RANGEBOUND CHOP CONTINUES – 0DTE GETS LARGER – TRADES FOR JACKSON HOLE

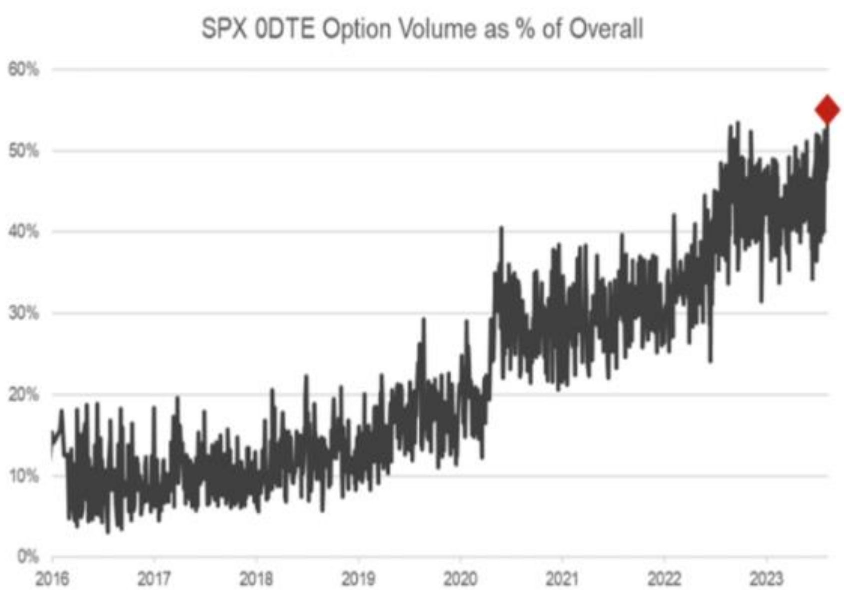
VOLATILITY SUMMARY

It's OPEX week again, a time when things seem to magically get fixed (two ways to take that, fixed as in repaired and fixed as in fixed to levels), in beaten down stocks anyway. So, rangebound chop, as anticipated, is dominating the post-earnings market world, which is about as benign an environment vol spread traders can enjoy. And the trades in recent notes have proved that out.

So, more of the same with the trades, eyeing the next event; Jackson Hole.

In the meantime, 0DTE options mania is slapping the market around, up opens are trashed, and down opens are smashed. As real investors stand aside during post-earnings summer's light volume, the mice will play, and 0DTE is in full control of the market it appears:

> The intraday selloffs have "driven a behavioral change in 0DTE space vs what we have seen largely during the rally," said Charlie McElligott, Nomura's cross-asset strategist. "It's an environment ripe for 0DTE trading swings, ranges or overshoots as the perfect vehicle. But then too, it's feeding such moves."



Source: Nomura Vol

Source: Nomura

https://www.bloomberg.com/news/articles/2023-08-14/zero-day-options-cement-presence-in-reversal-ridden-stock-market?sref=1zxv5xkq

And the more success folks have with these, the more they will do it of course. Remember my money at the street corner allegory from the last note, if you hand it out, they will *not* stop coming to collect because they are fearful of being greedy:

> About 1.86 million so-called zero-day contracts – those tied to S&P 500 with a maturity less than 24 hours – changed hands on Thursday, making up a record 55% of the index's total volume, according to data compiled by Nomura Securities International. Halfway into August, the options known as zero days to expiration, or 0DTE, have seen four of their top 10 most-traded sessions ever.

You can hate the game (and the players) but until they are cracked in the head with a 2x4 a few times, they won't think twice about doing even more. It's like global warming, the hotter it gets means it's only going to get even hotter.

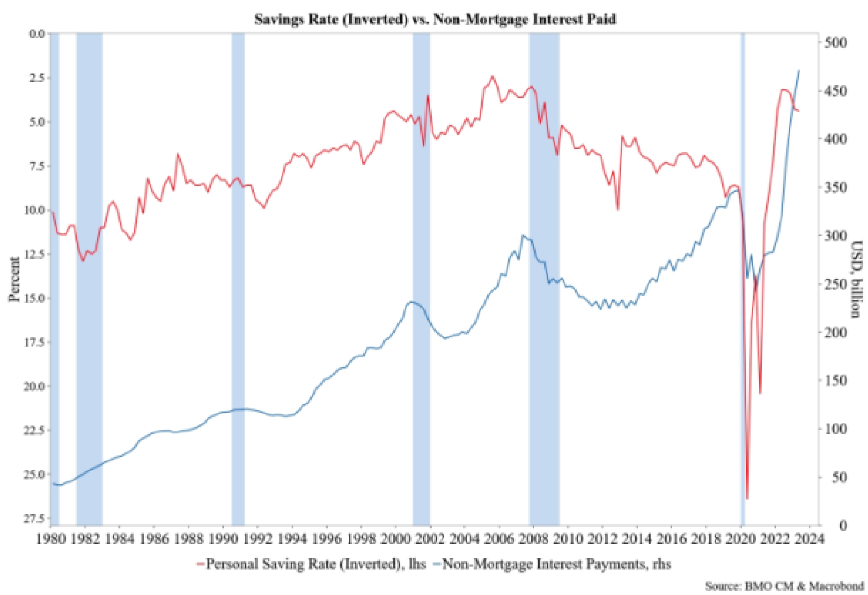
Finally, puts are outnumbering calls, because forcing dealers to hedge downside gamma works too, you know, and puts have been so cheap lately, call skew has been pretty much at record highs:

> Also notable has been a turn in the type of options traders have favored – from bullish to bearish. Over the past 20 days, puts outnumbered calls by almost 10%, according to data compiled by Kaiser. That's a departure from the previous two months, when flows were dominated by calls.
>
> "You could argue with implied volatility low, the 0DTE options are an alternative to trading equity futures tactically," he said.

Source: Citi

So, at the risk of saying this for the 100th time, this environment has the potential to light the house on fire, and some sort of economic shock into the fall when everyone expected to be riding huge, large cap equity gains into the sunset of 12/31 statements, that's the combination. So here's a chart that should interest (re:alarm) you:

But there are signs of strain or, at the least, reasons to believe the consumer will eventually pause, if not retrench. Credit card debt in America topped $1 trillion for the first time in Q2, and credit card rates are at record highs. In addition, "interest costs on other loans [are] detracting discretionary dollars," BMO's Ian Lyngen and Ben Jeffery remarked.



The chart above, from Lyngen and Jeffery, shows that interest costs ex-mortgage payments have "increased in a way that has typically only been seen in the final innings of any given cycle," as they put it, adding that when you throw in the resumption of student loan payments, "there are headwinds to consider in evaluating the durability of the domestic consumer… even before the labor market starts to turn."

https://heisenbergreport.com/2023/08/13/between-cpi-and-jackson-hole/

https://heisenbergreport.com/2023/08/08/congratulations-america-you-now-have-1-trillion-in-credit-card-debt/

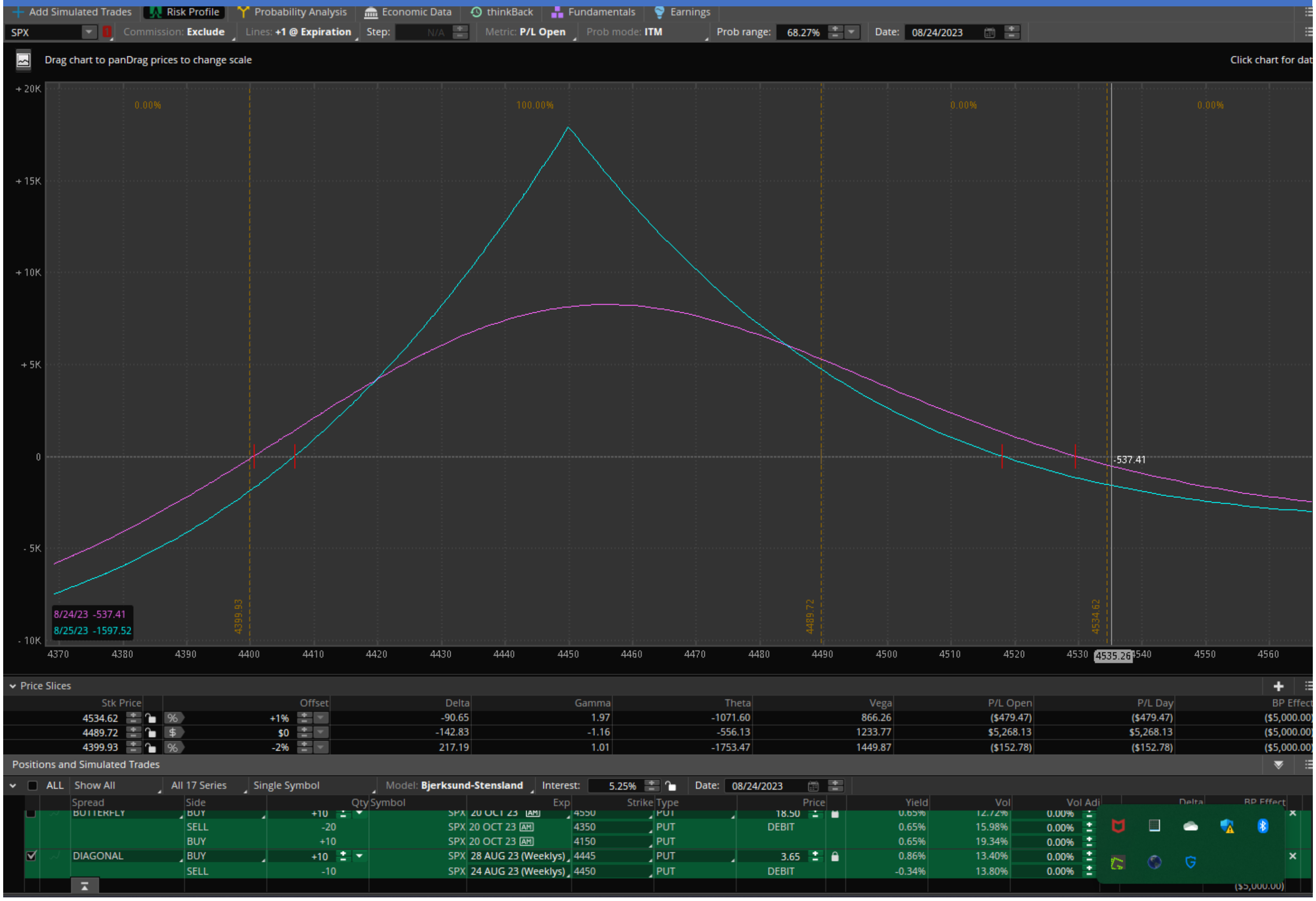
Volatility Trades:

SPX Jackson Hole put diagonal spread

Sell 4450 Aug 24th put

Buy 4445 Aug 28th put

Net debit: $3.50



Selling vol just before Jackson Hole, the speech is Friday the 25th and owning the speech and Monday for only 3.5 SPX points, less than .1% of the index. A steal. The short leg is the recent low for SPX. Target $6.50-7.

