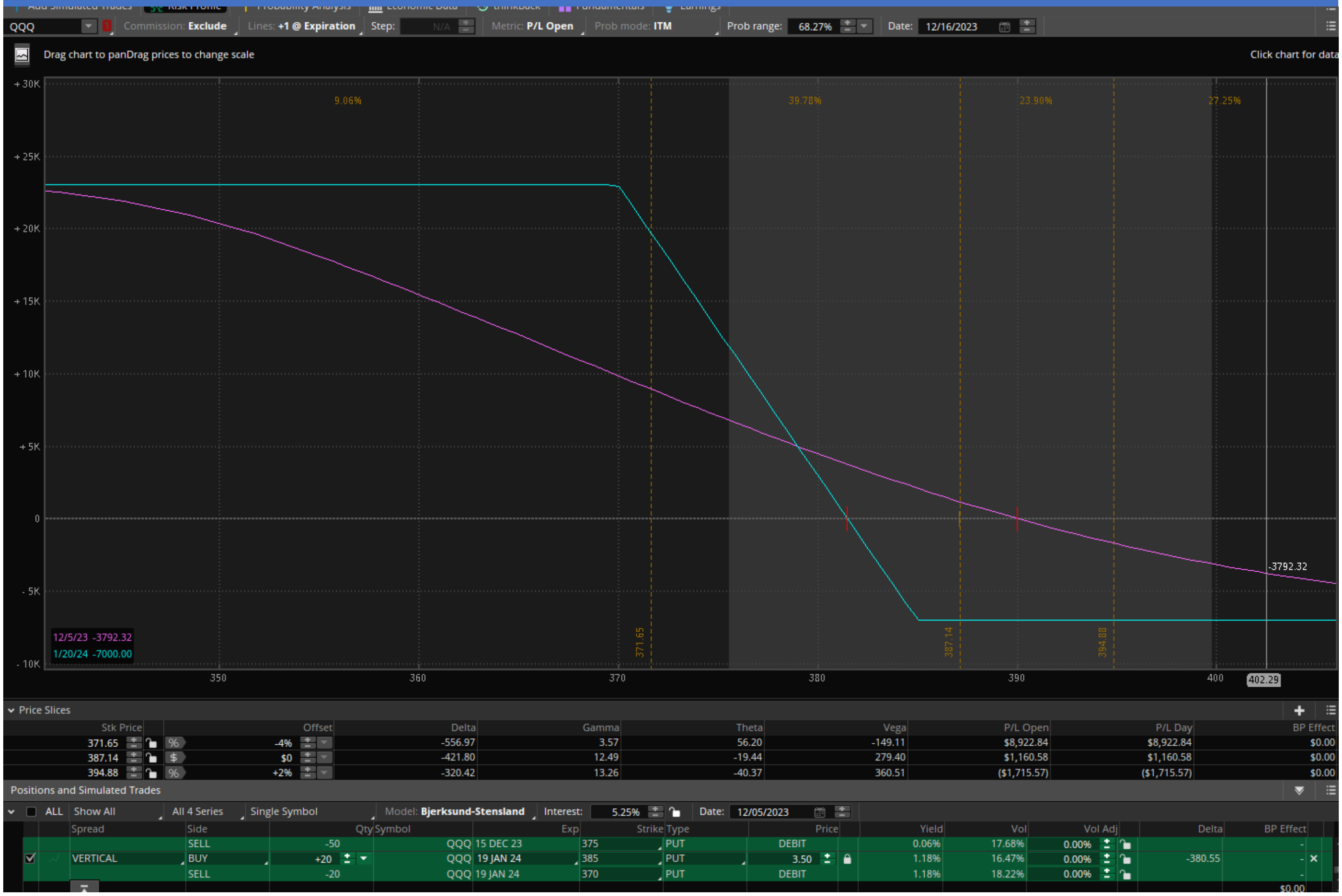
The back leg has $1.80 of ex-dividend in it, along with the Fed meeting, CPI, and quarterly opex, and it costs the equivalent of 10-12 S&P points. Simply an amazing price. I'm fairly confident that everyone long calls and tech stocks are going to be mildly aware of all these risk events when we get there. Target, 2.50-3.

QQQ January opex put vertical spread

Buy $385 QQQ put

Sell $370 QQQ put

Net debit: $3.50



This spread is based on the above QQQ scenario and includes the fact that folks will want to window dress/avoid tax until the new year. At the time of writing, it is closer to $4 so I will watch the post NVDA earnings spike and see if I can get it cheaper then.

Have a great Thanksgiving and keep an eye on the half day. I've seen strange things occur on the half-day trading Friday, and with 0DTE anything can happen. For example, in 2021 covid variant news saw the SPX drop 120 points on that half day. Imagine buying half day puts for pennies and waking up to that (or being too lazy to close short puts, the horror!), someone did. Further, the Monday after Thanksgiving, doesn't have a sanguine record either, even though Mondays are have obviously been call vol paradise.

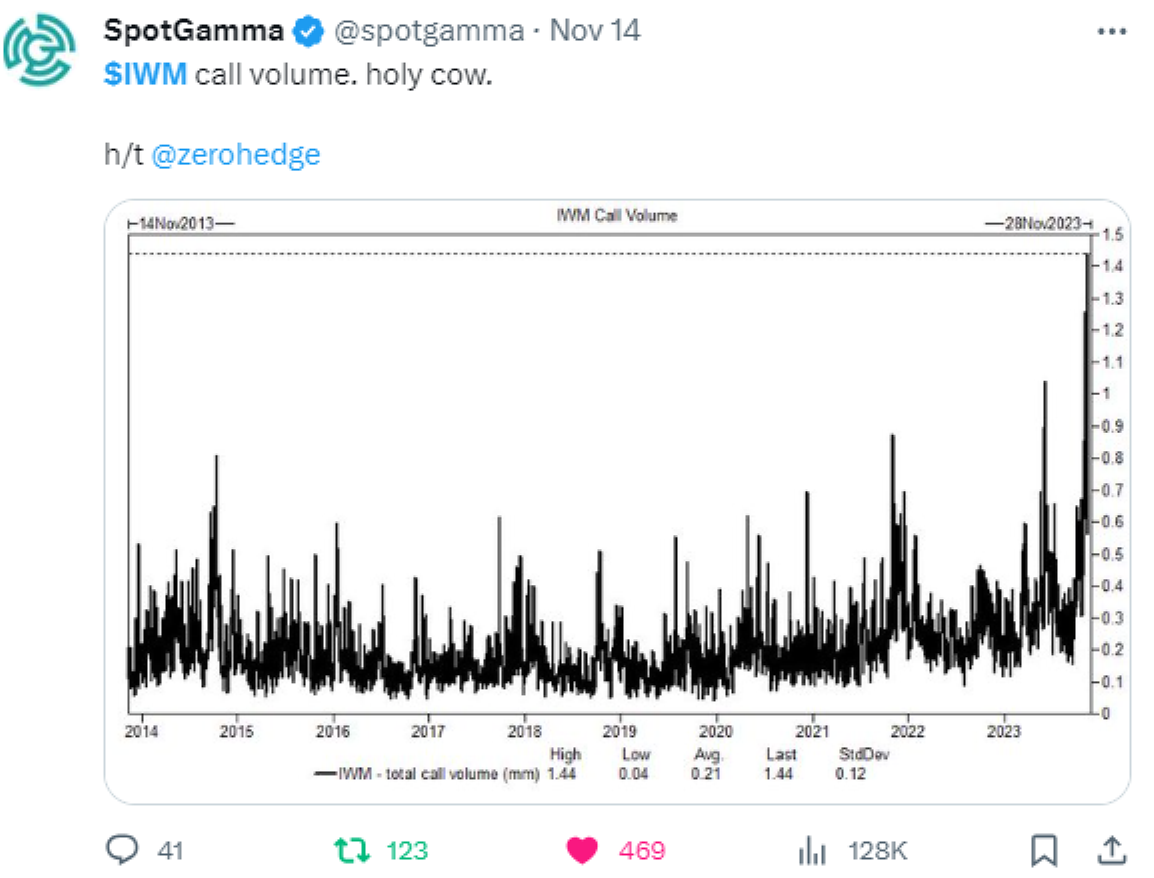
MARKETS AWAIT UNCLENCH – A THEORY ON THE REAL REASON FOR DECEMBER VOLATILITY – NVDA ON DECK- FED MEETING/DECEMBER VOL TRADE

VOLATILITY SUMMARY

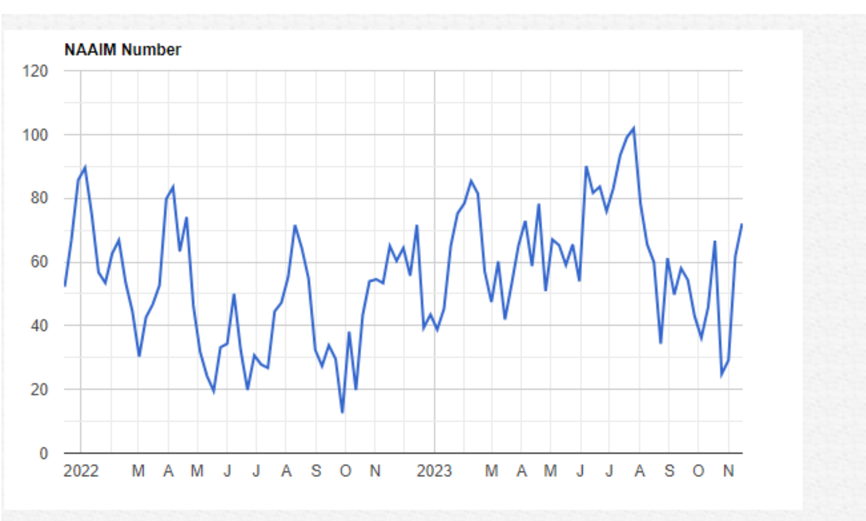
Well, this opex is more like the ole days of zirp in positive gamma, at least since the post-CPI ramp locked the index around 4500. How quaint. Every intraday dip tased by the vol selling crowd. The usual giga watering holes seeing large call gamma volume. A bucolic opex week, sit on the porch, grab a sweet tea and watch the time go by.

Yet, under the surface, bad breadth continues highlighted by this:

The Russell 2000, off over 1% while SPY/QQQ/DIA chop around flat. Water still hosing down the smoldering ashes of the short seller arson on Tuesday. Two interesting takeaways from the crime scene:



Goodness gracious, there is nothing to compare with that volume, ever. Now, here's the thing. Sentiment shifts faster than ever it seems and it's expressed with call buying. The options market has been democratized. Sentiment has gone from close to wondering where the Fed put was/recession is coming back to soft landing/we don't need a recession, literally overnight. Active managers are as invested (more like long calls, right) as they were during the July earnings season:

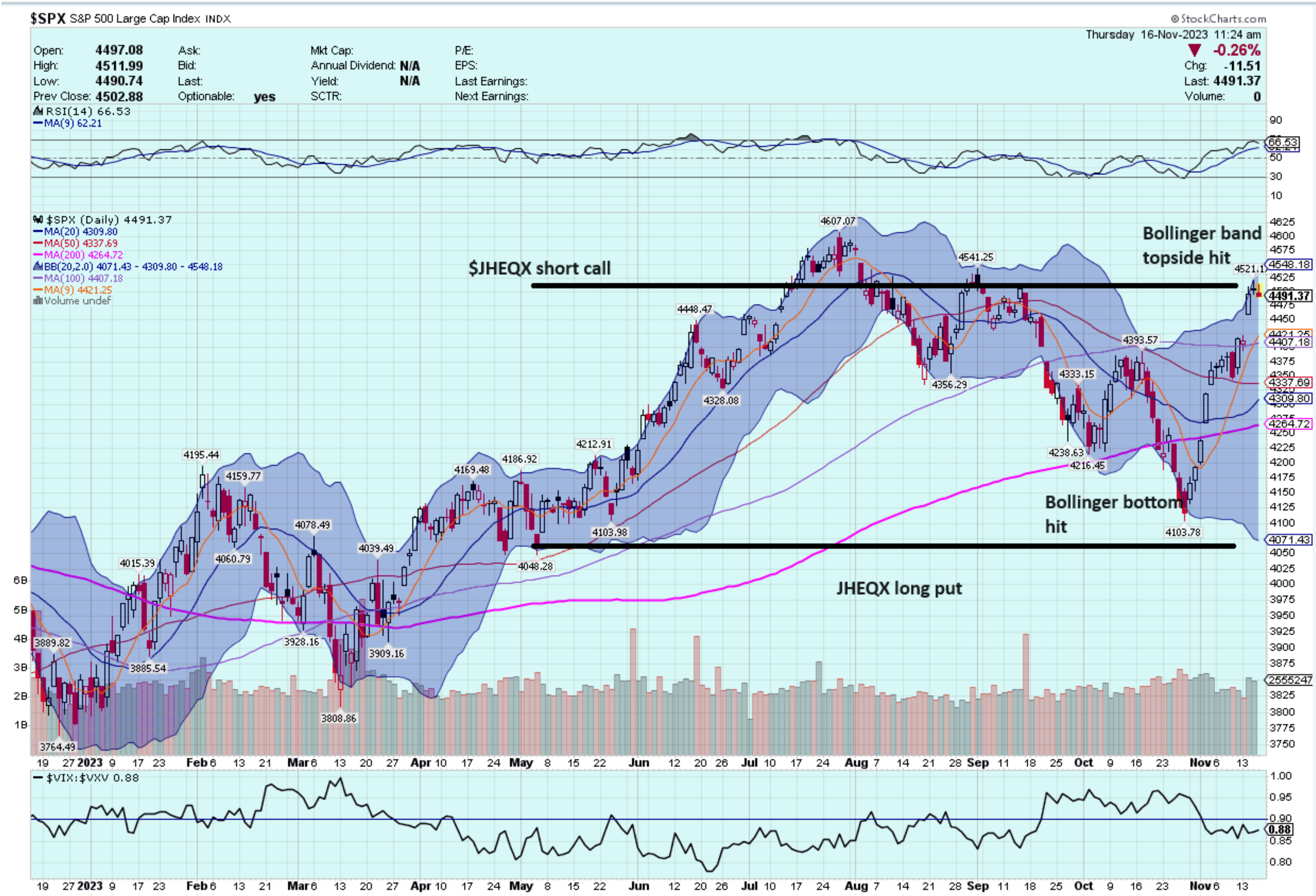


And some folks, well, they made a fortune expecting a squeeze of this magnitude. Using, yes, out-of-the-money opex expiring calls:

Now, back down most stocks slide, squeezes over, opex pinning being achieved by the Atlas' of the markets like MSFT/AAPL holding the whole special opening quotation thing at tomorrow's open together. (https://www.cmegroup.com/education/articles-and-reports/understanding-the-special-opening-quotation-soq.html)

(Which begs a thought for another day/note: If everyone has sold or is not interested in most stocks at this point, then what is the plan for next year? Are PMs going to simply load up on just giga tech on dips next year and expect 30% yet again? Will A.I. and valuation expansion be a 2023 redux?)