You might be able to use declining vol around vixpiration to get this at a better price through Wednesday morning or move the strikes up a bit.

Russell 2000 Jackson Hole put diagonal spread

Sell 1900 Aug 23rd put

Buy 1895 Aug 25th put

Net debit: $1.25-1.35

Same premise, just moving this up to a Wednesday/Friday combination, it doesn't have dailies so the trade can't be done Thursday/Monday nor in IWM 5 points apart. And this offers 60/40 tax treatment like SPX, so using RUT over IWM has multiple benefits.

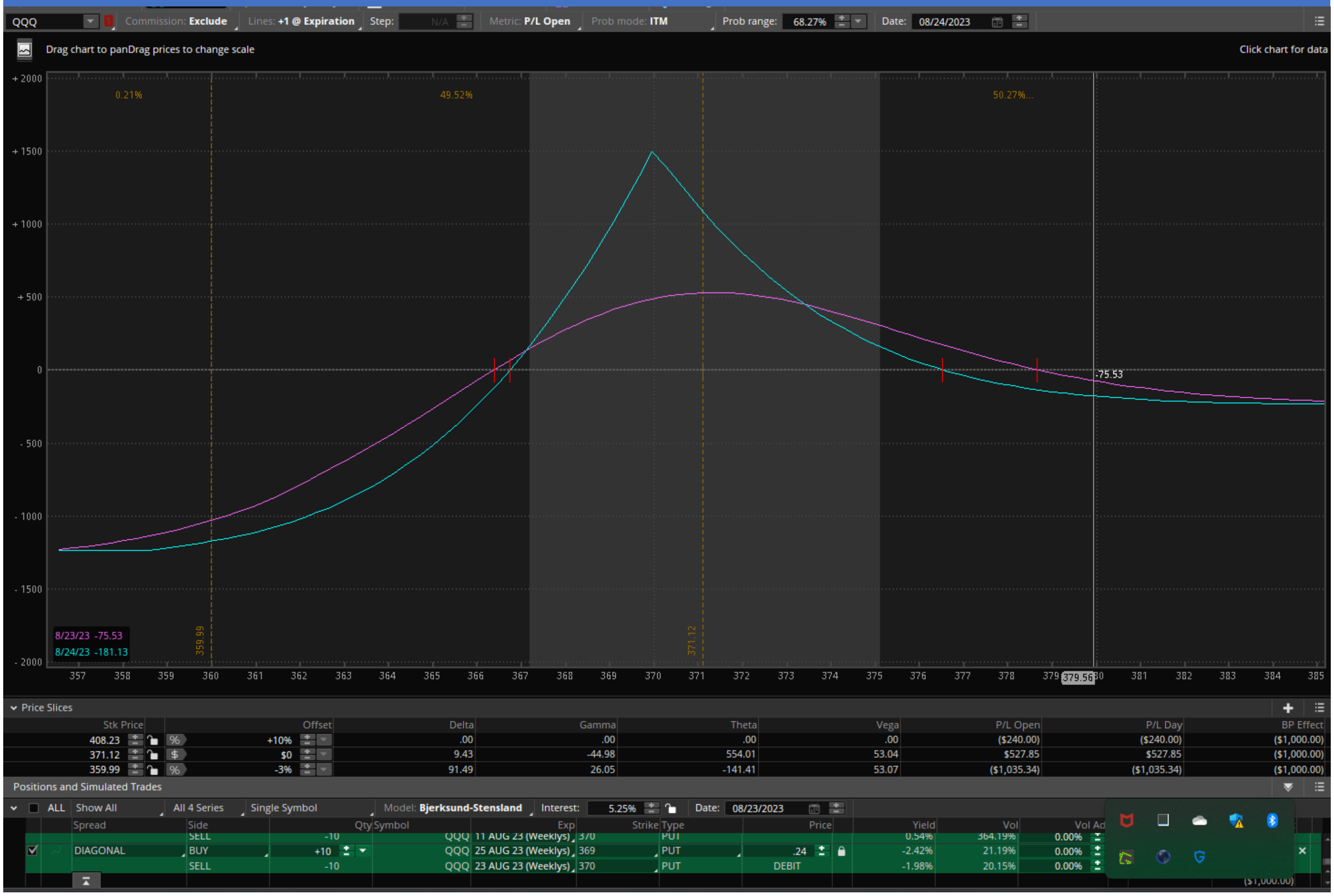
If the market has a down day early next week, getting 7-8 for this is entirely reasonable, and you're paying less than the SPX diagonal, .06%.

QQQ NVDA earnings/Jackson hole put diagonal spread

Sell Aug 23rd $370 put

Buy Aug 25th $369 put

Net debit: .20-25



Again, we have lowered the bar for this trade versus SPX, because it has NVDA earnings reaction in the back leg along with the speech. Obviously, NVDA/Semis are sizeable chunk of QQQ and there will be implied vol in the back leg. Target, .75.

GOOD RIDDENS JULY VOL – HELLO AUGUST POST-EARNINGS EKG VOL – RATES/CPI INDUCED VOL POTENTIAL NEXT WEEK – CPI/QQQ/AAPL TRADES

VOLATILITY SUMMARY

There isn't a whole lot to say this week, as the last two notes summed up the expectations of what we are now seeing, a return to some kind of normalcy, where down days actually happen once in a while. The S&P 500 hasn't touched the 20-day moving average in ages and hasn't closed below it since May 24th, one day after the last -1% day in SPX.

I highlighted last week how AAPL earnings in January seemed to be the dividing line between a seemingly endless ramp and a return to volatility. But volatility doesn't mean straight down, we are probably entering the 'EKG' market for a while:

The markets didn't really head down in a significant way until late in February OPEX week. Makes sense. A sentiment shift isn't going to happen overnight and not on news that some agency ticked down the U.S. credit rating. Vol sellers and gamma Thursday/Friday folks have had way too many wins in succession to just stop doing it.

They will do what's working until an unforeseen event/big drop stops them. It's not greed, as the inane punditry's trite blather suggests. *If someone hands you $100 every day on the street corner, are you going to stop showing up to get it because you feel greedy? You'd be crazy to!* I'd wonder if you were ok if you didn't show up.

Post-earnings in May was somewhat the same, the markets chopped around for a while. And what kind of vol is the best vol? It's heavy chop going nowhere. Options are bid, you set your strike, time goes by, and you collect. (In time spreads ((calendars diagonals)), and butterfly spreads, the stuff this letter is about with regard to vol trading.)

A few interesting charts I came across, first, remember the endless commentary on rates and durations stocks last year? Well, just another correlation to toss in the dustbin:

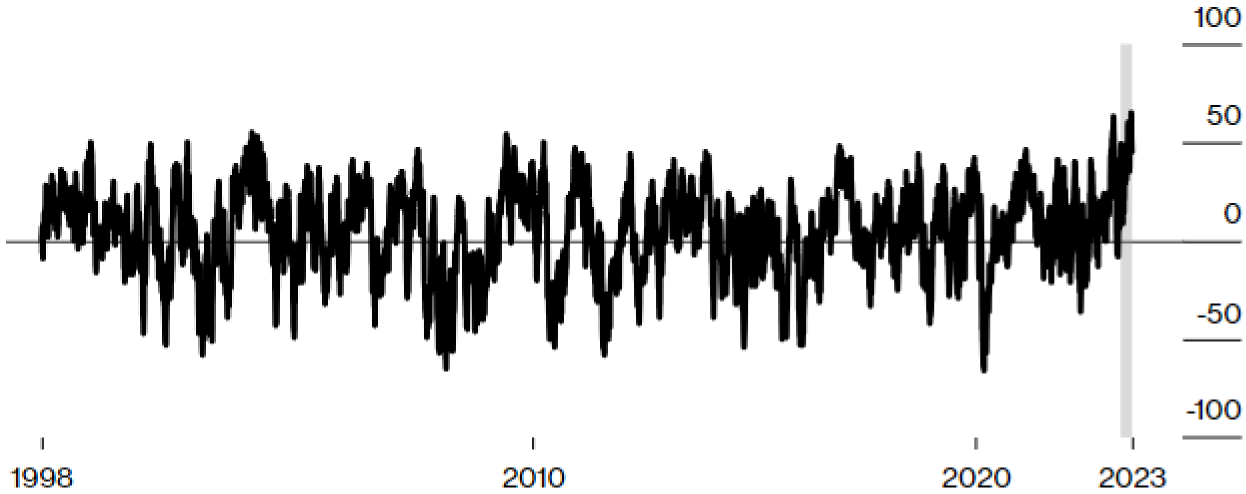
(10-yr yield vs. NDX)

Right on cue, at the end of earnings season and after a huge extended market ramp, the optimism for stocks versus bonds is about as high as it's ever been:

Record Stocks Versus Bonds Optimism

Sentiment about equities against bonds is the highest it has been in 24 years

Spread between stock and bond optimism indexes



The indexes measure futures positioning, surveys, options activity and fund flows among others.

Option hedges/puts 5% out of the money are at a record low implied vol:

Wall Street traders eventually got the memo, ditching downside protection and pushing the cost of hedging against drops to fresh lows. For every $100 in notional – the value an options contract covers – investors now pay only $3.50 for an S&P 500 put option expiring a year from now with a strike price 5% below current levels, data compiled by Bank of America show. That's the least in the bank's data going back to 2008. (Between the premium and the strike price, the contract will be profitable if the S&P 500 falls at least 8.5% a year from now.)

https://www.bloomberg.com/news/articles/2023-07-30/stocks-are-doing-so-well-that-it-may-be-time-to-start-worrying?sref=1zxv5xkq

At the same time, a wide array of hedging metrics is showing low demand for downside protection. Put premiums for both Invesco QQQ Trust Series 1 (QQQ) and the SPDR S&P 500 ETF Trust (SPY) are hovering around the lowest levels in at least a decade, according to RBC Capital Markets. Additionally, investors are buying more calls to chase the rally while spending less to protect their gains.

https://www.bloomberg.com/news/articles/2023-07-28/-dangerous-consensus-has-investors-betting-it-all-on-buoyant-markets?sref=1zxv5xkq

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:

Volatility Trades:

QQQ CPI/10yr auction put calendar spread

Sell Aug 9th $370 put

Buy Aug 10th $370 put

Net debit: .25-.28

So, the 10-yr yield almost broke out today:

If it does, the profitless tech stocks should be most vulnerable. And, what happens next week? A combination of a 10-yr auction midday Wednesday, followed by a CPI report on Thursday morning that will most certainly not be as kind as June's report.

I'm going to expect the typical Thursday/Friday gamma bounce in giga tech and vol to come in a bit, so current prices at .38 or so aren't attractive enough. If the bounce occurs and vol is smashed, I will add this spread for around .25-28, with a target of .50 on Wednesday.

AAPL IPhone event calendar spread

Sell $190 Sep 1st put

Buy $190 Sep 15th put

Net debit: .60 (filled)

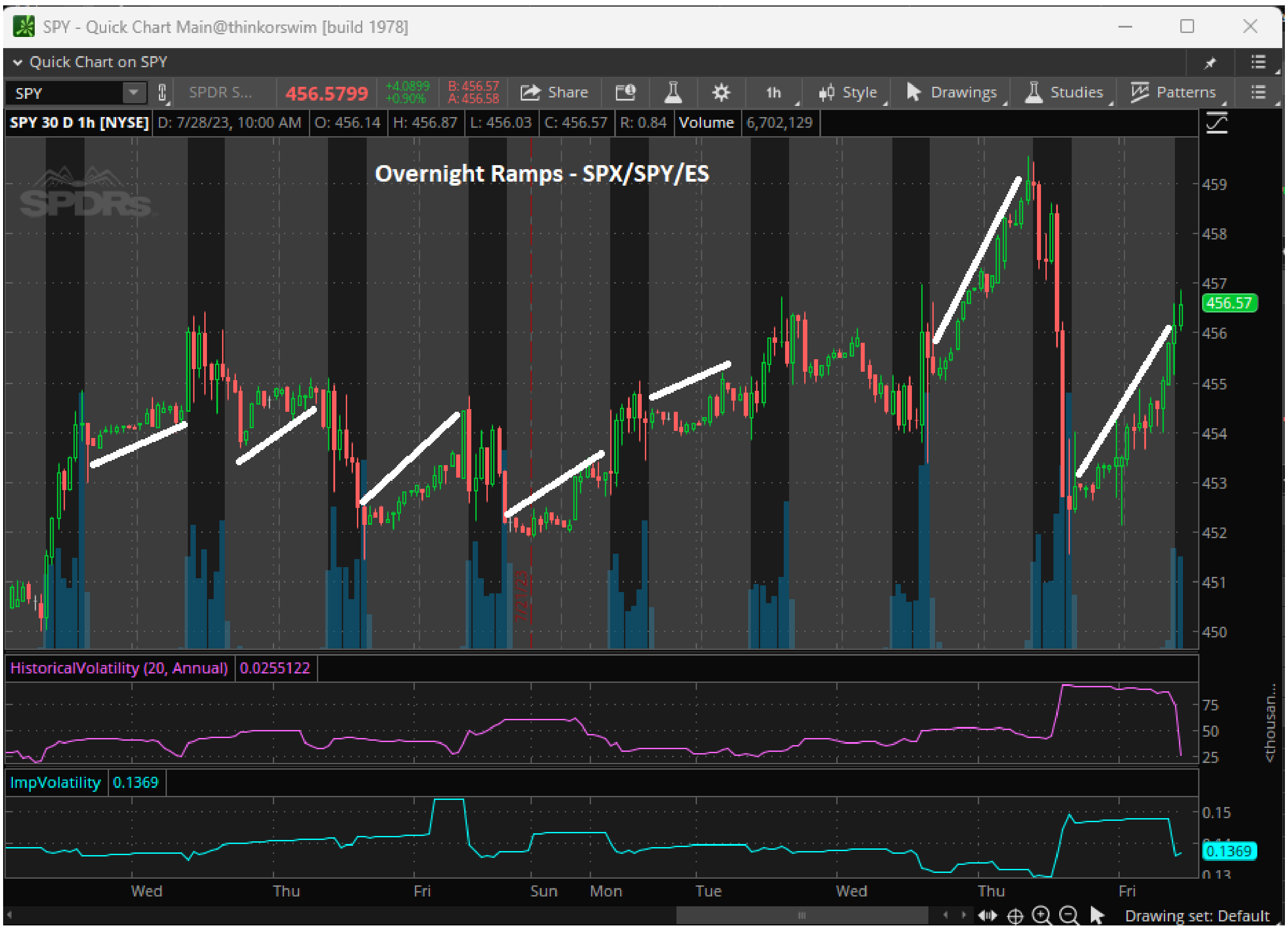
I'm amazed at the cheapness of this calendar spread. Sure, Labor Day is in the back leg, reducing the price a bit, but 60 cents / $192 = .3%. That is the cost to own two weeks and the Iphone launch event. Target $1.50.

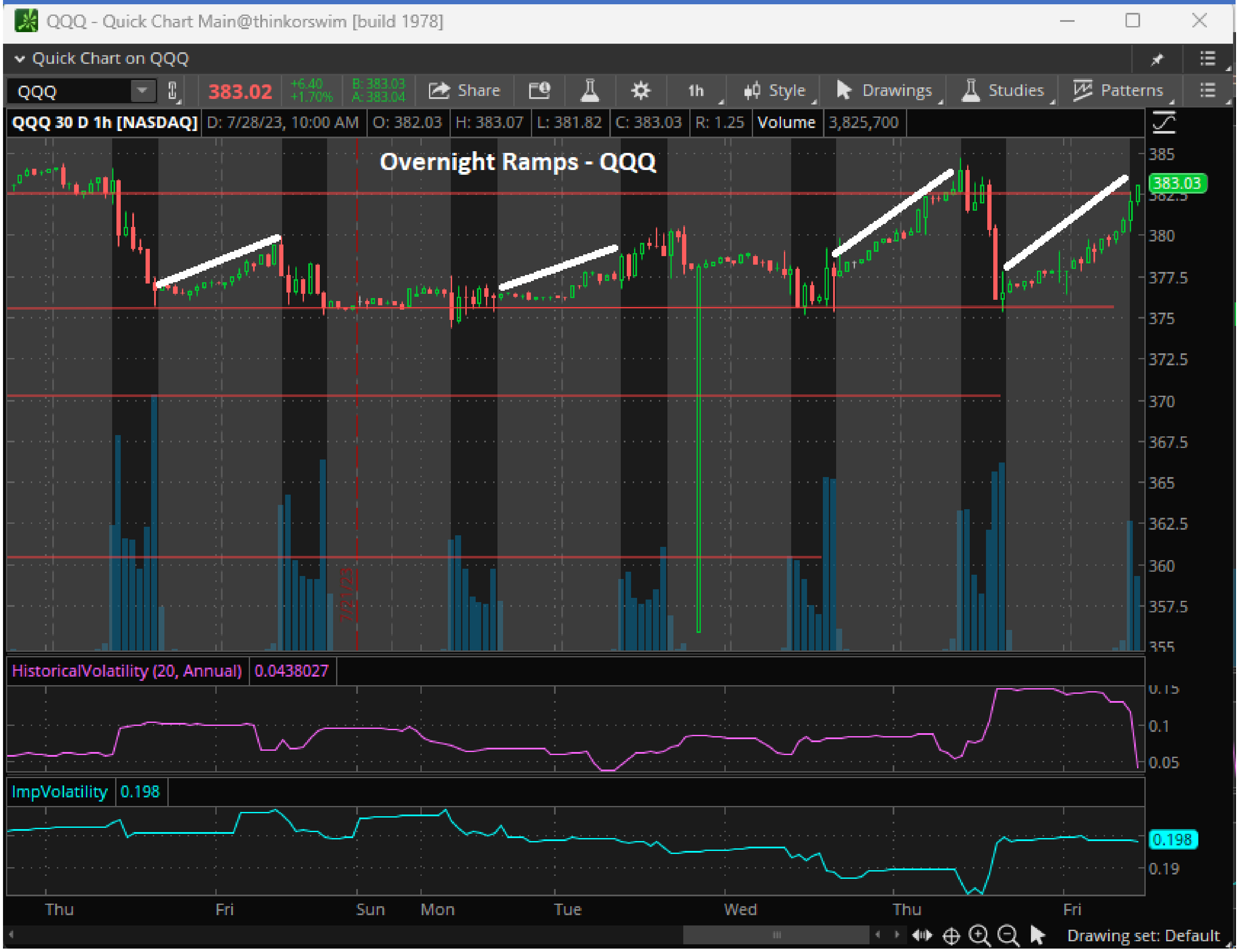
VOLATILITY ANALYTICS NEWSLETTER – AUGUST 14TH

OVERNIGHT RAMPING APPROACHING COMICAL – VOL MAY INCREASE POST AAPL/AMZN AS CORRELATIONS RISE – TRADES FOR NFP/CPI/POST TECH EARNINGS

VOLATILITY SUMMARY

I'm trying to remember when I last saw this, probably October into November of 2021, when every night it seemed the futures just seemed to be caught in a tractor beam higher, down wasn't an option, and it's happening again:





I'm sure there is something to this, could be mechanical delta hedging of short calls by dealers. But whatever it is, it does make buying any dip before bed and waking up to homemade QE interesting.