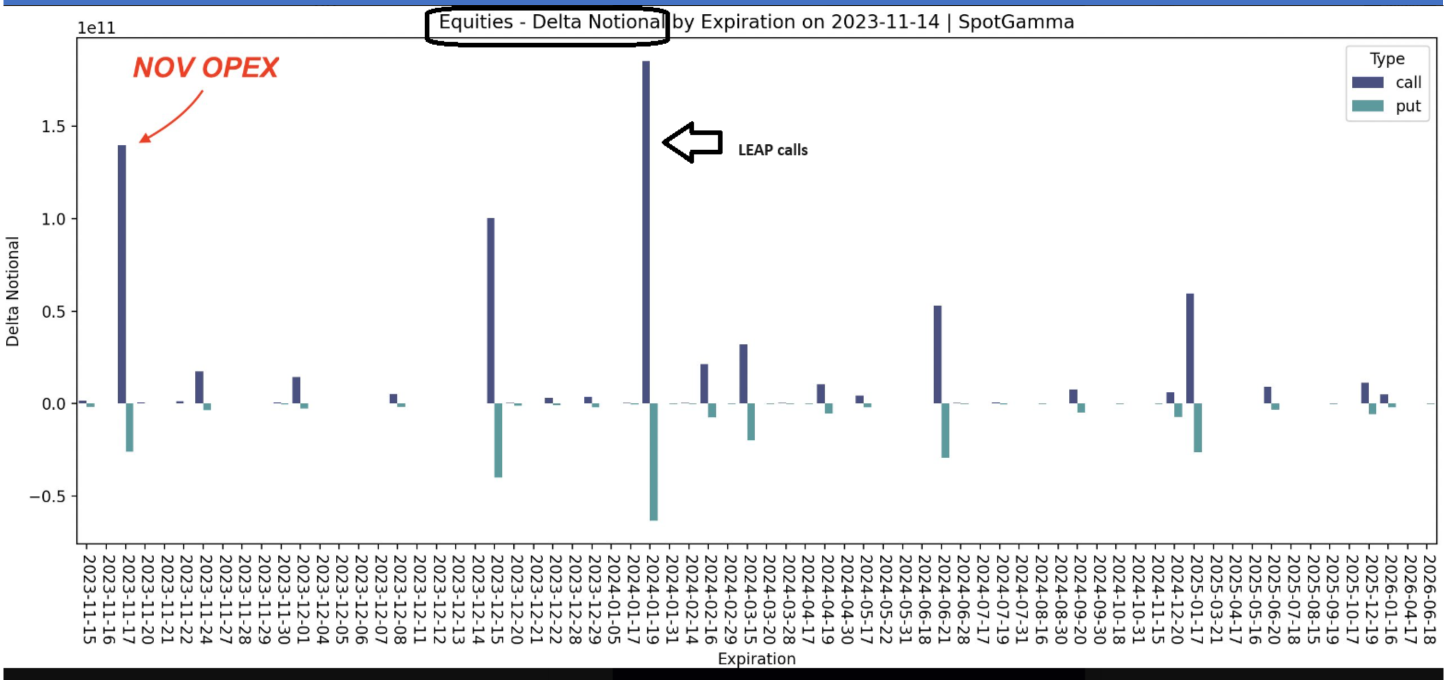
One thing I was pondering this week during the CPI gamma mayhem was the JPM collar. Can you believe that we nearly touched both sides of the collar and both Bollinger bands in only two weeks' time? Just amazing:



So, if you're scoring at home, this zero-debit collar has suddenly become a liability. 41000 or so collars, the short call being worth about $76 less the long put which is about $5.50 is roughly:

41k x 100 x $70.5 = $289mm. Not exactly pocket change for a 16B fund. The good (or scary perhaps) news is that it has 45 days or so to go, so a 5% rally into year-end would really do some damage.

IWM calls and JPM collars dovetail nicely with my topic du jour, why December volatility tends to rise after folks are beached like orca post turkey day. Take a gander at this chart:



LEAPS are calls that are listed years in advance. Basically, an opportunity for someone to own long term upside without plunking down the whole stock price or paying margin fees. And you know, these are generally folks that are long calls, not short.

What does this mean? Well, as you get closer to expiration and the deltas start to decay, you know, charm, then dealers are sellers of the long hedge. So, while the models most folks use to judge whether the market is in positive or negative gamma, this sort of flips that generality on its head.

Instead of buying back the short futures/stocks when the calls the dealers are long (covered calls sold to them) decay, it's the opposite. They are short the calls, thus long the underlying hedge and when they decay, dealers are sellers.

Take a look at the big tech stocks, at the open interest for January LEAPS, it's huge. Combine that with a lot of folks that most certainly got long calls in November post-Fed, when the seasonality/technicals/breadth thrust, what have you, signaled them to shift sentiment and go long December Santa calls as well. What you have is a lot of long calls that on a bad day in the market in December, go up in flames and dealers do a lot of selling. Hence, December volatility.

Just my theory, mind you, what exacerbates December vol. In the meantime, keep an eye on SOQ in the morning, how the market acts on that minor unclench, the markets after 3pm when there is more unclenching, and finally, if the S&P parks here, then Monday/Tuesday could be very interesting. NVDA is clearly the main event next week, so it's harder than usual to gauge how vol is going to act vis a vis unclench.

Volatility Trades:

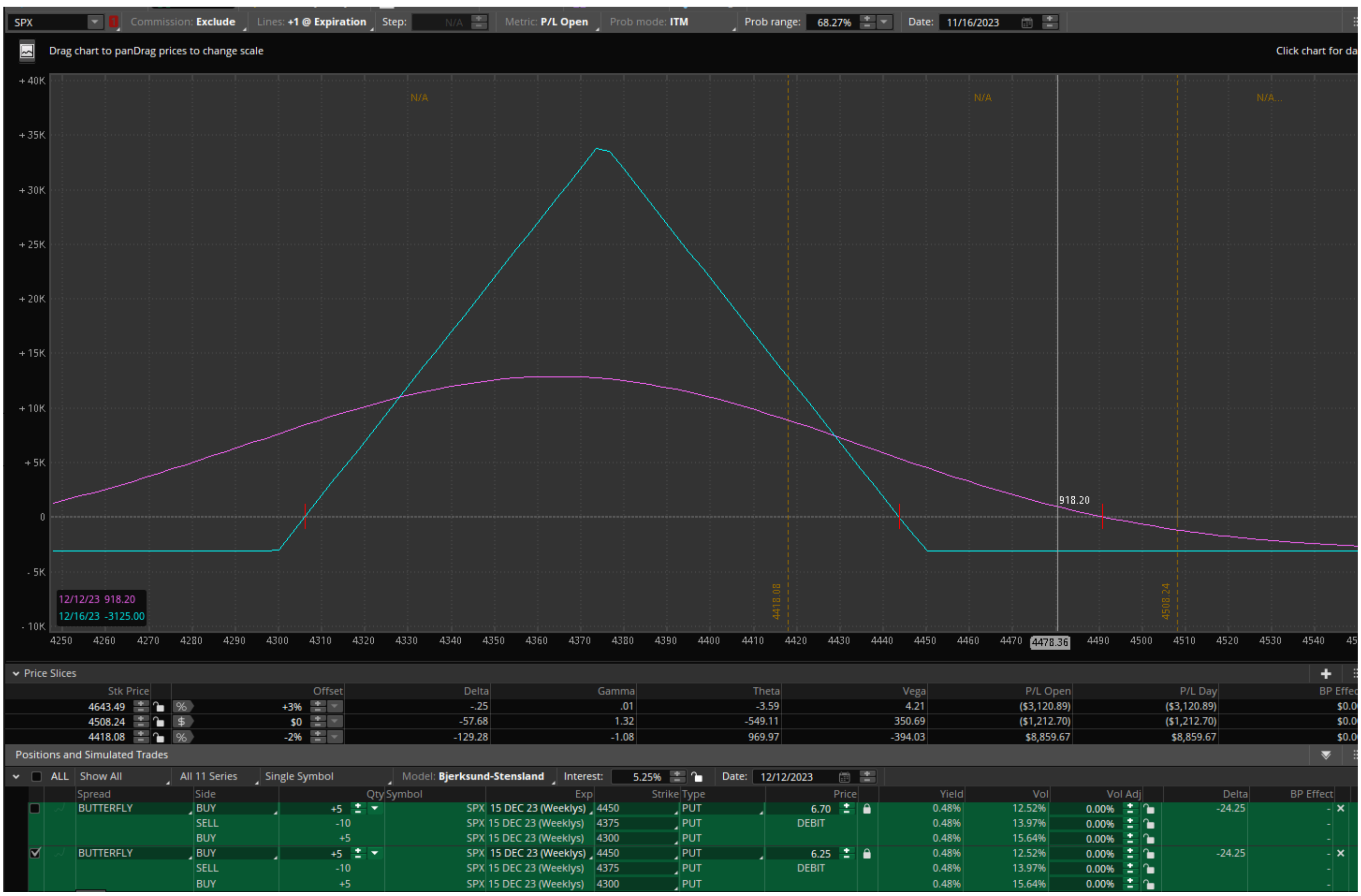
SPX Fed meeting put butterfly spread

Buy 4450 Dec put

Sell 2x 4375 Dec put

Buy 4300 Dec put

Net debit: $6-6.50



Another byproduct of an opex week like this is the room service hop that the low vol of the week gives you to set spreads for very low prices. 6 points of cost for owning 4450-4375, 8% of the width. Only 1% lower it starts to earn, and rapidly. And this spread holds a slew of risk events, JOLTS/CPI/Fed meeting/quarterly opex….It's priced as if the odds of the market having a down day in the next month are close to non-existent. Target- $12-15.

VOLATILITY ANALYTICS NEWSLETTER – DECEMBER 12TH

REALIZED VOL REMAINS HIGH AS VIX NEARS LOWS OF THE YEAR – HEDGING FOR A CHANGE IN SENTIMENT – FED MEETING/END OF YEAR

VOLATILITY SUMMARY

Another amazing gap up and gamma-fueled short squeeze, making a mockery of old-timey 'efficient' and 'forward-looking' market tripe. Today, I'm just going to focus on trades that *are* forward looking, due to the level of implied volatility nearing the lows.

Clearly these market moves are borderline astonishing at this point; it's a rally reminiscent of coming out of covid or a bank crisis, yet there wasn't anything remotely like that, which is catching just about everybody off guard. and the Russell 2000 (IWM) is having one of *its best days ever*:

Stef @ssteff31 · 2h
Replying to @VolatilityWiz
Only closed 28 times (29 times include today) in +5% in 20 years.

3 29

The ludicrously crowded Nasdaq-100 (QQQ) is *up 10% so far this month* and when you compare it to IWM, that outperformance broke out again. On top of that, with the realized volatility being this high, and it being trend vol to the upside, realized vol has surpassed implied volatility in QQQ:

It's almost as if two weeks ago, you had to have the imagination of a madman to think the S&P would travel 10% higher in two weeks. It's not like anything fundamentally has changed.

Tomorrow is vixpiration and retail sales, and while I expect virtually no impact from a negative print regarding the latter, the former might be interesting. It is often the vol dividing line/watershed between low opex week implied vol and rising vol.

If we pin 4500 or go higher, that increases the odds of unclench volatility next week if vixpiration through Friday's close is relatively uneventful. Implied volatility is quite low versus realized volatility and when you add in the fact that the markets have been moving in one direction, trend volatility is making fortunes out of long call vol geniuses.

So, I will save more commentary on the usual stuff for ensuing notes because today is the ideal time to talk about looking ahead to when sentiment is not this ridiculous. I said the same thing and did a similar note during the July earnings summer ramp, and those ideas worked out quite well.

Here is a portion of that note and you will notice a lot of similarities to today:

VOLATILITY ANALYTICS NEWSLETTER – JULY 18TH

HEDGING IDEAS WHILE IMPLIED IS LOW ANTICIPATING AN AUTUMN RETURN OF REALIZED VOLATILITY

VOLATILITY SUMMARY

While everyone waits for the A.I. mentions and resulting giga tech earnings after hours spikes, it's probably a good time to look ahead, to potentially saner times. It certainly appears that QQQ has a date with all-time highs, not far away now, prices from early 2022 when almost everyone was thinking we were in a bubble.

You don't hear that now; you hear about future revenue boosts (sound familiar?) and that the most likely scenario for the economy is the rosiest possible outcome conceived as a low probability path only months ago.

The Fed meeting next week, well that's probably not a factor; it was a vol crush springboard last month and how often does Jay actually come out and talk things down? Quite rare. And in the midst of all the tech earnings that are being unveiled, it's probably even less relevant.

Managers are panic buying, meme stocks are on fire, folks don't dare sell in front of earnings, and speculative fervor in smashing puts every day combined with call gamma sweeps, hard to imagine a meaningful dip anytime soon, as I mentioned in last week's note.

This is the kind of thing that is happening with incredible frequency:


zerohedge @zerohedge · 3m
MSFT and NVDA have added $175BN market cap today, more than the mkt cap of 462 S&P companies, and more than the value of Nike, Wells Fargo, Walt Disney, Morgan Stanley, Intel, etc
30 39 134 14K

So, while this frenzy seems to be boiling over, the goal today is to examine a few hedging trades with three requirements. Trades that are very cheap due to low demand for hedging and low implied volatility, trades that will not bleed quickly, but ones that will pay immediately if volatility magically returns in the near term or the medium term.

So, here are a few trades that adhere to the goals stated in the last paragraph. I wrote that during July opex week which was similar to this week, gaps and huge upside moves. Bullish opexes can be as crazy directionally these days as bearish opexes are, they tend to really exaggerate the move in the prevailing direction.

Volatility Trades:

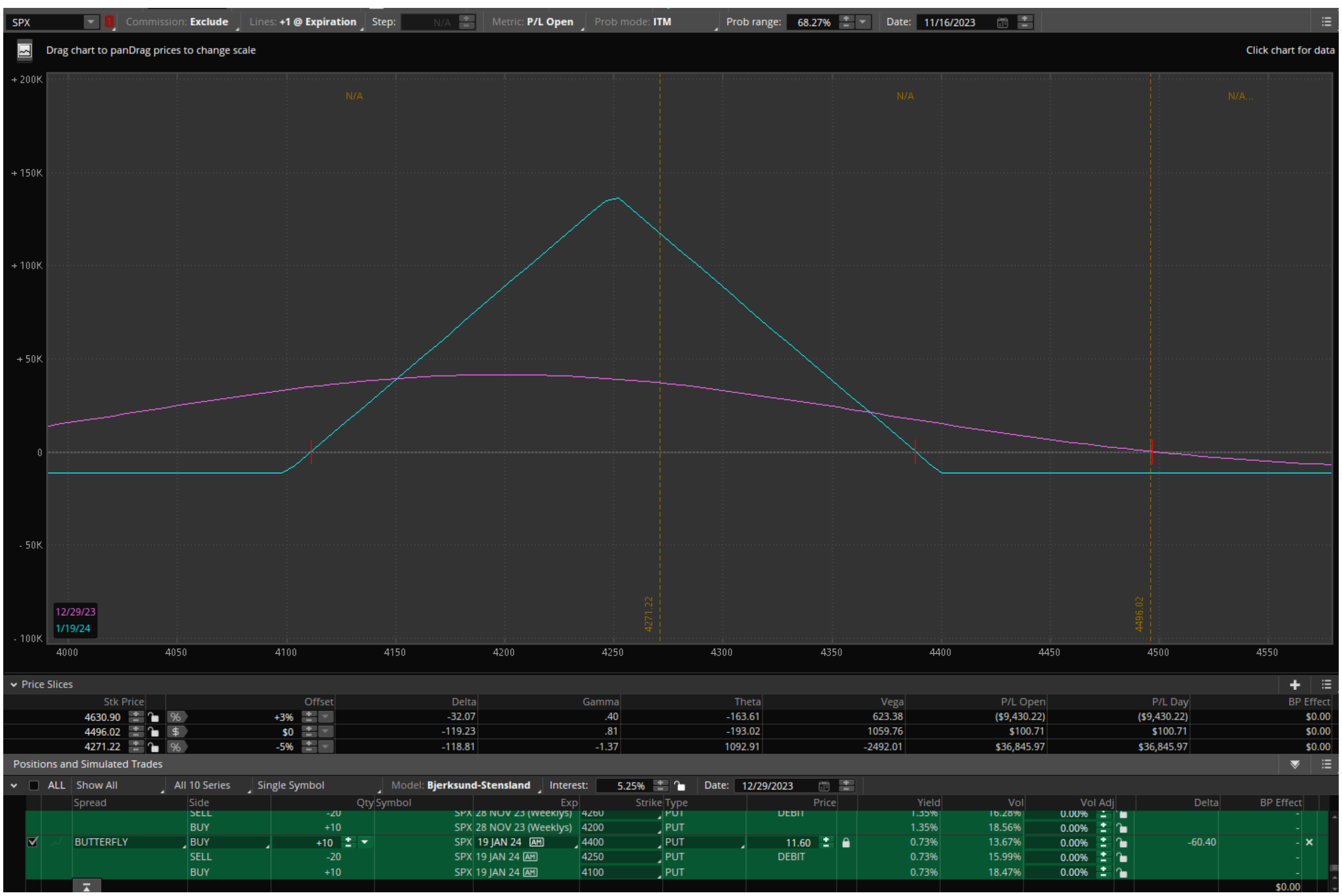
SPX January put butterfly spread

Buy 4400 put

Sell 2x 4250 put

Buy 4100 put

Net debit: $11.50-$12



150 points of downside for 12/150 = 8% of the width. Here is what I said about the nearly identical close-to-the-money put butterfly trade in July, ***which tagged the middle/short strikes at August opex:***

This is an extremely cheap trade. For about 14 SPX points, you get 150 points of downside below 4500, which is only 1% below current price. That is 9.3% of the width. I have no idea why people hedge with naked puts when you can put on a structure like this and pay so little. How much can 14 points bleed? One set of these for $1400 can easily make 500% and not even have to see the market correct 4% from today's price!