I don't do this naked, I've got asymmetrical downside gamma in case a miracle happens, and the market opens lower, so I won't say don't try this at home…. but like every other time when vol is suppressed, there is that one day when the pain comes for those that were trying to pick up nickels of premium. You know, because it works every day.

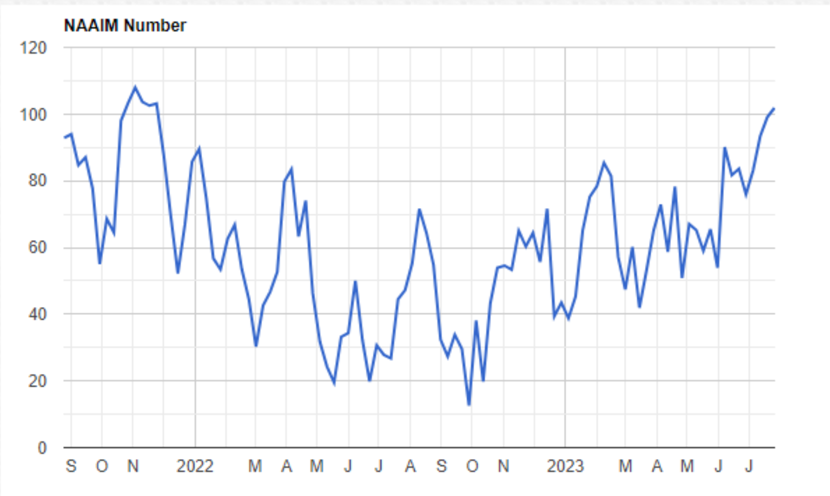
In the meantime, folks keep getting longer, they can't help themselves. NAAIM hit another high going back to 2021:

NAAIM Exposure Index

The **NAAIM Exposure Index** represents the average exposure to US Equity markets reported by our members.

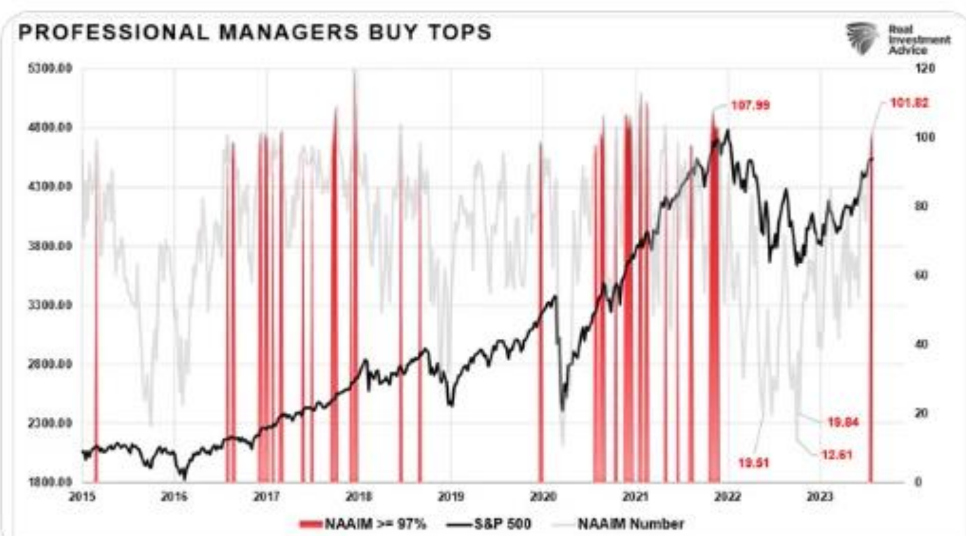
The green line shows the close of the S&P 500 Total Return Index on the survey date. The blue line depicts a two-week moving average of the NAAIM managers' responses.

It is important to recognize that the NAAIM Exposure Index is not predictive in nature and is of little value in attempting to determine what the stock market will do in the future. The primary goal of most active managers is to manage the risk/reward relationship of the stock market and to stay in tune with what the market is doing at any given time. As the name indicates, the NAAIM Exposure Index provides insight into the actual adjustments active risk managers have made to client accounts over the past two weeks.



Lance Roberts @LanceRoberts · 3h

The #NAAIM index hit 101.82 this week. As shown, whenever professional managers net exposure is 97% or above, such is historically near short-term #market peaks. #ContrarianIndicator



5 8 54 4,122

And, if you recall my short memories rant, well, it was only recently that folks were thinking about stuff like this, important economic turning points that are dead ahead now:

Business | The Big Take

A $500 Billion Corporate-Debt Storm Builds Over Global Economy

Concerns of a credit crisis have receded. But a wave of corporate bankruptcies is building now that an era of easy money has come to an end.

By Jeremy Hill and Lucca De Paoli
July 18, 2023 at 7:00 PM EDT *Updated on July 19, 2023 at 1:06 PM EDT*

Richard Cooper's phone is something of an early alarm bell for the global economy. Lately, it's been ringing a lot.

A partner at Cleary Gottlieb, a top law firm for corporate bankruptcies, he's advised businesses worldwide for decades on what to do when they're drowning in debt. He did it through the global financial crisis, the oil bust in 2016 and Covid-19. And he's doing it again now, in a year when big corporate bankruptcies are piling up at the second-fastest pace since 2008, eclipsed only by the early days of the pandemic.

"It feels different than prior cycles," Cooper said. "You're going to see a lot of defaults."

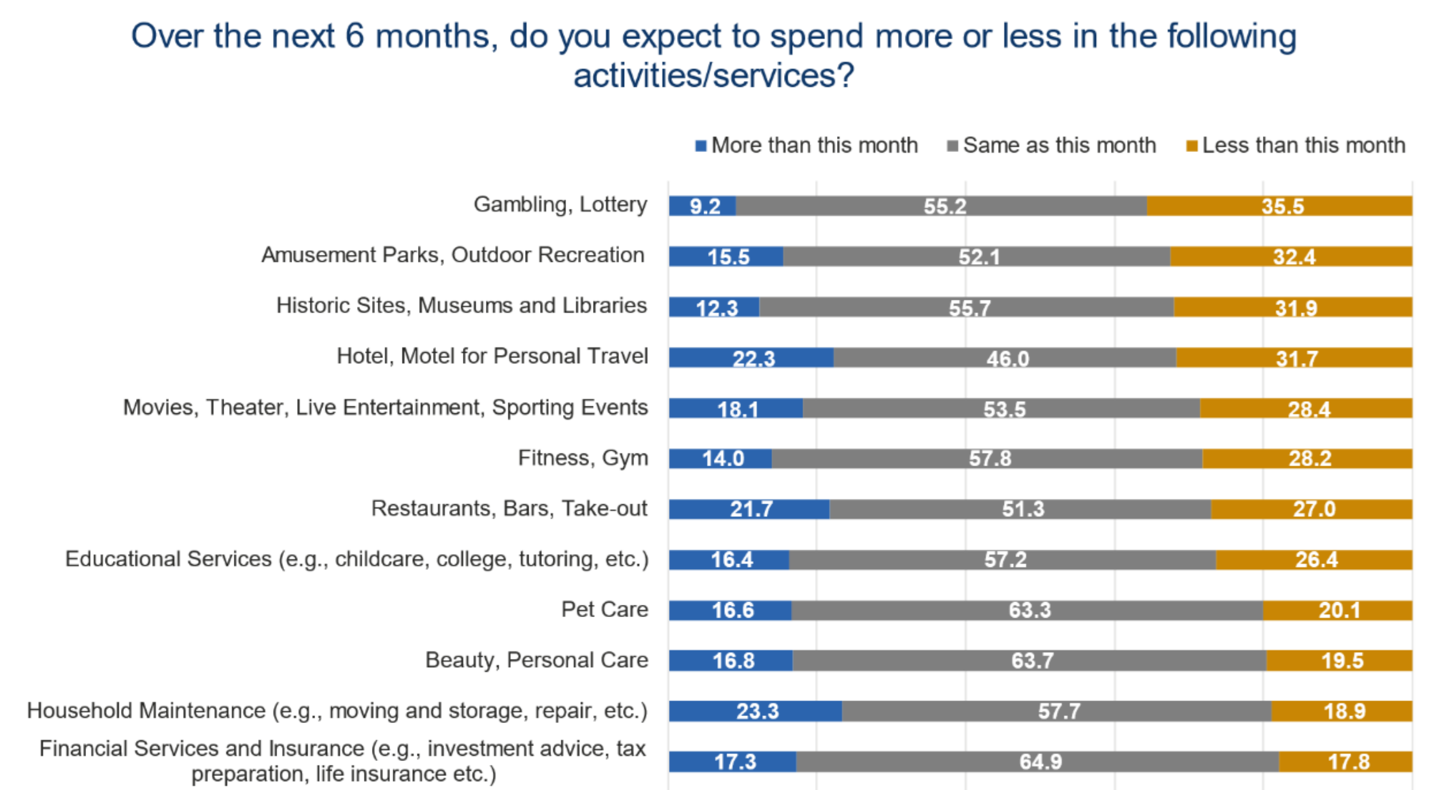
https://www.bloomberg.com/news/features/2023-07-18/billions-in-corporate-debt-wave-of-bankruptcies-threatens-global-economy?srnd=premium&sref=1zxv5xkq

Do you think a corporate bankruptcy lawyer is making this up? A week ago? Well, what are investors doing, *thinking only that the Fed is done*? Not considering anything else, they are buying the junk credit of course, just like in equities:

> On the surface, investors are showing confidence that companies will keep defaults at bay as inflation eases and central banks engineer economic soft landings. The shift in mood in July has been swift: The spread above Treasury bond yields that investors demand to hold US junk debt has narrowed more than 100 basis points to about 370 basis points since the start of May, paving the way for a borrowing spree .

https://www.bloomberg.com/news/articles/2023-07-28/surprise-junk-bond-rally-has-flipside-7-billion-of-shorts?sref=1zxv5xkq

And, curiously, when the consumer confidence data came out a few days ago, folks cheered the current conditions, but ignored what their plans actually are after the summer sprees are over:



VOLATILITY ANALYTICS NEWSLETTER – AUGUST 14TH

This is July being July again. Short memories, drunk on summer rallies when option traders play with the indices on light volume days. We will see how things look in late September into October.

I'll leave the positioning kindling for quant celebrity McElligott to describe, this is all you need to know about how 'stuffed' and 'impulsive' it has gotten:

The "complete flipping of the equities positioning script is occurring against the exact same skew profile seen in late 2022," Nomura's Charlie McElligott said Wednesday. That "speaks to complacency," he cautioned.

Skew and put skew currently rank very low on a historical percentile basis, indicative of subdued "relative demand for downside," McElligott wrote, adding that call skew is still lingering with mid-90%ile rankings, suggesting market participants are far more concerned about crash *up* risk into a rally that refuses to abate.

That under-hedging on the downside juxtaposed with what Charlie described as "stuffed overall positioning across various strat types," looks "unstable."

Remember: A "too low" VIX, or other evidence which ostensibly hints at a lack of concern for a potential drawdown, makes sense (and is rational) if you don't have anything to hedge. That is, if positioning is bombed out and cash levels are elevated, a lack of demand for downside hedges can be explained by a lack of exposure that needs hedging.

But that explanation doesn't work when positioning is, on many metrics, stretched. Charlie called recent exposure adds "impulsive."

Given that, "it makes some sense that the market has finally seen a notable S&P tail-y downside buyer over the past two days," he wrote, flagging September puts on the S&P, which capture the post-Jackson Hole trade and VIX seasonality.

He went on to emphasize a familiar talking point which I actually reiterated first thing Wednesday morning in "Make Vol Great Again." "It wouldn't require a massive move higher in vol to elicit a substantial mechanical deleveraging," Charlie said.

Source: https://heisenbergreport.com/2023/07/26/mcelligott-sees-spooky-dangerous-contrast/

It's still summer, the party isn't over til it's over.

Volatility Trades:

NFP/Post AAPL SPX put calendar

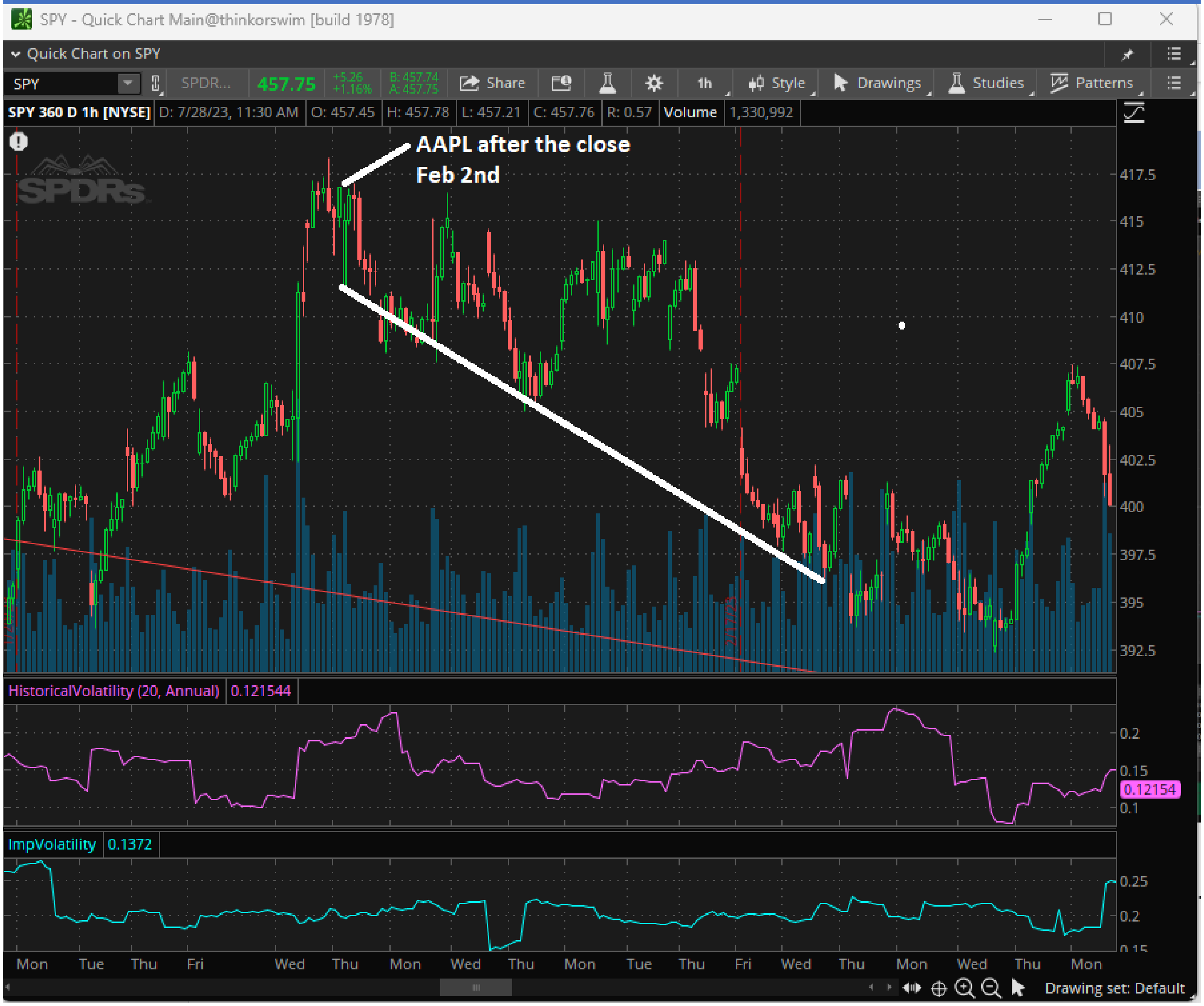
Sell \$4550 Aug 3rd put

Buy \$4550 Aug 4th put

Net debit: \$2.75-3

VOLATILITY ANALYTICS NEWSLETTER – AUGUST 14TH

AAPL and AMZN report after the bell on the 3rd. That's a lot of market cap, 17% of QQQ alone, and along with those reactions, the back vol has non-farm payrolls. Paying less than 3 SPX points is cheap. And, looking back at when the January int February rally ended, this was the dividing line:



I most certainly don't expect it repeat, but it is really the end of the earnings season for the most part, so a logical turning point for some volatility.

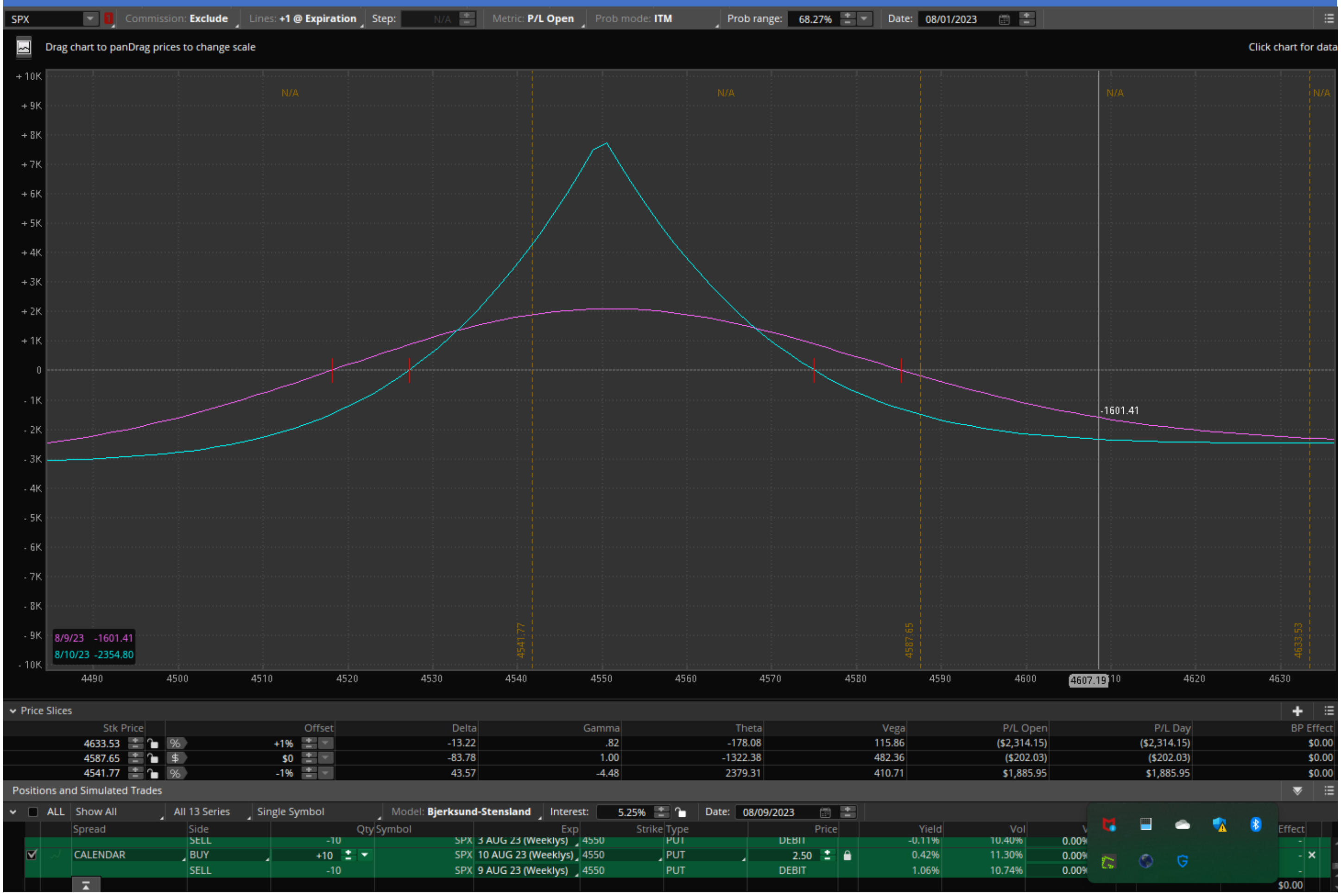
SPX CPI put calendar spread

Sell $4550 Aug 9th put

Buy $4550 Aug 10th put

Net debit: $2.50 (filled)

VOLATILITY ANALYTICS NEWSLETTER – AUGUST 14TH



Inflation data is going to have a tougher time from June’s rosy goldilocks results. Base effects aren’t going to help and some things like fuel and food are rising again. These reports could easily reemerge as market vol events. 2.5 SPX points is cheap to own the CPI release in the back leg.