Consider this. 4550 x .96, 4% lower at September expiration is 4368. That means this fly at expiration would be worth $132. That's over an 800% return.

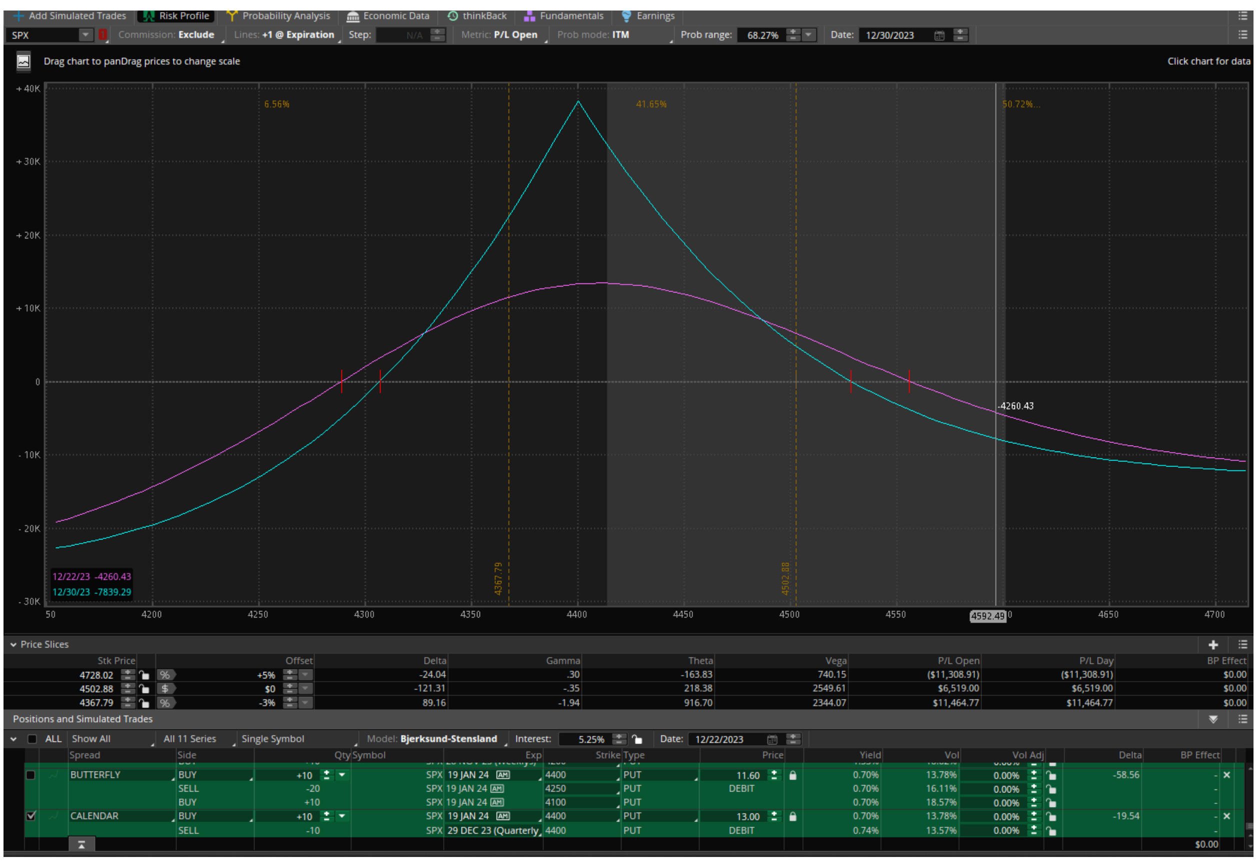
No need to elaborate further frankly.

SPX Fed meeting/Quarterly opex put calendar spread

Sell Dec 29th 4400 put

Buy Jan 19th 4400 put

Net debit: $12-14



QQQ Fed meeting/Quarterly opex put calendar spread

Sell 370 Dec 29th put

Buy 370 Jan 19th put

Net debit: $1.45-1.60

Two trades, same premise. Selling Fed/CPI/quarterly opex vol and owning new year vol for cheap. In the case of SPX, 3 weeks below 4400 for 13 SPX points, .3% of the underlying. That's a 30-minute afternoon move in SPX lately.

The QQQ trade is even more interesting, because folks are holding off selling the big names in here until the new year. Implied vol should start rising as we get closer to year end and the market realizes that.

I will be curious to see how these are pricing right before the Fed meeting. Lately, the 0-1DTE crowd vacuums the premium out before the event, leaving these events to be subject to large moves. That might be the time to kill both of these. Target $25-30 and $4-5.

MONDAY CONTINUES LEGENDARY STREAK DEMONSTRATING MARKET 'EFFICIENCY'- OPEX CYCLE CHOP ZONE CONTINUES AS EXPECTED- LOOKING AT 2018 QT CHARTS AGAIN FOR CLUES

VOLATILITY SUMMARY

Welcome to the chop zone:

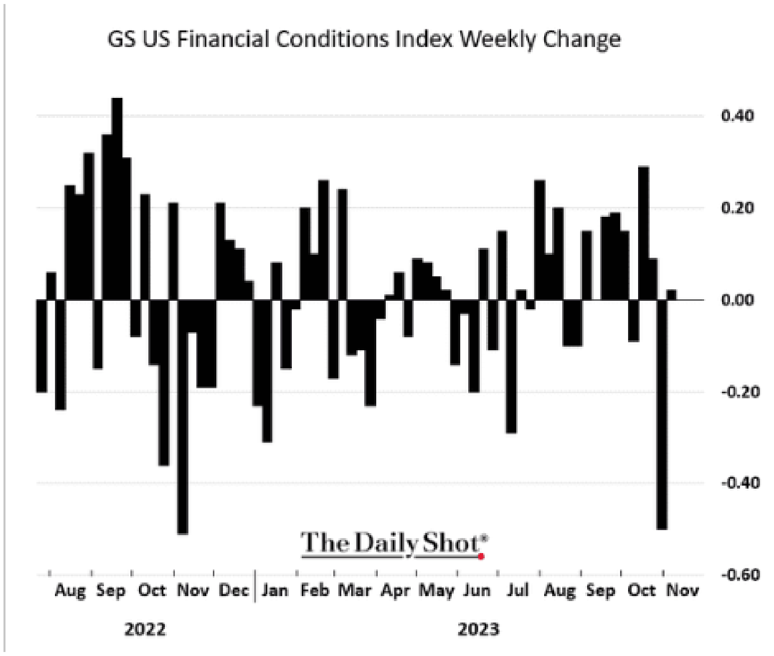
Wednesday's note:

It certainly appears to me, as I stated on Friday, that we've entered the chop area, 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.

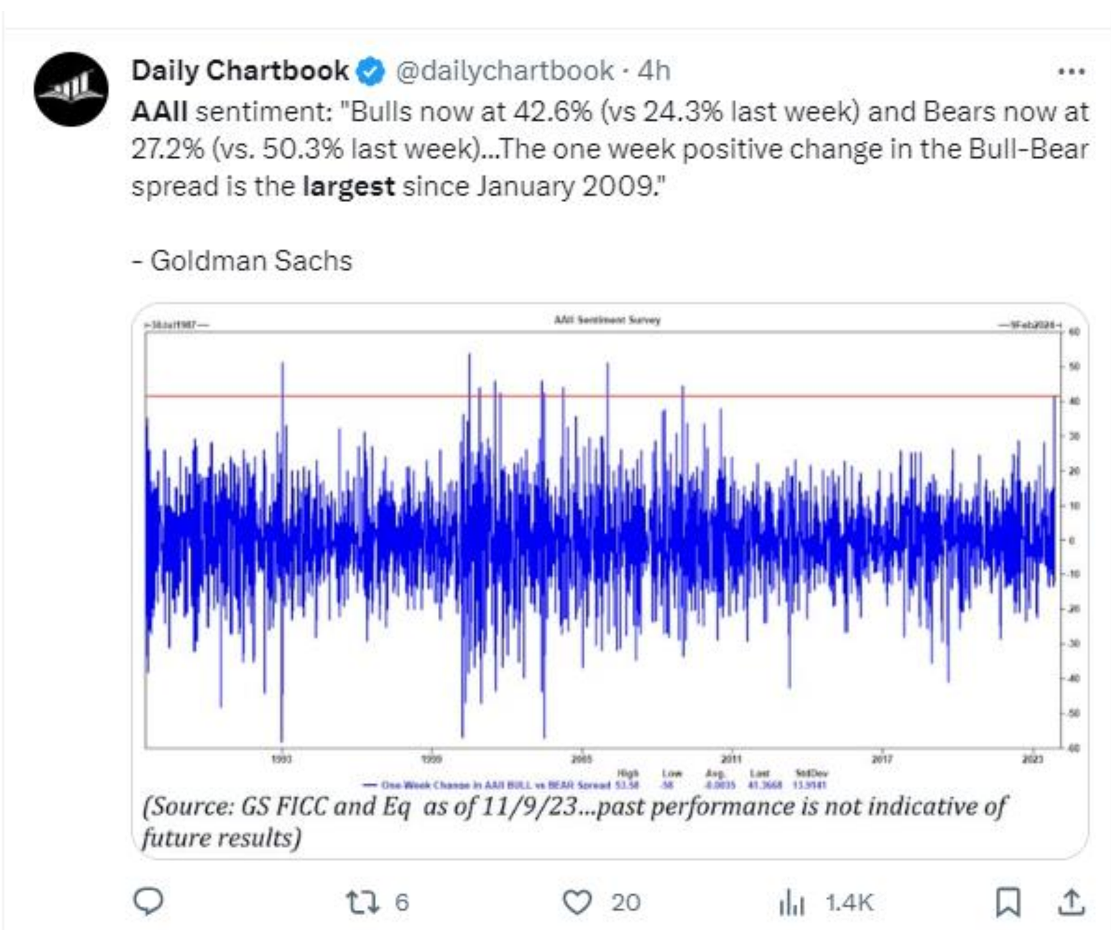
Yesterday's afternoon dip was erased with ease this morning, even as Powell got horrible news. Bad breadth folks foiled again. (See prior note) First, he was out fighting the easing that accompanied the ole 'give the market and inch and it takes the largest rally in two years', thing, since financial conditions eased markedly:

The United States: US financial conditions eased sharply over the past few days.

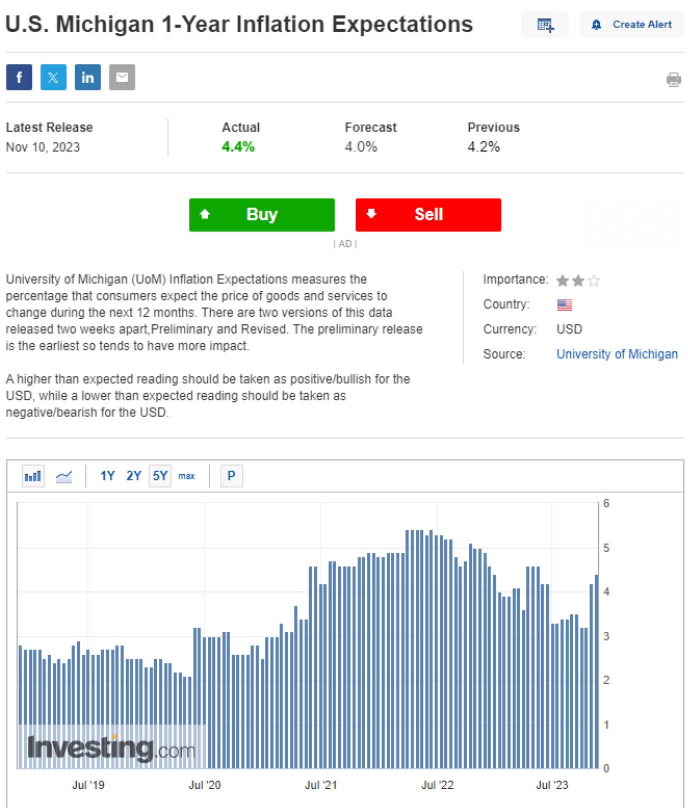
One of the largest easing weeks in ages, which shouldn't surprise anyone:

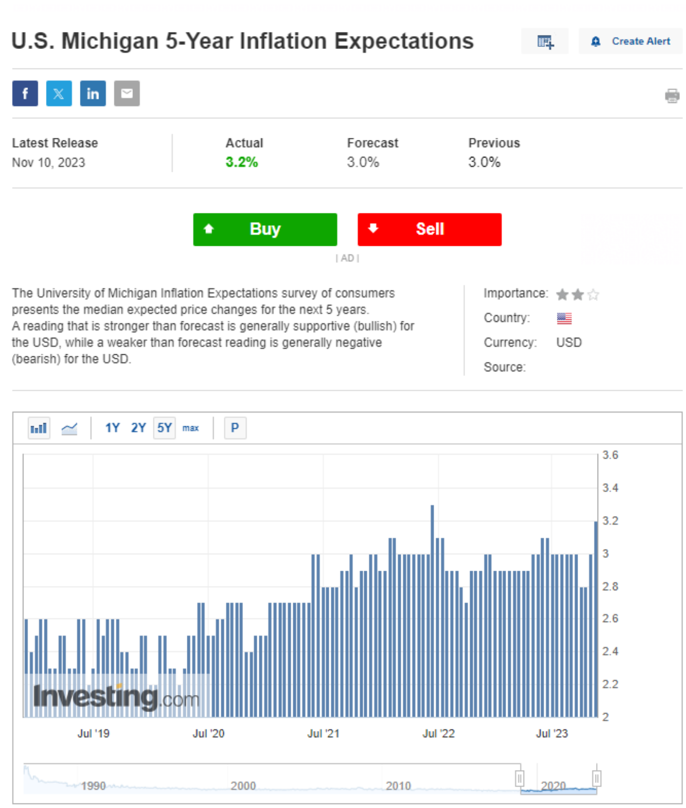


And sentiment, well, let's just say it broke the sound barrier rocketing higher in a Chuck Yeager test plane:



Thus subsequently, Powell was out doing his thing, trying to put the horse back in the barn, when he got this news today, which is precisely the kind of inflation news his horrible dreams are made of:





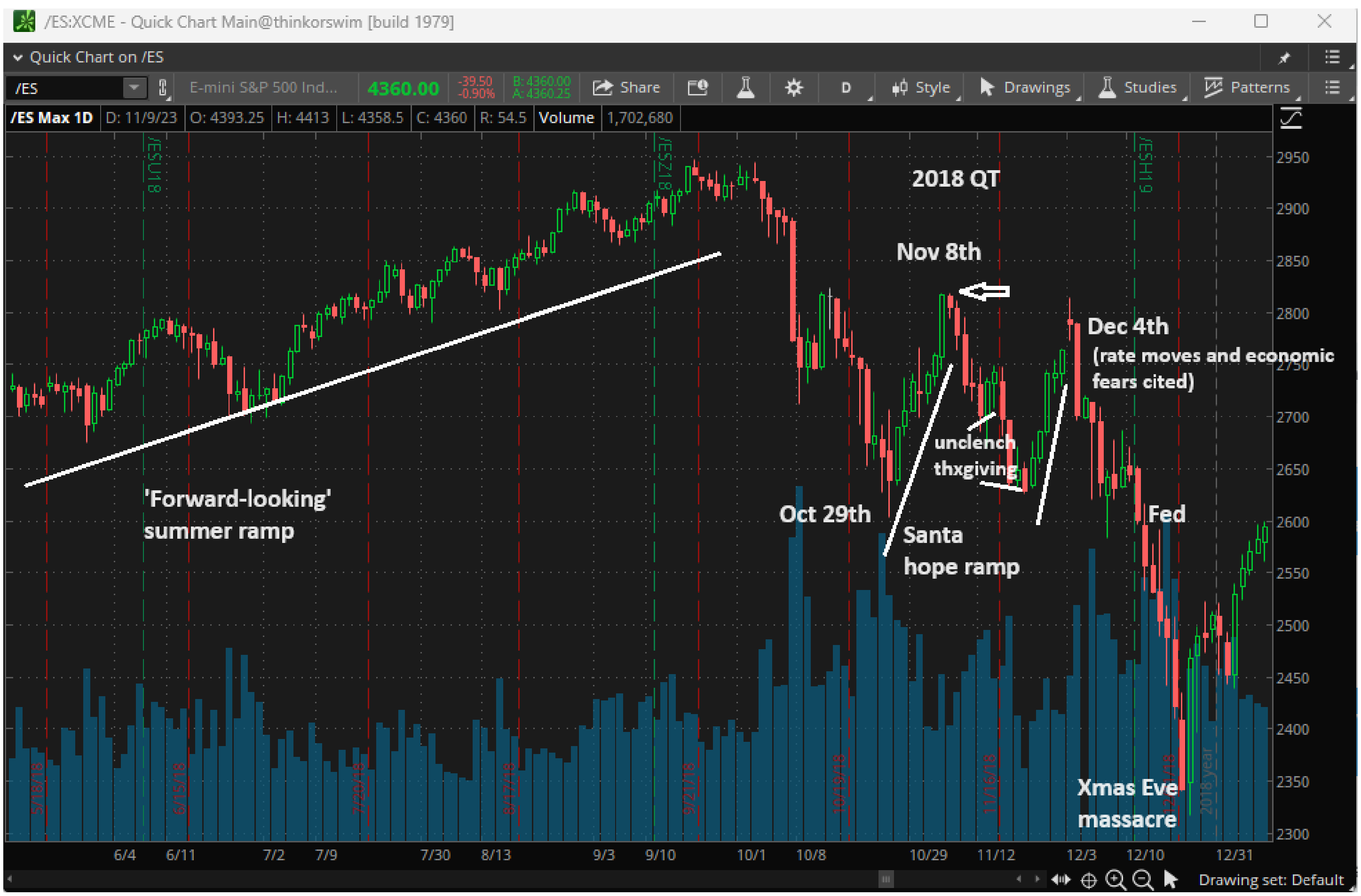
5-year inflation expectations near a multi-decade high? One year inflation expectations surging even as oil/gasoline fall….clearly he felt like:

Doesn't Powell always say that it's critically important to not let inflation expectations become embedded? Just yesterday he said:

> Policy restraint in this case is also good risk management. Supply shocks that drive inflation high enough for long enough can affect the longer-term inflation expectations of households and businesses. Monetary policy must forthrightly address any risks of a potential de-anchoring of inflation expectations, as well-anchored expectations help facilitate bringing inflation back to our target. The sharp policy tightening during 2022 likely contributed to keeping inflation expectations well anchored.

Get ready for an endless slew of Fed speak threatening future hikes, and Jay's pre-Christmas podium show might just not yield the same warm and fuzzy results that last week's did. They have no choice but to push back on easing conditions aggressively and CPI next week, things most certainly would auger well if it also exceeds expectations.

To that point, let's go back and review how 2018's QT and rate peak and how that went for the indices:

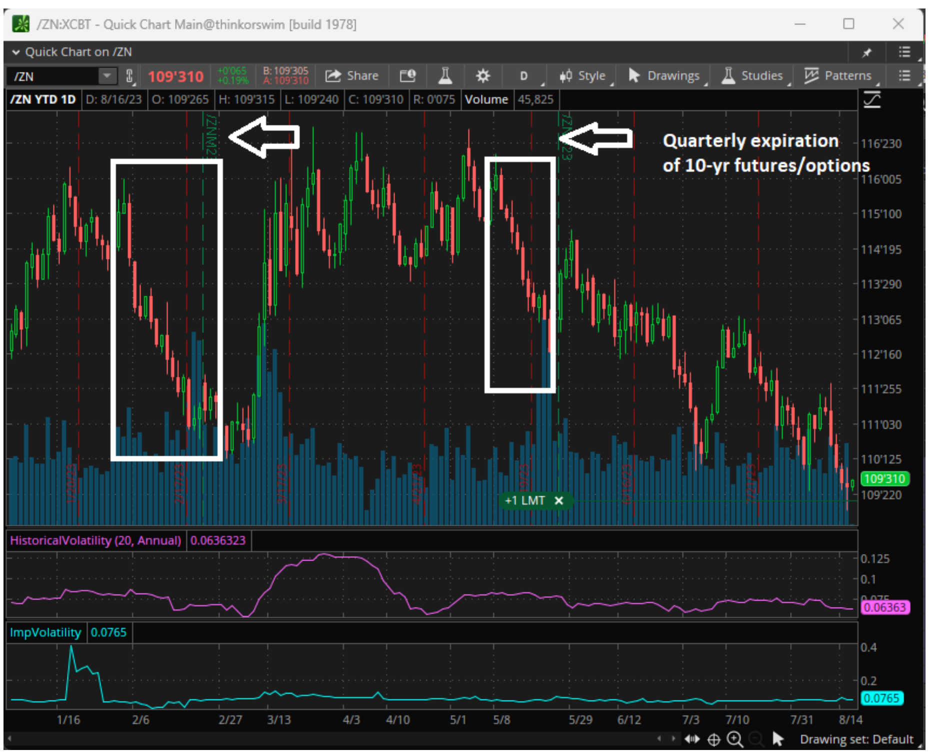


It obviously is not going to work out like this, but it certainly looks awfully similar thus far to this year. Back to the October levels, retracing the entire drop. Interestingly, back in 2018, if you look at news reports from December 4th, moves in rates and fears of a recession were blamed for the huge drop that day, sound familiar?

Speaking of rates and the 10-yr yield, December futures options expire soon, and this is a topic I discussed in August as having the potential to cause volatility, which it did into that expiration:

August 14th and 30th notes:

You know what's coming up, and is coincidentally on the date of Jackson Hole? Treasury note futures options quarterly expiration, a biggie, and specifically the 10-yr note futures contract. Just like everything else these days, it has large open interest and, well, look at this:



When these are falling it means that the 10-yr yield is rising, consider it a sort of inverse chart. So, there is a lot of options gamma in these right now, all those open and traded options have to be dealer hedged, just like stocks and indices options and this often forces rates higher during high gamma time periods. And we all know that a rising 10-yr causes stress in just about everything, and yes, in the tech stocks everyone loves.

And:

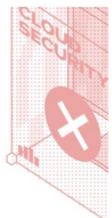
In fact, Bloomberg today highlighted a large seasonal arbitrage trade around 10-yr futures that occurs at the end of these cycles and had a lot of hedge funds shorting 10-yr futures which drove up yields:

Surge in Hedge-Fund Treasury Shorts Hints at Rise of Basis Trade

- Short positions in futures rose as recent bond selloff crested
- Indicates increasing leverage that raises volatility risks

By Edward Bolingbroke
August 29, 2023 at 4:46 PM EDT

Listen 3:35



A surge in short sales of US Treasury futures suggests hedge funds are expanding basis trades, a popular tactic that may be injecting leverage into a bond market whipsawed in the wake of this month's selloff.

So, lots of reasons for more volatility in the near term:

-CPI and PPI next week

-Those data points occur around vixpiration, frequently a volatility watershed point:

'With opex a week away, and vixpiration Wednesday, heavy chop is expected. And Wednesday's vixpiration, often the vol watershed day, happens again to coincide with the outset of giga tech earnings season. How did that go in July?'

Source: October 13th letter

-10-yr futures options gamma could enhance rates vol and thus equities vol

-Plain ole opex and unclench

-Fed needing to parrot more hawkish commentary

-Bullish sentiment surge

But before that cluster of vol events, we all know what has become a de facto free ride for QQQ call option longs right? The glorious streak of Mag7 Mondays, will we see the 19th straight?

Volatility Trade:

QQQ Dec 8th Jolts/NFP early Dec vol put butterfly spread

Buy $370 Dec 8th put

Sell 2x $360 put

Buy $350 put

Net debit: $1.00-1.20

Critical Fed data during this timeframe, the week before the meeting. NFP is the second Friday in December, not on the 1st, a calendar quirk that happens occasionally. This timeframe is often quite volatile anyway, as it was during 2018 QT as we saw in the chart above. Target $4.

DIVERGENCES, BAD BREADTH AND HERDING RULE – MARKETS HAVE ENTERED THE CHOP ZONE – IS THERE AN END OF YEAR UNCLENCH COMING?

VOLATILITY SUMMARY

Markets change and evolve but people, not so much. Market dogma, a lot of those professorial rules that the CFA adopted as biblical chapters in how things work or should work don't apply in the same way anymore. Here is an example of someone that doesn't get it:

Christmas' rally cancelled

Mike Wilson argues that the chances of a 4Q rally have fallen considerably. His observations on narrowing breadth, cautious factor leadership, falling earnings revisions and fading consumer and business confidence support this assertion, while consensus sees a rally into year-end that's based mostly on bearish sentiment and seasonal tendencies. He sticks with his long-standing YE S&P target of 3,900, which implies a 17x multiple on our 2024 EPS forecast of approximately $230. (MS)

Link

Oct 30 2023 at 16:40

His timing was exquisite. The strongest rally in two years came immediately after this, leaving people who think in old-timey concepts of bear markets in the dust.

Hey, Mr. Wilson! (couldn't help myself) This is markets reality:

I belong to a generation whose every member has seen the movie Meatballs. Among its most famous scenes is the one where Camp North Star head counselor Tripper Harrison (played by Bill Murray) delivers a fiery motivational speech to his young charges on the eve of North Star's annual beatdown at the hands of rival Camp Mohawk in a multi-event "Olympiad" sports competition. Harrison's impassioned soliloquy culminates in the refrain "It just doesn't matter," which becomes a chant that the campers take up and repeat as they charge out of the cabin, fired up to compete and not caring if they win or lose.

Nope, earnings, a recession or even an earnings recession… simply reach into your show & tell grab-bag of negatives and pull one out, show the class. Then sit down because they don't matter right now. Price to earnings multiples on the market? Haaa, that is pure comedy, nearly everyone follows companies' adjusted earnings now.

Breadth? I've been hearing about this forever now it seems, and it hasn't mattered a whit. And you just knew didn't you, you like I could feel them coming, that the gamma/vol crush nitrous ramp would bring out these almost pathetic tweets:

Walter Deemer @WalterDeemer · Nov 4

1/2 Saints preserve us -- we got a Whaley Breadth Thrust Friday! It takes Advances > 73.66% of Advances+Declines over a five-day period to get one. Friday's reading was 75.96% (Column N in the worksheet). This is the ...

Show more

Show this thread

	A	B	C	D	E	F	G	H	I	J
1	Date		Advances	Declines	UpVolume	DnVolume		10-D Adv	10-D Decl	"B/
2										1.9
3281	16		2132	758	2877	457		14920	13976	
3282	17		1685	1203	2724	1021		16130	12706	
3283	18		482	2412	631	3026		14866	13983	
3284	19		582	2286	930	2988		14174	14708	
3285	20		788	2069	830	3102		13100	15710	
3286	23		896	1983	1144	2574		12034	16781	
3287	24		2008	872	2474	1301		11914	16889	
3288	25		683	2230	1061	2773		10838	18006	
3289	26		1508	1355	2166	2050		11860	16956	
3290	27		749	2137	847	3088		11513	17305	
3291	30		1999	882	2611	1250		11380	17429	
3292	31		2069	834	2898	1304		11764	17060	
3293	Nov 1		1943	954	2420	1755		13225	15602	
3294	2		2583	328	4192	497		15226	13644	
295	3		2416	486	3758	777		16854	12061	

There it is!

Sat 8:08 PM

Ryan Detrick, CMT @RyanDetrick · Nov 3

We officially saw a super rare Zweig Breadth Thrust today. Thanks to @NDR_Research for the data.

This rare signal is simply stocks moving from ...

Show more

Comedic Footnote: Do you know what nitrous does to gasoline and the functioning of the engine? Well, if you substitute gamma for nitrous and markets for engine in this definition my analogy is quite 'fire' as the kids say:

How Does Nitrous Oxide Help an Engine Perform Better?

Updated: Apr 19, 2021

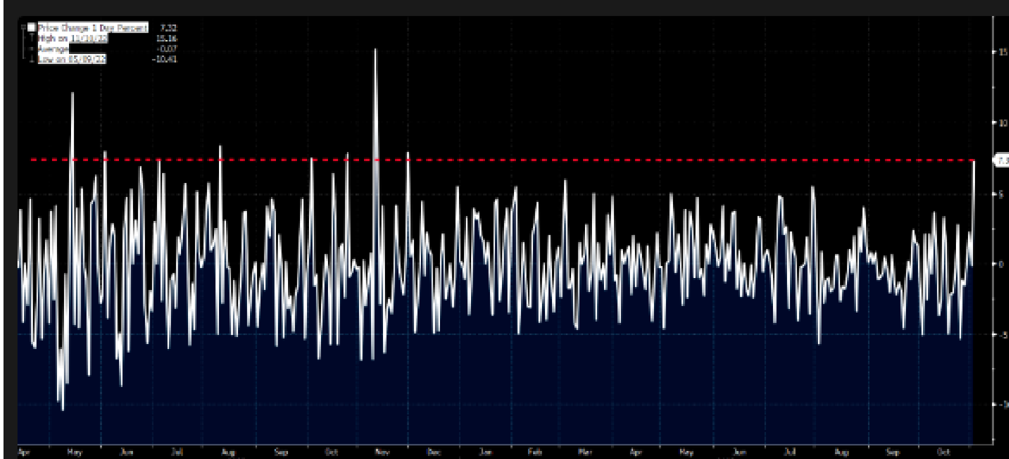
You may have read our article about how sodium chlorate acts as a way to store oxygen. You release the oxygen in sodium chlorate by heating it. It turns out that nitrous oxide (N20) works exactly the same way. When you heat nitrous oxide to about 570 degrees F (~300 C), it splits into oxygen and nitrogen. So the injection of ~~nitrous oxide~~ gamma into an ~~engine~~ market means that **more oxygen is available during combustion**. (of vega) Because you have more oxygen, you can also inject more fuel, allowing the same engine to produce more power. ~~Nitrous oxide~~ gamma is one of the simplest ways to provide a significant horsepower boost to any ~~gasoline engine~~ market.

Nitrous oxide has another effect that improves performance even more. When it vaporizes, nitrous oxide provides a significant **cooling effect on the intake air**. When you reduce the intake air temperature, you increase the air's density, and this provides even more oxygen inside the cylinder.

So, these 'breadth thrusts' which were simply an upside cocktail of implied vol incineration, aforementioned gamma fuel and of course, short covering in the junk names, because hedge fund factor crowding is a big part of the clown car giga tech herding situation:

Everything good comes to and end

Systematic Long/Short managers saw a decline of 1.1% yesterday, marking the third largest daily drop this year. The unwinding of crowded positions (with crowded shorts rising by 2 standard deviations) and stocks with high short interest (increasing by 2.6 standard deviations) were the primary causes of the "pain". Chart shows non profitable tech 1 day moves.