VOLATILITY ANALYTICS NEWSLETTER – AUGUST 14TH

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 earning releases 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:

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.

Volatility Trades:

SPX September put butterfly spread

Buy SEP $4500 put

Sell 2x SEP $4350 put

Buy SEP $4200 put

Net debit: $14-15

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.

IWM Jackson Hole put calendar spread

Sell AUG 25th IWM $185 put

Buy SEP 15th IWM $185 put

Net debit: .70-.75

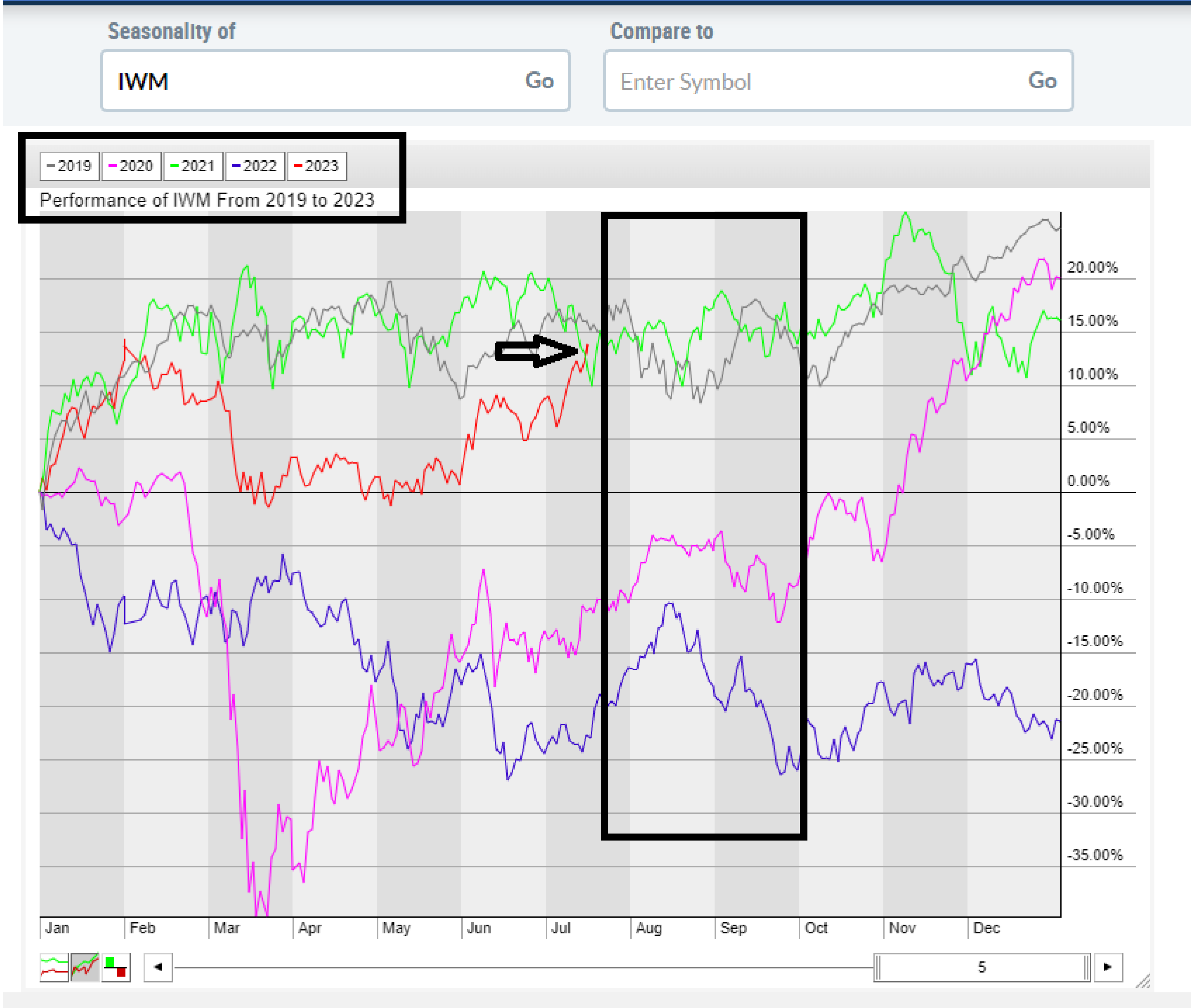
So, the short leg here is Jackson Hole, the scene of the crime last year, when Jay did the rarest of things for him, basically scolding markets that were on fire in a situation that the current fever reminds one of. When we approach, you can bet implied will rise as folks harken back to that turning point.

The second thing that this trade has going for it, is that it is a long vol trade, at a time when implied vol is about as low as it gets. Take a look at what happens to this pair, as implied vol is stepped up:

Generally, when markets fall (imagine that, hard to these days) implied rises and as you can see, every vol level higher benefits the price of these calendars. So, with three weeks in the back leg, if markets are backing off into Jackson Hole, this could easily be worth 2% of the underlying. Target, $2.50.

And, if everyone likes to lean on July as positive for seasonality, it's only proper if we look at seasonality for August and September, right?

Not exactly the best of times for IWM:



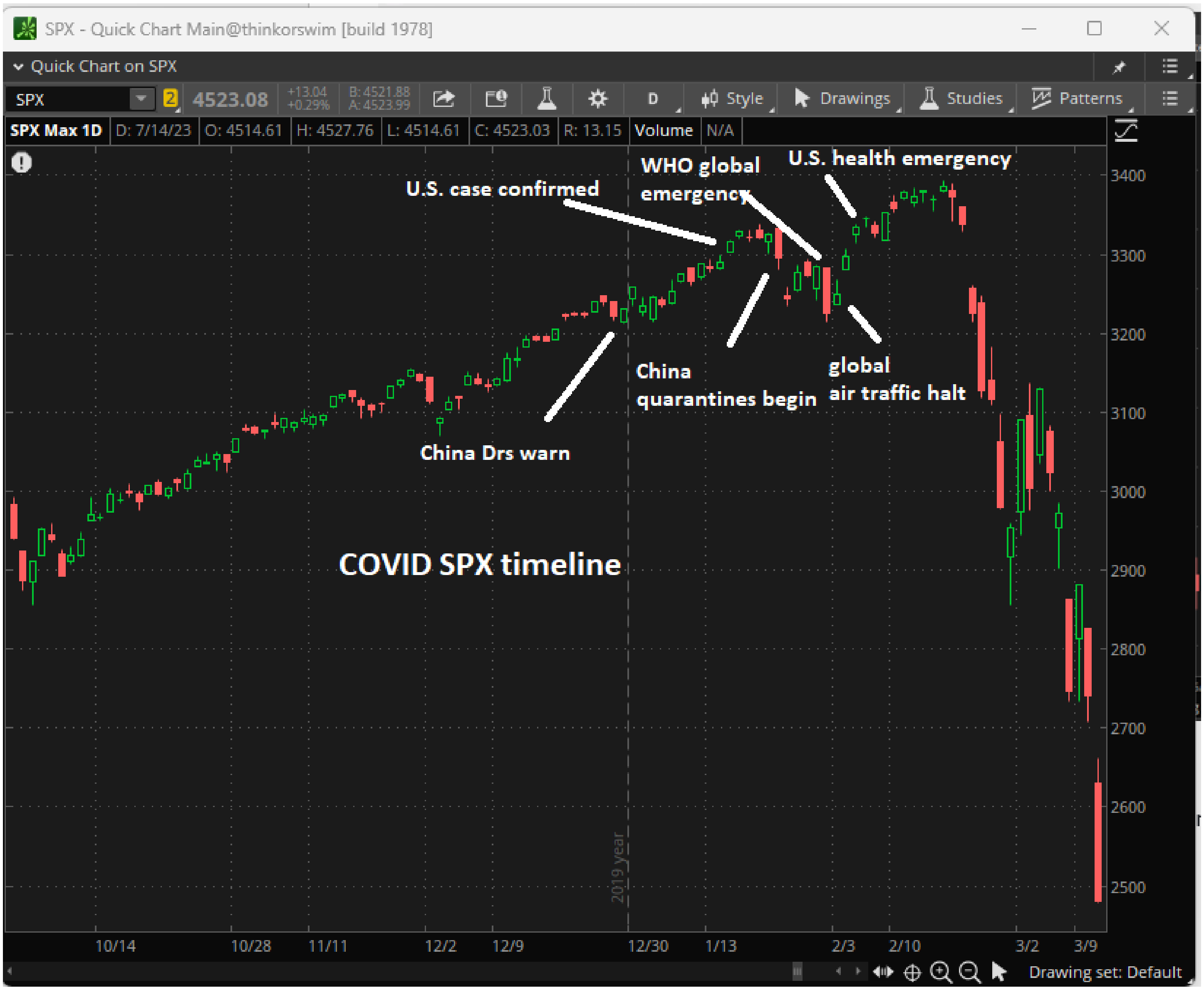
This makes sense, most of these companies report a little later than larger ones, so early August is generally the end of the line for a while, until IWM seasonality returns in October-December.