Source: Bloomberg/GS

Link

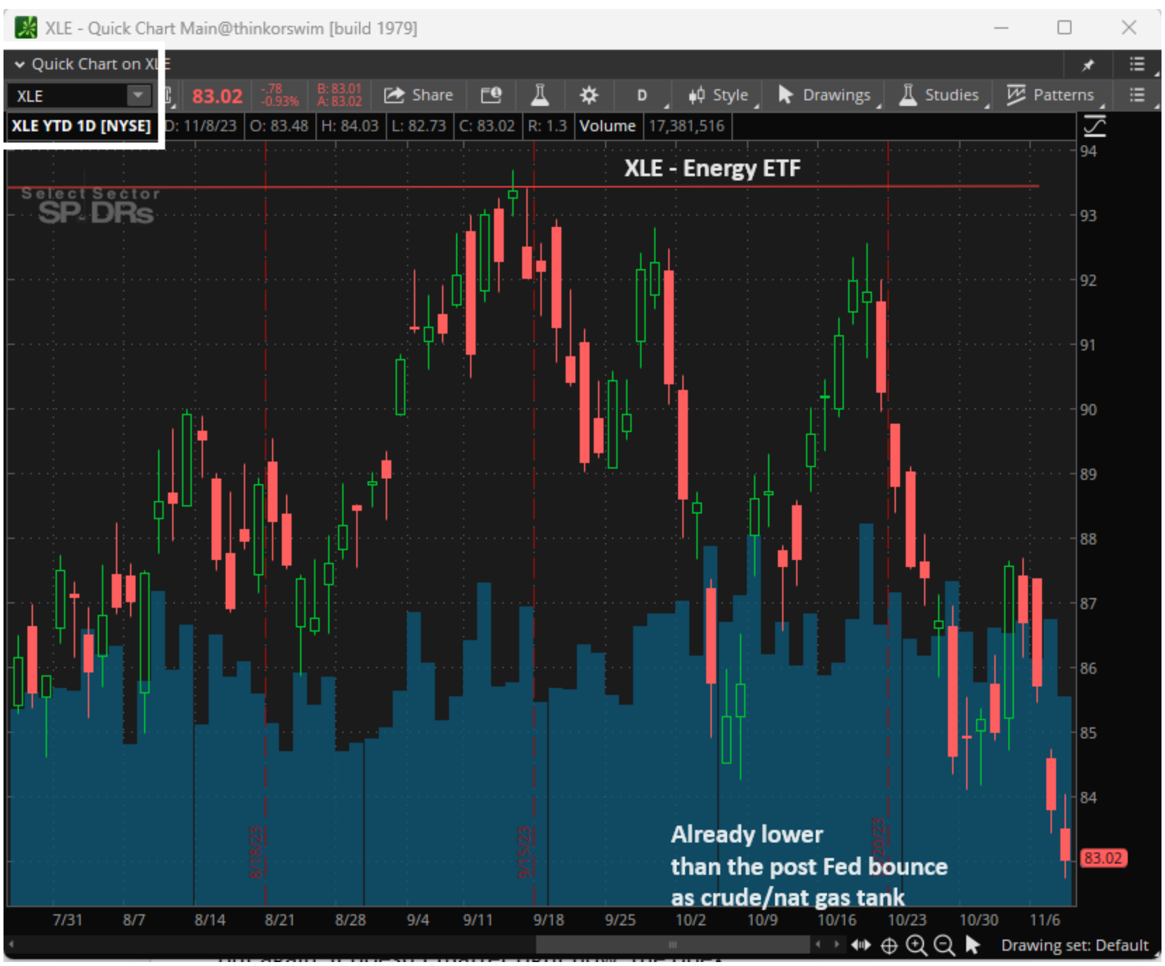
Nov 03 2023 at 11:00

This reminds me of what I wrote a few notes ago about 'sharpe' hedge fund trades, which basically highlighted the crowdedness of the low vol giga tech versus the high vol unprofitable or economically and rate sensitive stuff. I mean, that pretty much sums it up, the markets this year. Folks are really, really long/stuffed into the clown car oasis stuff and not liking basically anything else due to what is inevitably coming down the pike next year.

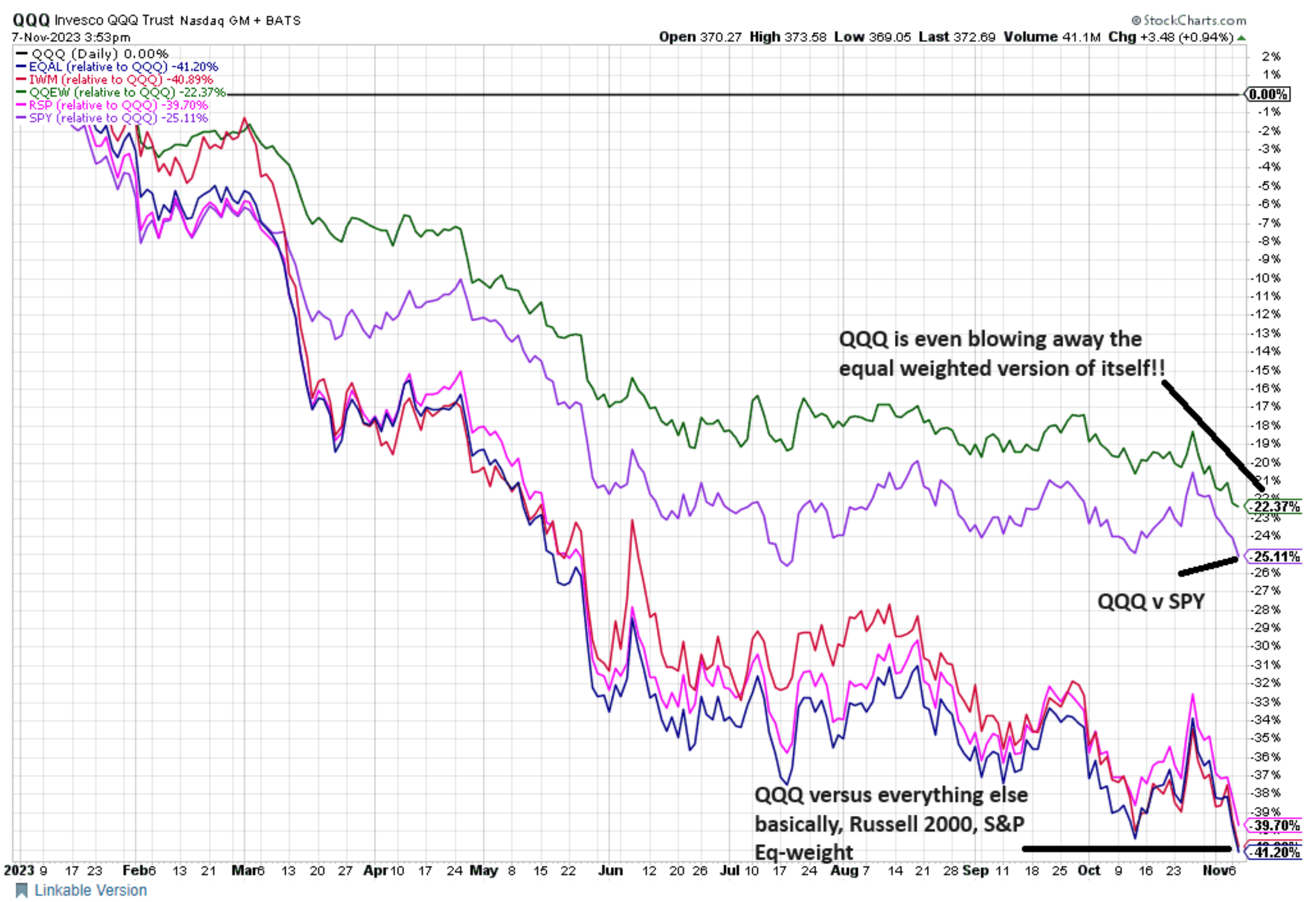
Nearly every day lately it seems, and even this week with SPX and QQQ still rising, a lot of stocks are down and this crowded hedge fund trade continues to earn, unabated:

Speaking of next year, and I will further delve into this topic as we approach year end, I can foresee a situation where seasonality and the calendar push this market jalopy sputtering into the December 31st garage, only to see implied vol perk up with that specific point in time. By market jalopy, you know what I mean, I'll let a couple charts do the explaining:


IWM - Quick Chart Main@thinkorswim [build 1979]
Quick Chart on IWM
IWM
169.7175
Share
4h
Style
Drawings
Studies
Patterns
IWM 360 D 4h [NYSE]
O: 171.69 H: 172.13 L: 169.3 C: 169.73 R: 2.83 Volume 20,508,664
iShares by BlackRock
Russell 2000 ETF
back to pre-NFP prices already
192.5
190
187.5
185
182.5
180
177.5
175
172.5
169.73
167.5
165
162.5
Mon Fri Thu Mon Thu Tue Fri Tue Mon Thu Tue Fri Tue Fri Tue Fri Wed Mon
Drawing set: Default


XLE - Quick Chart Main@thinkorswim [build 1979]
Quick Chart on XLE
XLE
83.02
Share
D
Style
Drawings
Studies
Patterns
XLE YTD 1D [NYSE]
D: 11/8/23 O: 83.48 H: 84.03 L: 82.73 C: 83.02 R: 1.3 Volume 17,381,516
Select Sector SPDRs
XLE - Energy ETF
Already lower than the post Fed bounce as crude/nat gas tank
94
93
92
91
90
89
88
87
86
85
84
83.02
7/31 8/7 8/14 8/21 8/28 9/4 9/11 9/18 9/25 10/2 10/9 10/16 10/23 10/30 11/6
Drawing set: Default

And like QQQ is the one investment ring to rule them all, here is the one chart to rule them all, depicting the market jalopy for what it truly is:



I discovered something interesting today. I was pondering this market structure, and how narrow it is, and the equal weight ETFs, and I thought, ‘Why aren’t there more ETFs that simply take advantage of the fact that herded stocks outperform the indices almost all of the time?’

I mean, this is pretty much a fact, not to belabor again the point that valuations are pretty much useless in today’s markets, but beyond the reality of it being true for a long time, it is even more true today; the investing flows in the passive investing dominated world keep siphoning to the herded names.

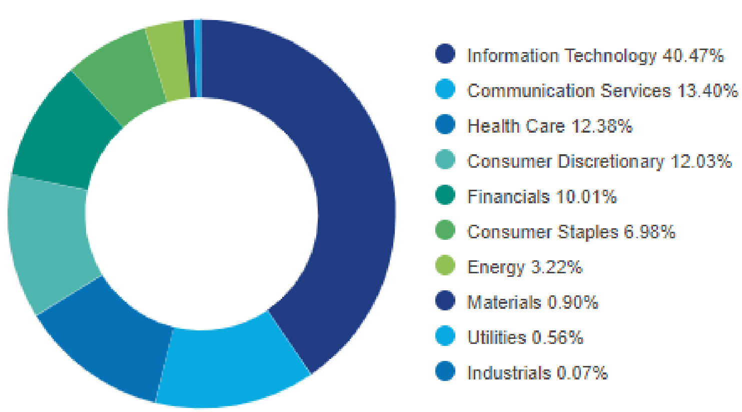
So, why not more ETFs that simply hold the biggest names? And then I thought, ‘What if there was an ETF that held stuff like LLY and UNH, the herded names in non- giga tech in case/when there’s a rotation?’ Well, I happened to find one, XLG:

Product Details

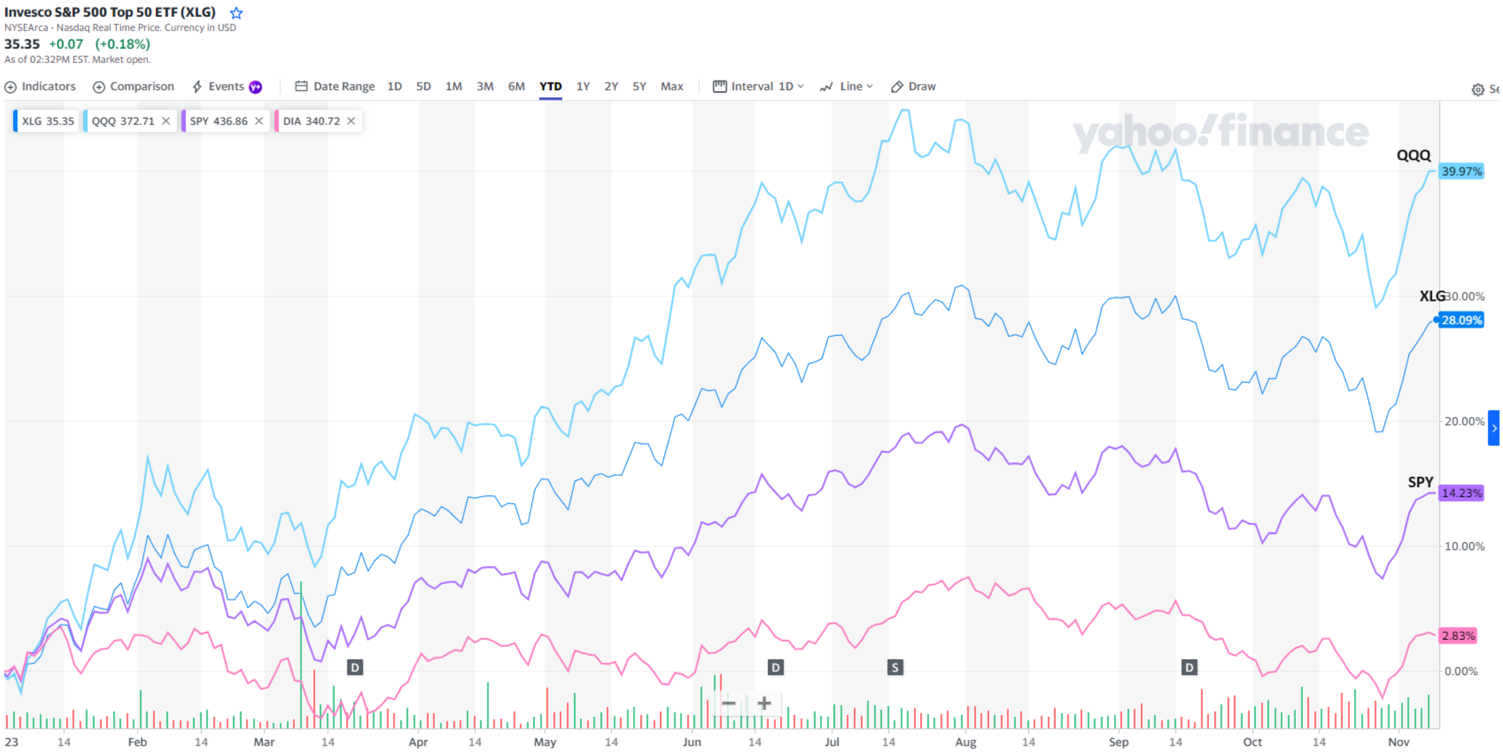
The Invesco S&P 500® Top 50 ETF (Fund) is based on the S&P 500® Top 50 Index (Index). The Fund will invest at least 90% of its total assets in securities that comprise the Index. The Index is composed of 50 of the largest companies in the S&P 500® Index. The Fund and the Index are rebalanced annually.

Sector Allocation

as of 11/07/2023



And how pray tell has this ETF done this year versus QQQ and the SPX?

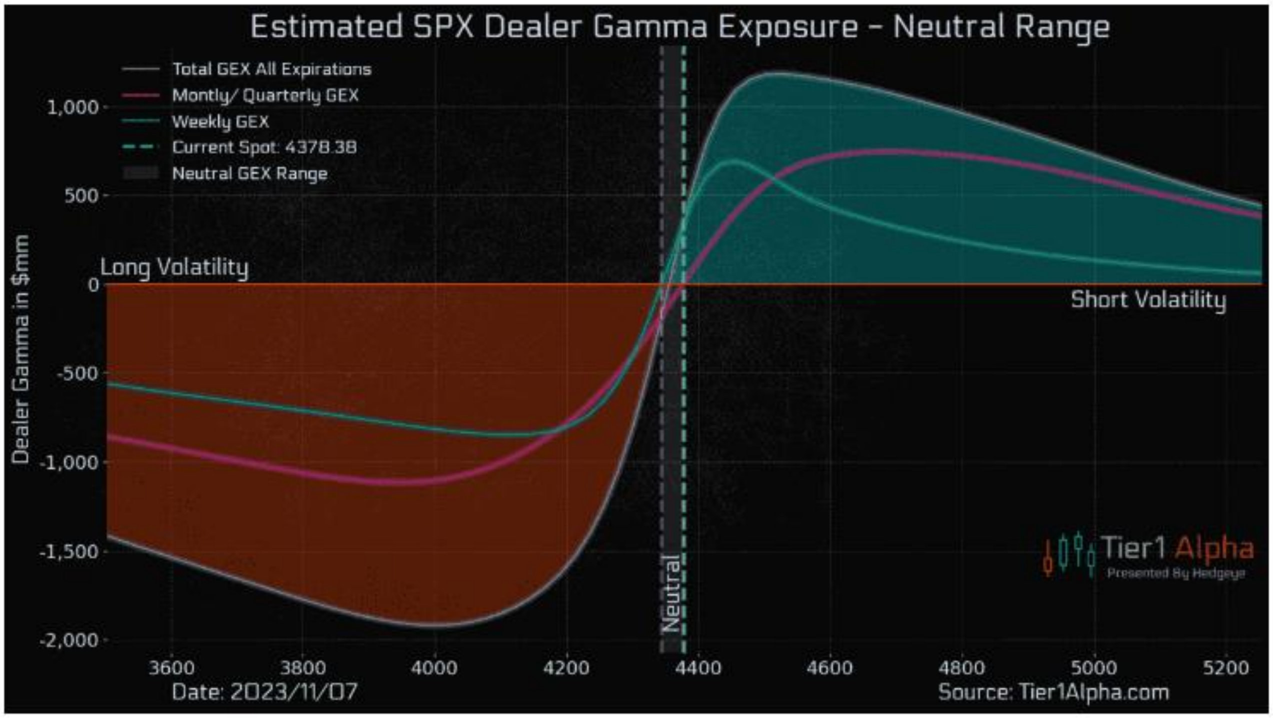


How about that? Not too shabby. Sure, it holds a lot of giga tech, but it *outperformed QQQ by 10%* when it was getting hammered last year when folks had a brief bout of herding dizziness regarding rates and tech duration. Don't kid yourself, in a down year, 10% outperformance means a ton to a portfolio manager. You can basically create your own typical hedge fund by owning this and long TWM (2x short IWM) and SARK (short ARKK- unprofitable tech).

Anyway, back to the here and now, the opex cycle as it were, and the chop zone. This is how it went in October, and similarly to different extents in most months this year:

It certainly appears to me, as I stated on Friday, that we've entered the chop area, 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.

What may differ from October, is how opex week goes and in my opinion, it mostly comes down to this:



Earlier this week, we introduced our neutral gamma window, which measures the spread between the weekly gamma flip and the monthly gamma flip. Today, that gap has narrowed significantly, which means if dealers are pushed back below the 4355 strike, there is less of a buffer on the other side before dealers will be back in a vol-supplying, negative gamma regime.

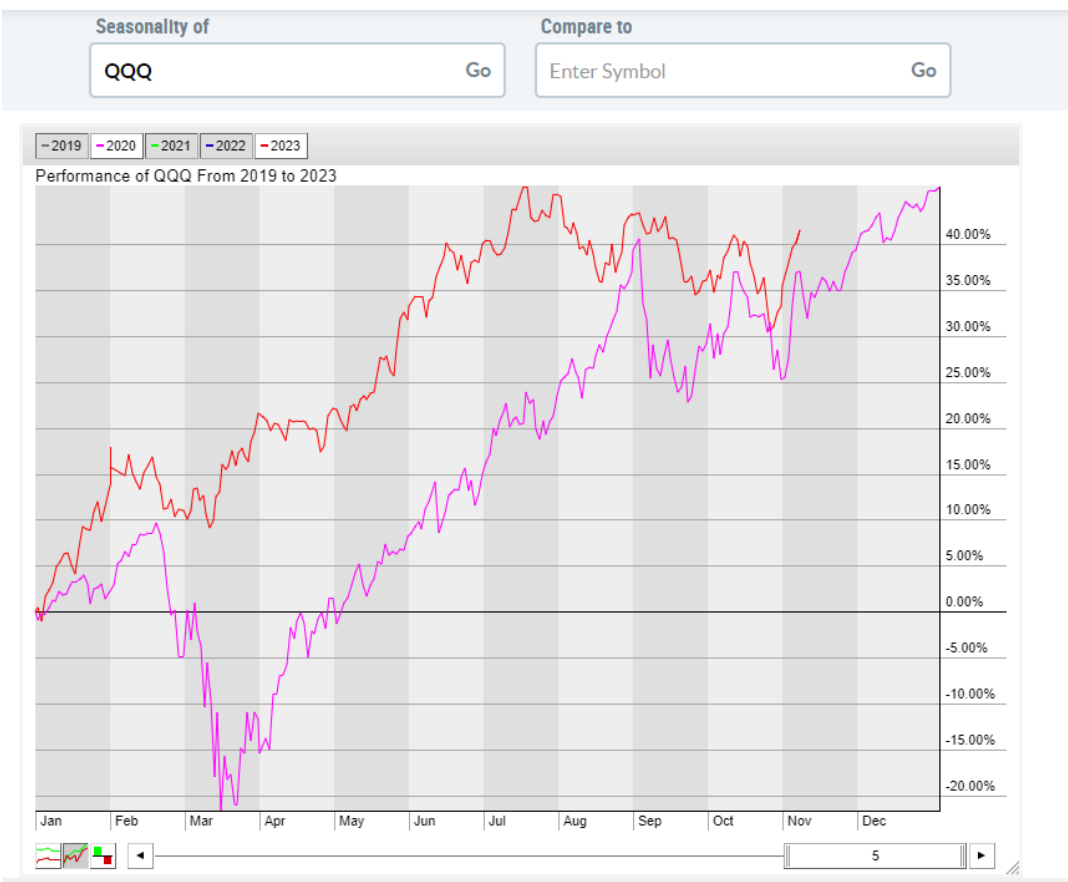
(Source: Tier1alpha.com 11/8 daily note)

If we enter negative gamma, flip over per se, then the post vixpiration watershed I often refer to, well, the chop gets heavier and unclench starts early. That's what happened in October, we were in negative gamma and the bounce into the chop zone time frame crumbled before unclench, early unclench if you will.

Should we stay in positive gamma, it's tougher to unglue the indices as dealers are buying futures on dips, which is why the positive gamma area is often so low in realized vol. The good news for vol fans is that that black diamond negative slope into where dealers become rapid sellers isn't far away. Can CPI and retail sales next week be blamed for pushing equities over the K-12?

(Lane Meyer doesn't know when to quit.)

One more interesting chart I keep following is this odd analog:



Why it continues to mirror 2020 is anyone's guess, but if you think about it, 2020 saw QQQ drop 30% in February and March during the onset of covid while last year saw QQQ drop 35%, so it's sort of as if they are following the same recovery path from recent nadirs. If it follows again, and it did a damn great job of mirroring October, it does suggest we're due for an actual down day in QQQ shortly. Which would dovetail with the Thursday before opex result in the SPX chop chart above.

Essentially, the vol forecast is for mild chop for a bit yet.

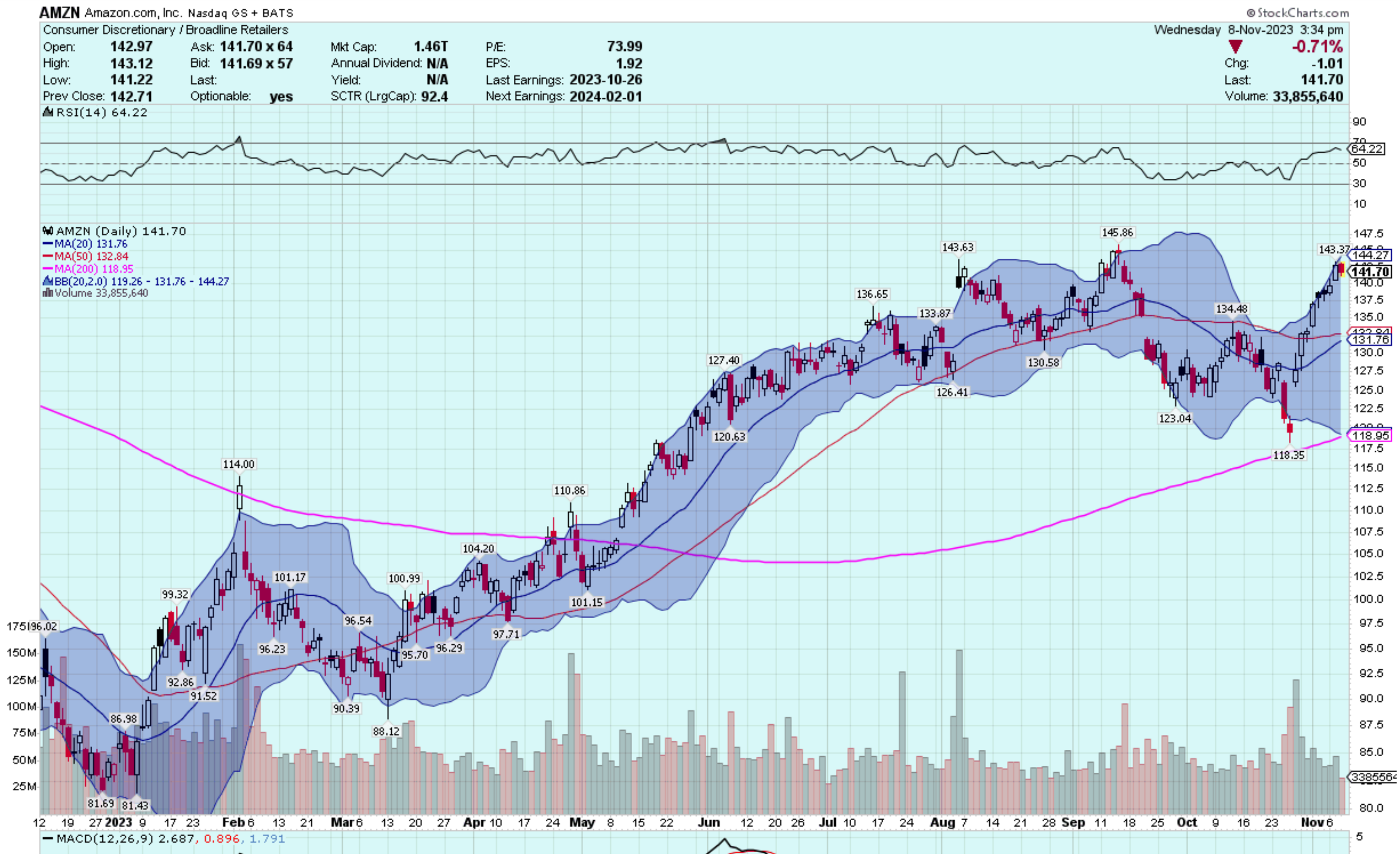
Volatility Trade:

AMZN unclench put calendar spread

Buy Nov 24th $140 put

Sell Nov 24th $132 put

Net debit: $1.40



A basic unclench long vol trade. $8 of potential for $1.40, nearly 6-1. It's where it has paused in the past, it's had a comical series of consecutive up days, 20% off a low eight trading days ago. I know, like TSLA that is not a car company it's a tech company, AMZN is a cloud storage company and not a consumer retail company.

But…..with lithium prices tanking under weak demand for EVs globally, amazing how it suddenly became a car company again in October and hasn't recovered. Ostracized from the cool crowd of MSFT/AMZN/META that are perched near 52-week highs. Well, retail sales are next week, so maybe AMZN decides to think about retail for a couple days.

Put verts pay faster than put flies and you don't have to be as exact (you can't blow through it), plus, it's a trade that's more reflective of my get long more vol thesis of late. Target, $4.

CRASH UP YET ANOTHER EXAMPLE THAT OWNING VOL WINS IN A 0DTE WORLD- CHRISTMAS CREEP SENTIMENT SHIFT ALREADY – TRADE FOR POST CPI/OPEX

VOLATILITY SUMMARY

Stunning option-driven markets. I've been hammering home two main themes in this note lately, owning vol and the opex cycle. From only a week ago and 250 SPX points (what?) lower:

And while things, justifiably mind you considering the landscape, seem awfully heavy in markets right now, we are entering that part of the opex cycle, where premium burn likes to support the indices. (You know, when Cem starts tweeting queen emojis and the such)

In the blink of an eye, the biggest week of the year, all of the downdraft from mid-October erased, small caps come to life (remember I mentioned IWM/RTY last week, it's where the shorts hang out), and the 10-yr yield retraces back to….September levels:

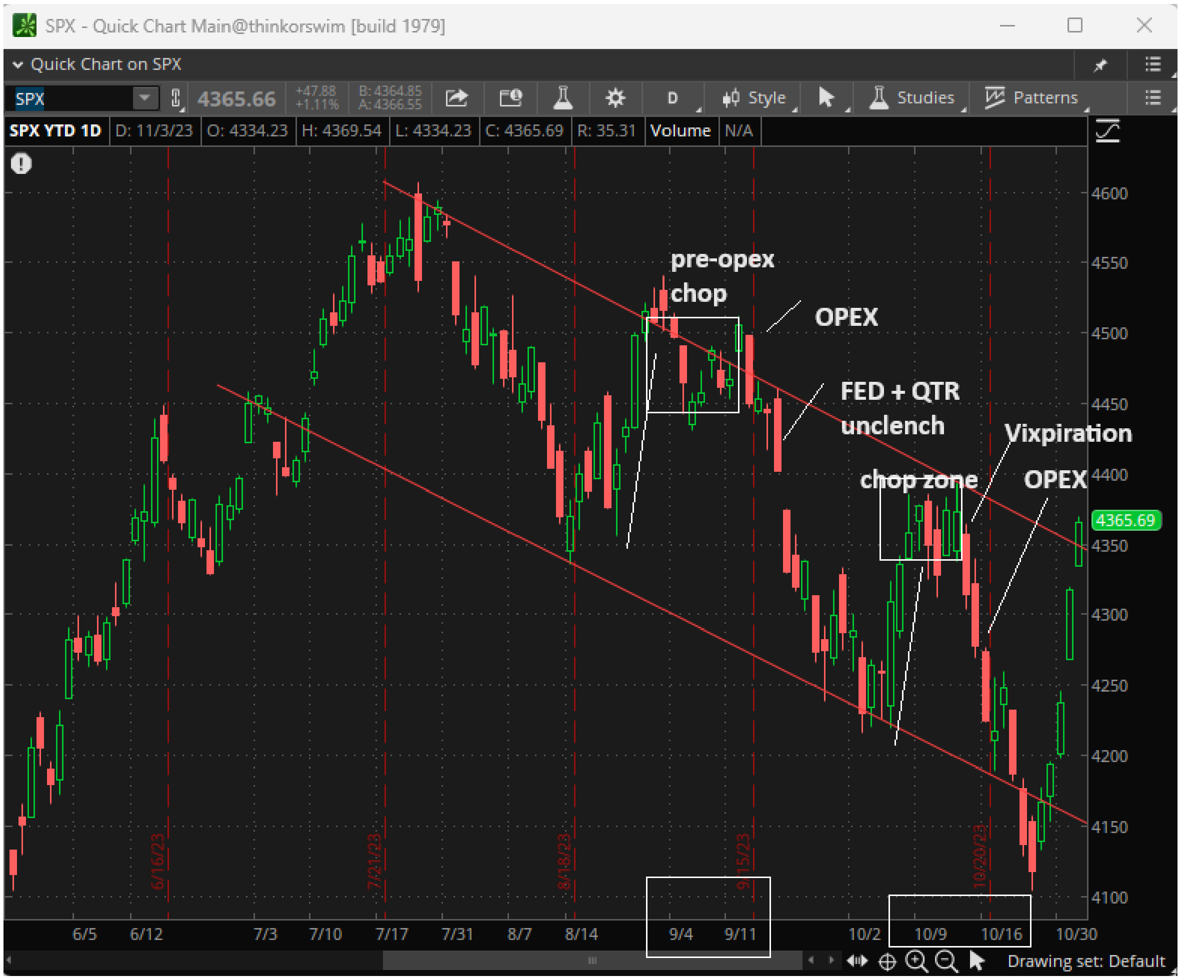
Being bearish the indices seems pointless regardless of what the news is these days. Recessions or yield spikes, so much the better for buying calls. Bears get a chance during the part of the opex cycle when gamma rolls off and before the end of the month/early in the month behavior kicks back in.