JULY BEING JULY AGAIN – VOL CRUSH MAY LAST INTO AUGUST WITHOUT CATALYST

I've said this before but allow me to repeat myself. Equity markets (and bond markets for that matter) are not forward-looking. They are more like teenage parties; they don't end until the cops show up or get kicked in the nuts. People have short memories, if they didn't, they'd be haunted by past memories in perpetuity. Consider how the market behaved after Bear Stearns imploded:

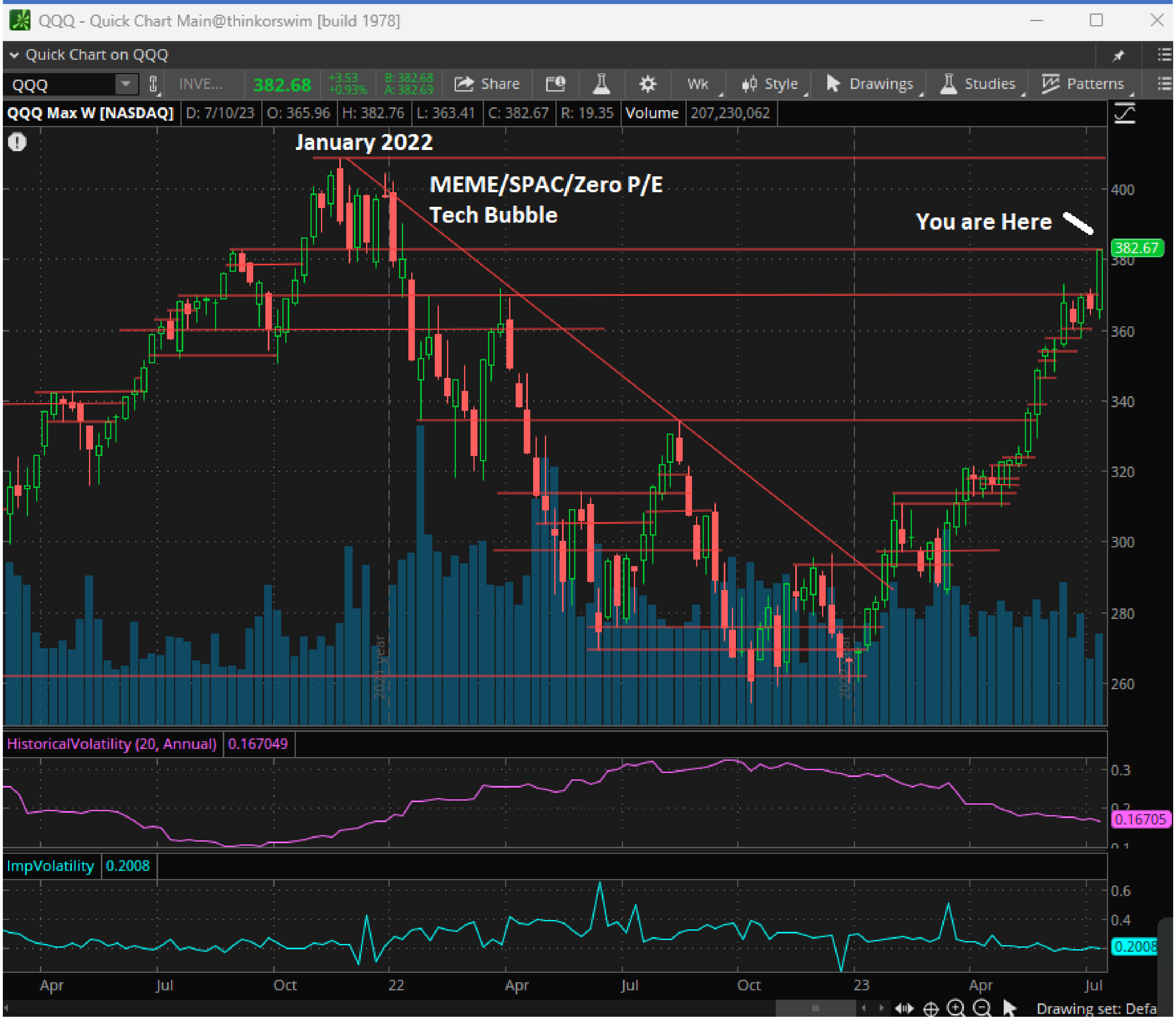
You know what happened next after this event. The markets had plenty of advance warning, yet they blew it off for a while. Hard to believe right? I mean, that was a giant canary.

Ok, not convinced? An idiosyncratic example? How about COVID? How long did drunken markets take to acknowledge that? Well:



When you look at that chart, you almost have to laugh, markets were beaten over the head with horrible and continually worsening news until it finally dawned on them that there might actually be a problem brewing.

Now, clearly, what is approaching is nothing close to a major issue like these, this is just to illustrate the point that markets are often blissfully ignorant while currently this is happening:

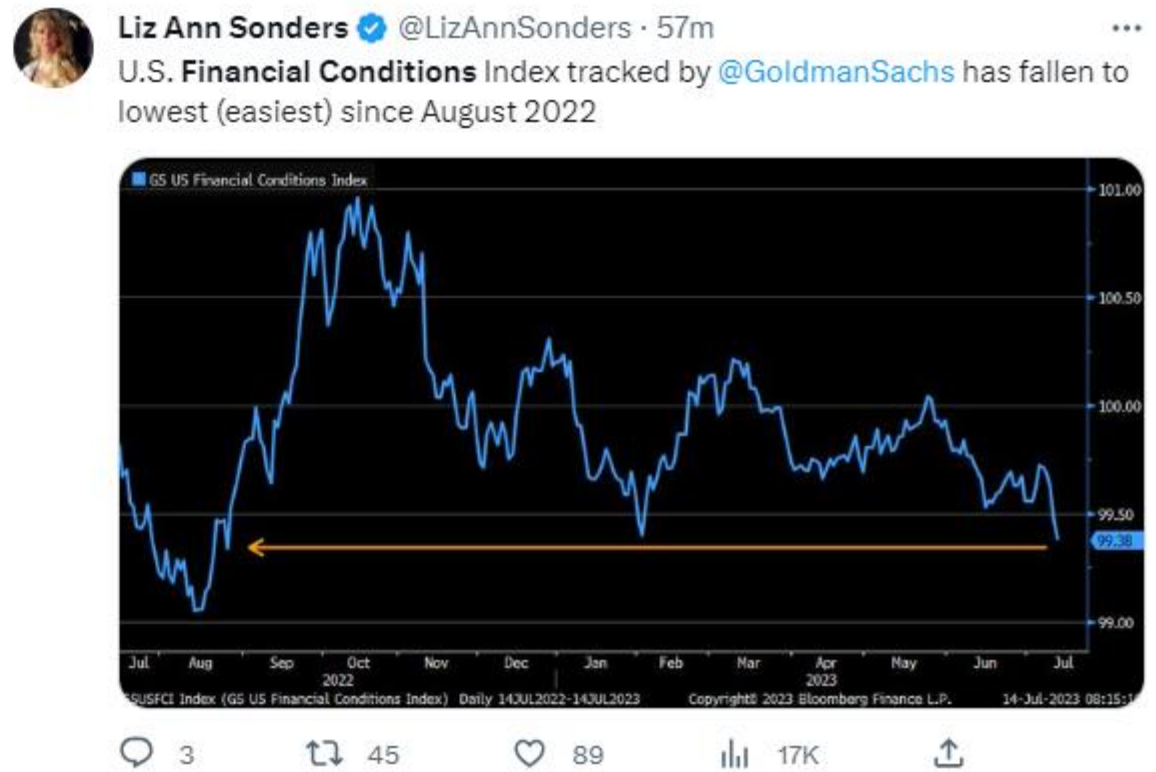


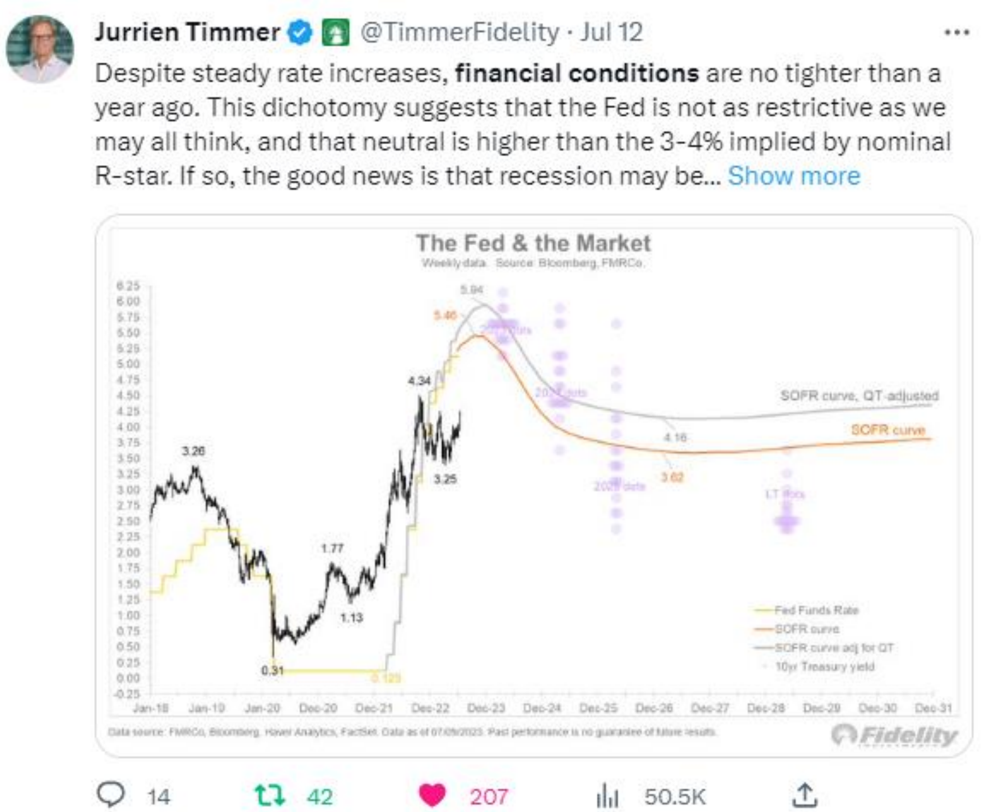
And we're back….Meme stonks and soon to be bankrupt companies short squeezing, seemingly everyone gobbling up calls in the giga names every day, folks checking Wall Street Bets on reddit every morning to see what to gang up on, vol being smashed constantly so that put walls just below price can't be breached, vol selling is as popular as ever, etc, etc.