So, here we are again, up a lot lately and about to probably reenter the chop zone once this Santa spike parabola runs out of rocket fuel. Christmas creep is not only for the Hallmark channel or retail promotion starting in October, now folks start talking about/expecting the Santa rally in equity markets two months early as well. I've spoken about this before:

From the October 13th note:

In fact, I say this every year, vol almost always seems to rise in December, just when folks are looking for a Santa rally which statistically comes only from Christmas through the first week of January. December is often a volatile month; smooth to the finish, it usually is not! And with QT and massive rates volatility and sticky inflation and massive divergences in tech versus everything and macro weakness just beginning….vol is probably going to hang around.

Speaking of the aforementioned chop zone, we are nearing the time when the indices grind in an area, post-vanna/charm melt up:



(Charm is just decay of deltas, so for a dealer delta-hedging, he needs less long or short futures to hedge…..which means, gamma time. The residual of dying option delta is gamma, and the gamma playground is what makes 0DTE all the rage, and means sweeping puts or calls can wag the indices dog. Vanna is the implied vol effect on deltas, so if post event implied vol gets crushed, we have the same effect, deltas fall and dealer hedges unwind. Dealers clearly were buying a lot of S&P Emini contracts this week.)

Once again, owing the option vol was better than spreading vertically or in time. Here is a Friday 4300 call, just stunning the profit potential/leverage ***available before the Fed and NFP***:

(Did I do this, no. The hope is that if I write these examples out many times I will finally figure out how to have the imagination required to look so far out of the money that it seems impossible.)

So, the forecast is for some chop and then we will see how the markets handle the 10-yr auction next week with a whole new rate level (Don't the October auction bidders left out over a couple ticks in yield because they were worried feel stupid now..) and then it's on to CPI and retail sales, with a heavy dose of Fed speak along the way too be sure.

Volatility Trade:

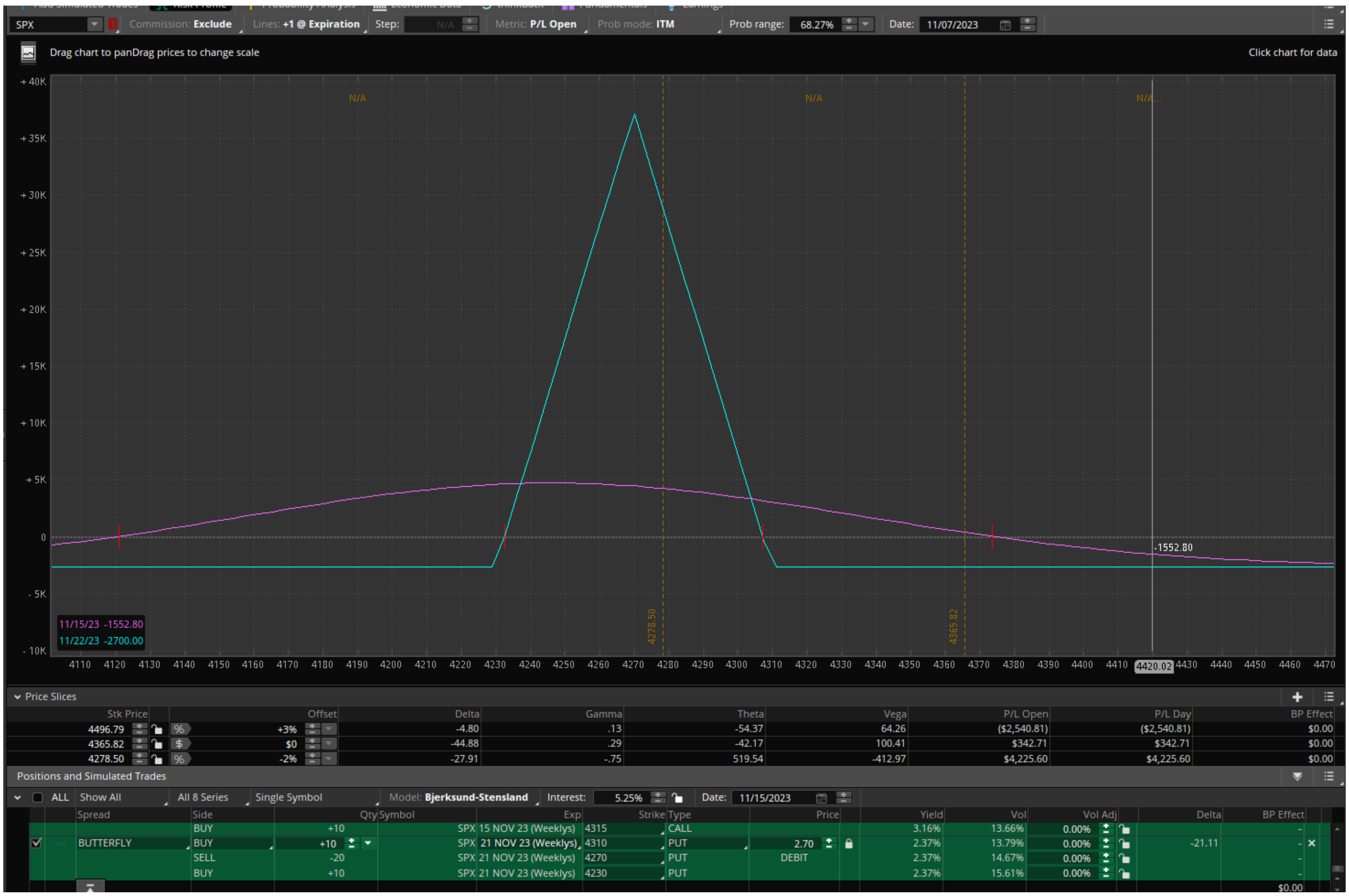
SPX Unclench put butterfly spread

Buy 4310 Nov 21st put

Sell 2x 4270 put Nov 21st

Buy 4230 Nov 21st put

Net debit: $2.75-3 ($2.90 filled)



40 pts wide for 7% of width, so cheap. A 2% or so pullback after vixpiration would be ideal. Target: $8.

ZOMBIFIED FED CAN'T SAVE BLOODY MARKETS AFTER EATING INTO YOUR PORTFOLIO – A FEW THOUGHTS PRE-FED/JOLTS/NFP – 0DTE TRADE IDEAS

VOLATILITY SUMMARY

Ah, I did slather on some thick Halloween schtick, and you are thus groaning like the undead, but it's pretty accurate, that headline. The zombie Fed, can't cut and can't hike, just staggering around like the mob of zombie firms it has created, powerless to save yet eating bond and stock values and finally sinking its teeth into the heart of global portfolios, the giga tech names where the world equity herd resides.

One of the darkest portfolio managers, he who should be called Dr. Crash since it seems like that's all he has blathered about for decades now, Jeremy Grantham had this to say and it wasn't even on Halloween when he was quoted, it was January:

"We are in what I think of as the vampire phase of the bull market, where you throw everything you have at it: you stab it with Covid, you shoot it with the end of QE and the promise of higher rates, and you poison it with unexpected inflation – which has always killed P/E ratios before, but quite uniquely, not this time yet – and still the creature flies," Grantham writes.

"(Just as it staggered through the second half of 2007 as its mortgage and other financial wounds increased one by one.) Until, just as you're beginning to think the thing is completely immortal, it finally, and perhaps a little anticlimactically, keels over and dies. The sooner the better for everyone."

https://ioandc.com/grantham-calls-the-death-of-the-vampire/

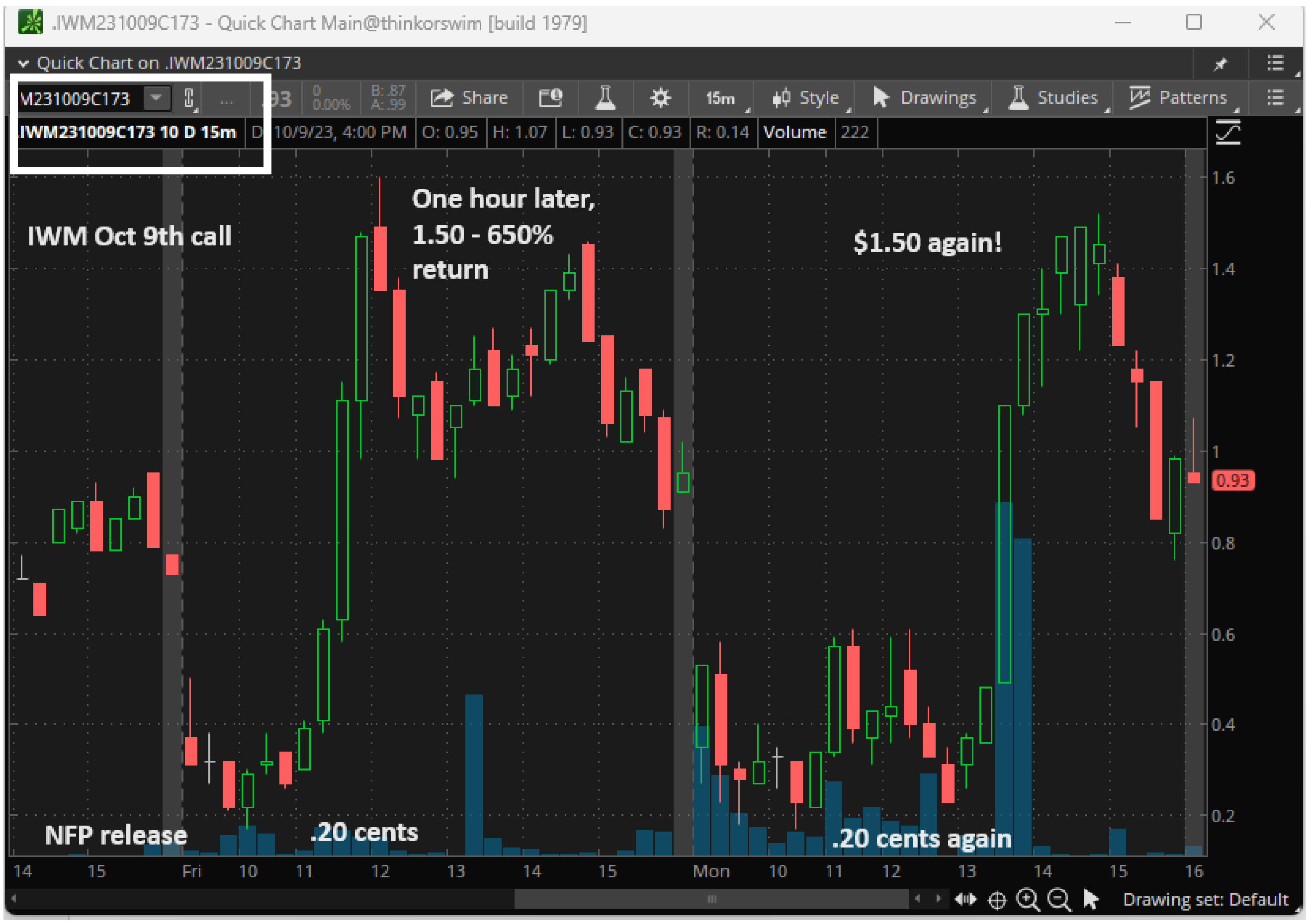
And so, the markets world braces again for Jay's prattle show about dark and cloudy skies, glued to his imaginary truths that are simply dusty theories deserving to be burned at the stake, while waiting the scythe of rates to cause something to go bump in the night.

If you are looking for something to 0DTE trade during all the horror, let me remind you of the discarded and desiccated IWM, loaded with rate sensitive undead companies (more like neo-dead), which is why in theory it is down so much versus QQQ, is heavily shorted and houses heavily shorted names within.

From the October 10th note:

Vol continues to be sold aggressively into monthly payrolls, JOLTs, CPI and the Fed meeting, and the result often is a big move in options that are grossly underpriced once the first move is made. Also, the day before the event frequently offers some excellent opportunities as well.

Now, let's be realistic, not every release is going to see a day where the S&P 500 has a 60-100 point low/high intraday vol result like recent events, but as they keep happening and when a few of these moves are harvested, those trades pay for several that do not. In fact, you can potentially keep trading the same option for a couple days and do it twice. For example, look at an IWM $173 Monday call that expired yesterday:



Someone got a jump on panning for post-Fed upside vol in this gutter yesterday:

FLOWrensics @FLOWrensics_ · Oct 30

$IWM Repeat sweepers in the 11/06 $165 CALLS ~$800K premium

TIME	SYMBOL	EXP	STRIKE	C/P	SPOT	DETAILS	TYPE	VALUE	IV
12:32:33	IWM	11/6/23	165	CALL	162.84	800@1.32_A	SWEEP	$105.6K	25
12:32:11	IWM	11/6/23	165	CALL	162.87	943@1.32_A	SWEEP	$124.5K	24
12:31:45	IWM	11/6/23	165	CALL	162.89	1000@1.329_AA	SWEEP	$132.9K	24
12:29:51	IWM	11/6/23	165	CALL	162.9	3000@1.33_A	BLOCK	$399K	24

1 12 41 15K

Also yesterday, the black cat was let out of the bag early on Treasury auction needs for the 4^{th} quarter, a topic I mentioned last week as probably coming in light, which it did:

Oct 30 (Reuters) - The U.S. Treasury Department said on Monday it expects to borrow $776 billion in the fourth quarter, $76 billion less than its forecast in July, citing increased revenue estimates, bringing some relief to bond markets rattled for months by a glut of new debt.

A U.S. Treasury official said revenue is expected to rise in the October-December period partly because income tax payments from California and some other states deferred due to natural disasters were now starting to flow into the Treasury.

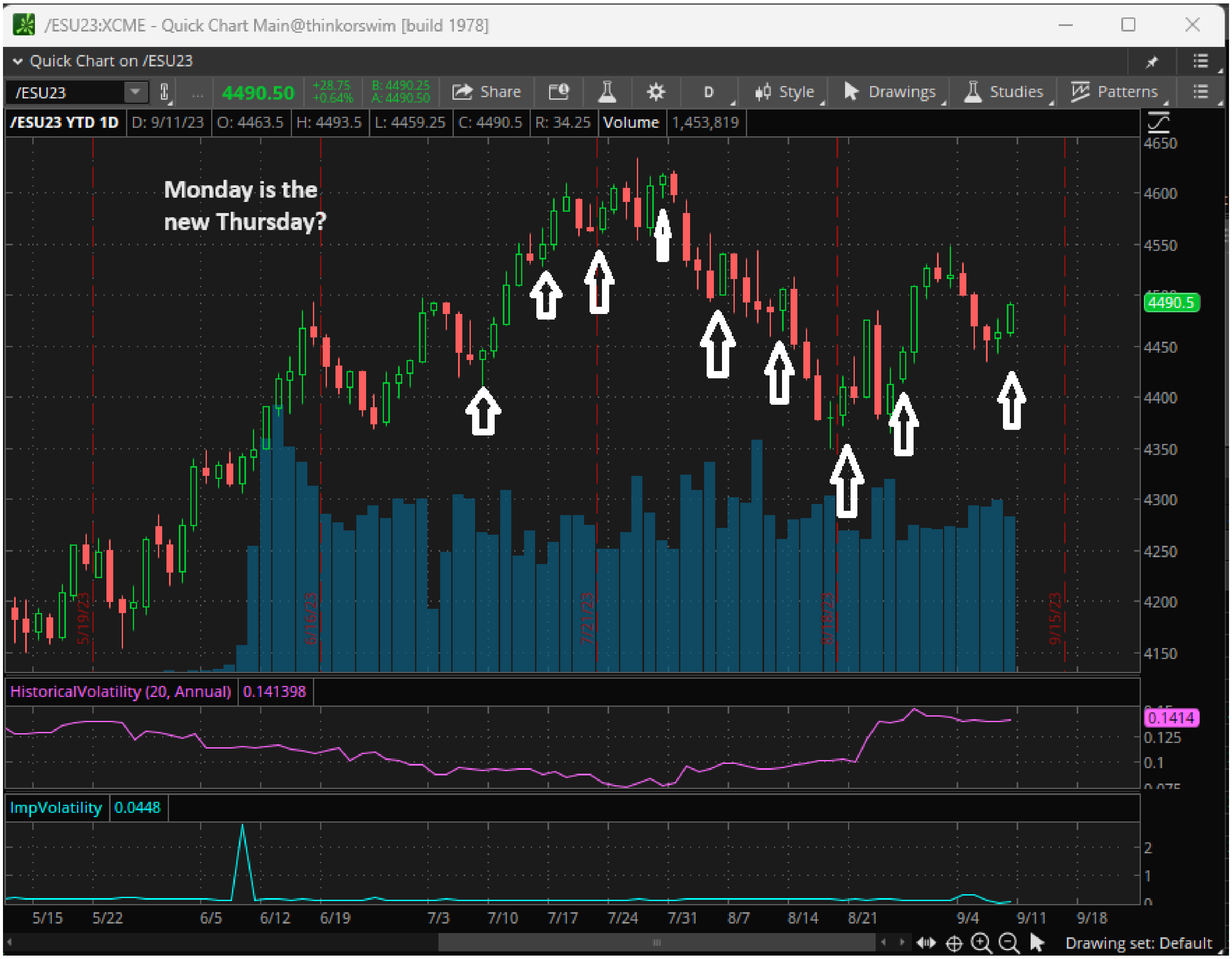
https://www.reuters.com/markets/us/us-treasury-borrow-776-billion-q4-2023-10-30/

So, that's some rates noise mostly out of the way for bond markets to focus squarely on JOLTS, and that is where 0DTE comes in. If JOLTS is higher than expected and the market drops, that probably sets up a nice 10am-noon dead cat bounce pre-Fed, and since premium is higher than usual on the 0DTE options for obvious reasons, call spreads might be a better idea.

Hard to pinpoint specific ideas until we see if it falls, by how much and how much implied vol dies. But, a knee-jerk drop on JOLTS would be a nice set up pre-Fed, that's basically the point.

I wanted to circle back on this topic, one I wrote about not long ago:

From the September 13th note:



The market doesn't have a case of the Mondays, that is for sure, it's been up every time since June opex, if you can believe that. (There were a couple post-holiday Tuesdays in there to open weeks, not counting those since…well they aren't Mondays.)

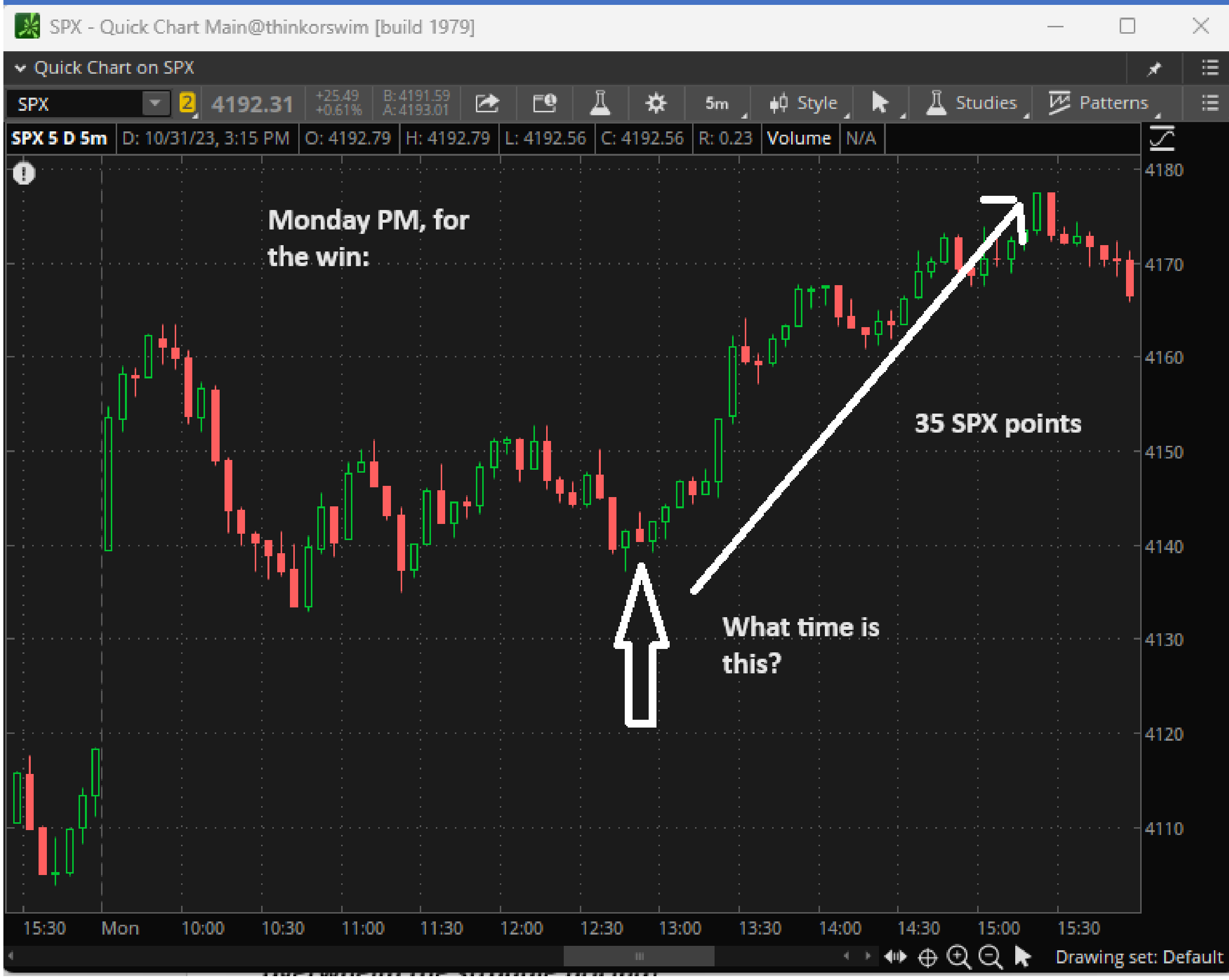
Well, I have located quite the handy dandy tool for this combining Mondays with 0DTE and in this case, screening for the 1pm phenomenon. Check this out:

VOLATILITY ANALYTICS NEWSLETTER – DECEMBER 12TH

On marketchameleon.com, you can screen 0DTE strategies by time of day, day of week and macro/vol event days using SPY and QQQ option straddle vol pricing data. How amazing is that!? This is hedge fund quant fun for us plebes.

Here we can see that Mondays from 1pm to close have consistently not only been positive most of the time during that window, ***but they have also been positive enough to overwhelm the straddle pricing!***

Yesterday wasn't looking particularly hot, another trendmatic fade-o-rama kind of day, until:



It really is astonishing, this new 0DTE land we are in. I have some more thoughts on this, how it relates to the entire vol surface and the opex cycle, which I will get to in a note after all these vol events pass.

I will circle back to carve up the market carcass after Jay spooks everyone. Probably Thursday evening, post Fed full day reaction and pre-NFP.

RUSSELL 2000 REACHES PRICE FROM 2020 – SENTIMENT CONTINUES TO SOUR BEFORE FED – JPM COLLAR PRICE NEARS

VOLATILITY SUMMARY

Some interesting commentary from an economist who, brace yourself, believes that traditional economic theories, those espoused by Jay Powell's Fed, might not be correct… stop the presses:

Nobel Laureate Romer Says Fed Would Be 'Crazy' to Hike More

- Inflation, growth theory is 'just not true right now,' he says
- Fed should begin cutting rates ahead of reaching 2% target

> "The theory was you could only bring inflation down when the economy slows and that just is not true right now," said Romer, who is an economics professor at Boston College. "So right now we're at a period where we've just got to look at the facts and not be confused by some theory that turns out to be wrong."

https://www.bloomberg.com/news/articles/2023-10-26/nobel-laureate-romer-says-fed-would-be-crazy-to-hike-more?sref=1zxv5xkq

Equity markets aren't waiting for autopilot Jay to say something like, 'It doesn't ***feel*** like policy is too tight.' Folks are deleveraging during game of chicken season with a push from rising realized volatility. Remember my comments on Wednesday in this regard?

And, considering the plateau QQQ is still on, it's almost hard to imagine that 'game of chicken' season is going to end anytime soon. Managers that were right this year, the few that went against value, with the high valuations and thus fortunately surfed A.I. mania, they are probably going to be tested further; it seems to have a future date with the 200-day moving average at a minimum…

Well, Charlie the celebrity quant was out yesterday commenting on exactly this, seeing folks tapping out on the giga-herded names that have worked, referring to them as Sharpe trades, essentially in that their return/risk was very high, thus high Sharpe. But, the denominator is realized vol, and since that is rising in these names:

"Crowded growth [shares] and tech longs are actually putting up good enough numbers but still not being rewarded by the market, especially when EPS beats but revenue misses," McElligott noted.

This matters. These are your consensus longs. Your hiding places. Your 2023 alpha generators. Your hedge fund favorites.

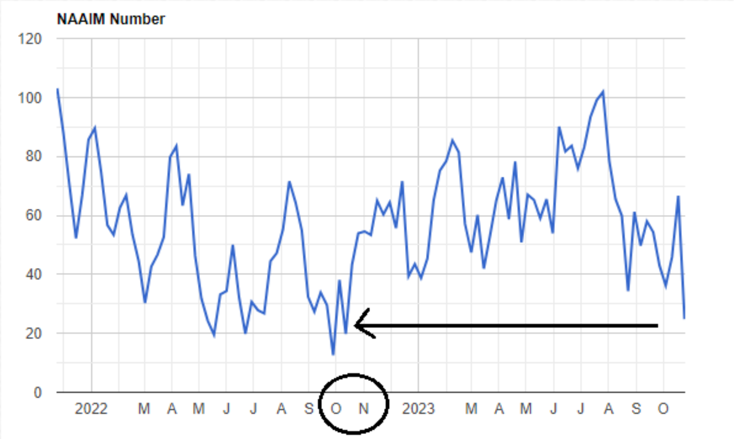
Two Nomura baskets tracking growth longs and the most crowded hedge fund names just suffered ~7% six-day drawdowns, a 2.5 standard deviation event on a one-year lookback.

"You can feel it in the PNL [and] you can see it in the intraday behaviors and end-of-day performance of late," Charlie went on, noting that "a bunch of the stuff that's been high Sharpe over parts of the year has recently turned high vol." That's bad news. "BIG $HARPES, BIG PROBLEM$," as he put it. Even for discretionary cohorts, volatility is an exposure toggle (to employ Charlie's favorite phrase), so… commence the de-grossing.

Bringing it back to discretionary investors, McElligott said that if you ask him "further breakdown is likely dependent on the fundamental / active side of the equities universe and an extension of this recent earnings behavioral shift towards longs, especially as PNL management psychology moves into year-end protection mode."

Source: https://heisenbergreport.com/2023/10/26/mcelligott-sees-big-problems-for-2023-big-sharpe-trades/

In the meantime, active investment managers are turning quite dour, in the case of the NAAIM, bearishness levels last seen in October of last year, don't you love markets + calendar symmetry? They usually call it 'seasonality' when it's bullish, like Santa rally, first days of January, July 4th, etc, right now they just called it a recession coming:

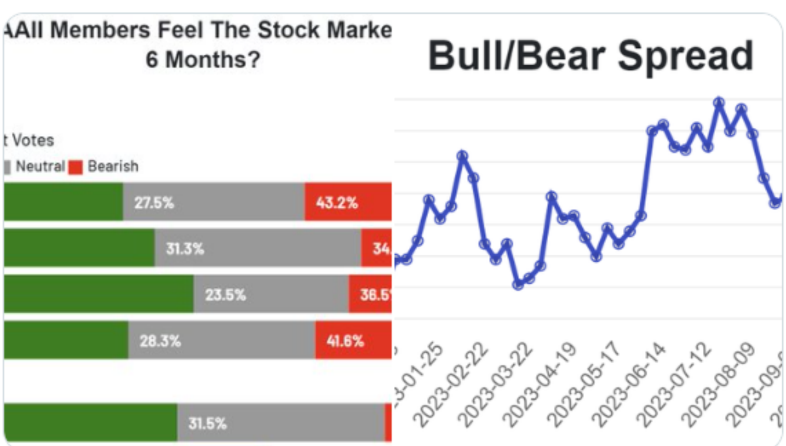


This week's NAAIM Exposure Index number is:
24.82

AAII SentimentSurvey
@AAIISentiment

AAII Sentiment Survey:
*Bearish: At its highest level in nearly six months; unusually high
*Bullish: Right at the bottom of its typical range
*Neutral: Below average for 4th week

aaii.com/sentimentsurvey



8:21 AM · Oct 26, 2023 · **5,912** Views

And interestingly, although it's a bit early for it to really matter to markets and dealers, the huge end of quarter JPM collar spread (a popular fintwit popcorn trade for sure), the long strike is rapidly approaching, so it will be fun to monitor after Thanksgiving into year-end:

1:34:33	SPXW	09/29/23	4100	CALL	0	19300@179.25	BLOCK	$345.95M	0
1:34:33	SPXW	12/29/23	4050	PUT	0	41100@56.64	BLOCK	$232.79M	0
1:34:33	SPXW	12/29/23	3410	PUT	0	41100@9.53	BLOCK	$39.17M	0
1:34:33	SPXW	12/29/23	4500	CALL	0	41100@47.15	BLOCK	$193.79M	0

How it's looking:

Rough estimates, judging by the screenshot on the prior page, which were the unadjusted strikes, they sold the calls to buy the put spread for about $47 each side/net zero to enter, so the value of this hedge now is about:

41000 collars x 100 = 4.1mm x (long put current value ($93) – short put ($11)) $82 = $336mm, which means dealers have had to add about $145mm of short exposure lately. So, thinking about Mr. long call vert from the last note, who was a huge vol buy for dealers, this is approaching that size. It matters even this early.

So, a couple final thoughts and then a trade. Certainly, Friday has been quite the risk off situation lately and recent Mondays (most Mondays for quite a while now actually, take a look at just Mondays on a chart) have seen a sort of vol exhale, similar to post risk events like NFP or CPI:

SpotGamma @spotgamma

Its hard to have a lot of conviction over this weekend and into 11/1 FOMC, but it is of note that the last 2 Fridays has seen a big move higher in VIX that was subsequently unwound on Monday.

2:41 PM · Oct 27, 2023 · **17K** Views

Usually, Friday's close is a nice time to buy vol, since folks overcrush it into the weekend, but lately it's been a good time to sell it, something to think about early next week when looking at implieds.

And while things, justifiably mind you considering the landscape, seem awfully heavy in markets right now, we are entering that part of the opex cycle, where premium burn likes to support the indices. (You know, when Cem starts tweeting queen emojis and the such)

So, with all the vol events staring the market down the barrel of shotgun and considering the time of the opex cycle, wasn't it that horribly tragic news of excellent September payrolls when the markets opened 40 points lower and just marched higher considering vol burn and time of opex cycle?

Looks vaguely familiar to now, a steep one direction drop into end of month, so it wouldn't surprise me if the markets catch their breath with the help of the opex cycle after NFP. Or we can continue to crash because, well, Jay + good news.

Volatility Trade:

Post FED/NFP broken wing call butterfly spread

Buy 4210 Nov 6th call

Sell 2x Nov 6th 4240 call

Sell Nov 6th 4275 call

Net debit: $1.75 (filled) - $2

This is a bargain for less than 2 SPX points. You are getting a lot of leverage for not a lot of risk. For this to burn, SPX would have to rally to 4300 by NFP day, and let's be realistic, that is a lot of upside vol that would certainly not bring back systemic or trend strats into the picture.

And, you can imagine a lot of folks that are sitting overhead looking to sell after the earnings reactions just witnessed. So, it's less than 2 points that can easily pay $10 on a 2% bounce from here. Target, $7.50.

I will have some 0DTE commentary in a note before the Fed/Jolts/Tbac/ISM circus.