'Analysts' are complicit. Not only are they chasing the market higher by raising their year-end S&P 500 price targets, they upgrade stocks that are in deep trouble, *only after* they've run 800%:

And while all this is going on, the dollar is getting massacred:

What does that mean in conjunction with rates falling and equity markets going parabolic? Well, financial conditions are loosening rapidly:

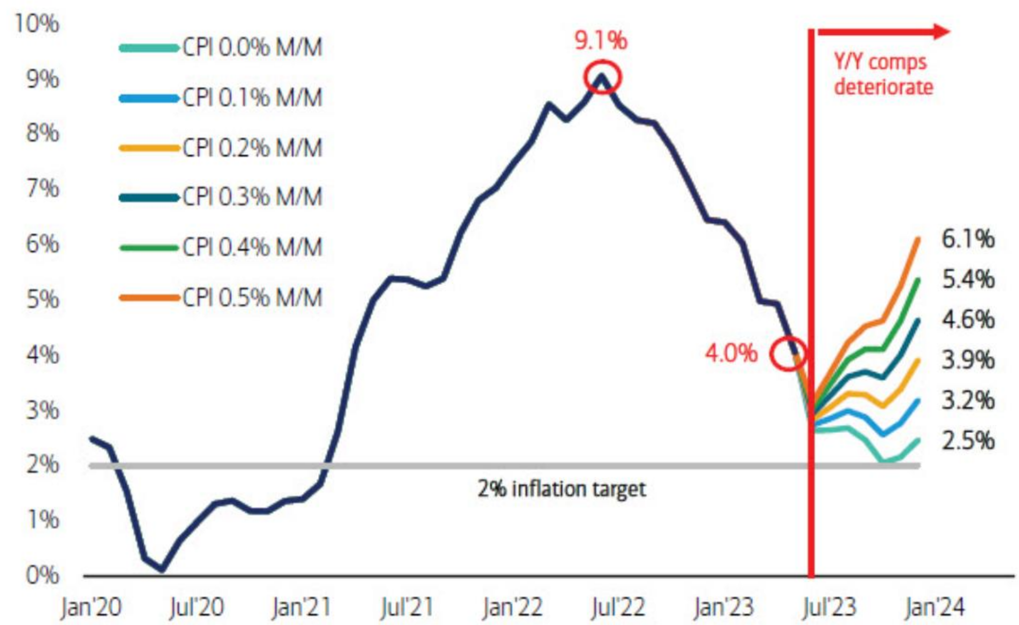




Meanwhile, the most famous chart in the world right now (it seems to me anyway) is this one:

Chart 7: Unless MoM CPI stays <0.2%, inflation heads higher by '24

US inflation assumptions



Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

Inflation year over year comps are going to be much harder going forward, is the point of this, even while markets party over the impending end of inflation and tightening. The narrative has shifted to a probability of soft landing:

> More encouraging is that underlying inflation has edged lower in recent months, even though the labor market has yet to weaken significantly. This suggests the odds of a soft landing, in which inflation returns close to the Fed's 2% target without a recession, are improving.

Source: https://www.wsj.com/articles/as-inflation-goes-down-soft-landing-odds-improve-5166e6af?mod=Searchresults_pos3&page=1

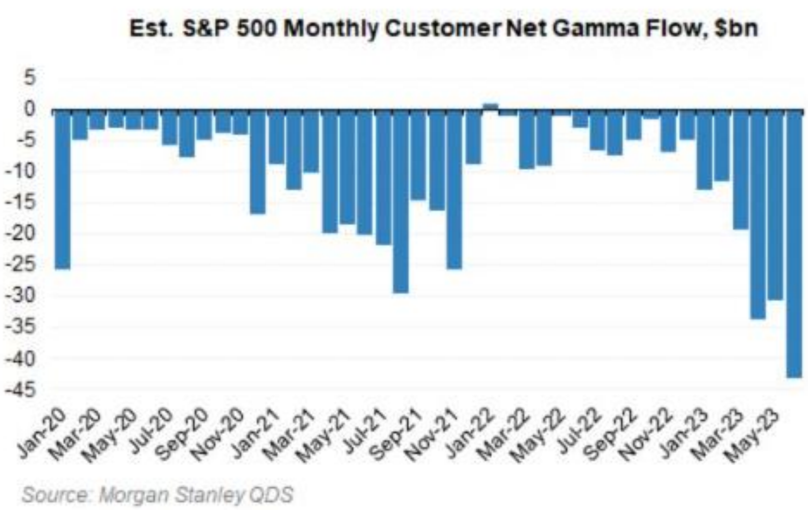
And, since the tech earnings reports spike party hasn't even started yet, this euphoria could easily run into mid-August, just as it did last year. And we all know what happened next and what might just happen again:

> The question, then, is whether the Fed is truly ready for inflation to subside. That might sound odd, but one concern is that CPI reports like June's have the potential to excite "animal spirits," and not just in markets. Traders and consumers, operating on the assumption that Fed hikes will conclude after one final increase later this month, may be inclined to celebrate the ostensible end of America's inflation nightmare with stock purchases and discretionary spending.
>
> If that happens, the seeds could be sown for a resurgence in price pressures. And we may look up a month from now and find Powell reprising his "bad cop" role from last year's Jackson Hole conference.

Source: https://heisenbergreport.com/2023/07/12/as-dollar-plunges-fed-may-fear-november-redux/

No one is prepared for anything bad to happen, that is obvious. Vol selling is approaching max popularity in finance circles:

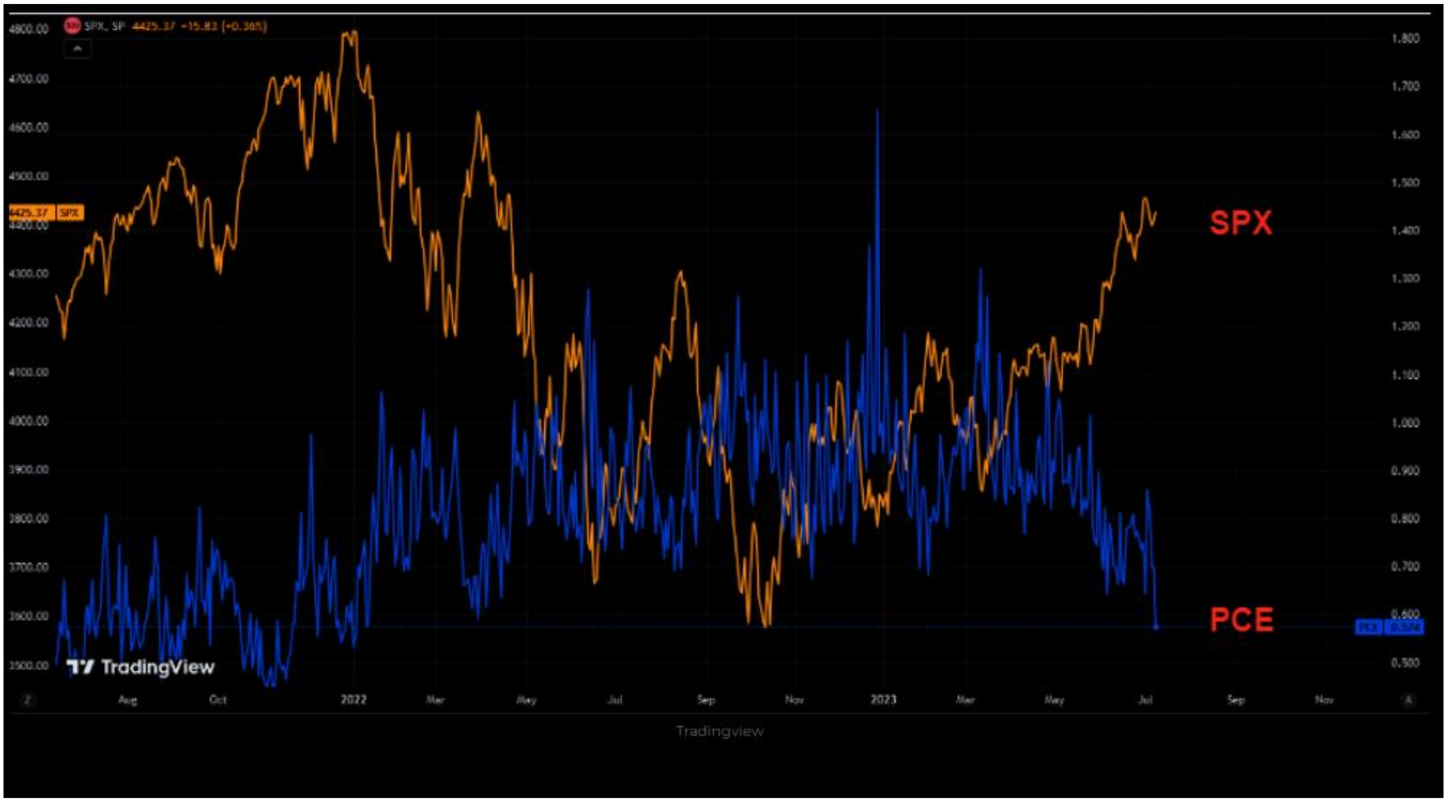
> A Cboe index tracking the three-month implied correlation among S&P 500 shares slumped in June to the lowest level since the month right before the February 2018 "Volmageddon," an event where exchange-traded funds designed to pay investors the inverse of equity volatility folded.
>
> Another driver is the resurgence of the once-troubled strategy of shorting vol. The trade is so popular that by one measure, the net amount of selling broke a record in April and did so again in June, according to Morgan Stanley's team led by Christopher Metli.



Source: Morgan Stanley

Source: https://www.bloomberg.com/news/articles/2023-07-06/ticking-bomb-or-new-regime-wall-street-weighs-eerie-stock-calm?sref=1zxv5xkq

Put/call ratios are lowest since the all-time highs in equity markets:



I mean, in a way this makes sense, it is July, and July is being July again. Maybe Jay will say something at the next meeting, but he probably won't, in which case, Jackson Hole is a long runway for the teenagers to party. So, until then, enjoy your Euro close ramps, your giga-tech Thursday/Friday ramps, your giga-tech post-earnings spikes and your daily 10:30am put smashing paradise.

Volatility Trades:

Fed Meeting put calendar spread

Sell 4475 July 26th put

Buy 4475 July 28th put

Net debit: $3.50-3.75

Less than 4 points for the Fed meeting reaction is a great price, target $7.

CVNA potential secondary put diagonal spread

Sell July 21st $30 put

Buy July 28th $29 put

Net debit: .45-50

If a company is on the brink of bankruptcy, wouldn't it be prudent to use a tenfold increase in market cap to ensure they can live another day? CNVA market cap just rose from .75B to over $7B. You have to imagine a secondary is coming. $29 was the recent short squeeze breakout level. If it heads back there on such an announcement, you can see how current one-week similar spreads are pricing:

Strikes: 30

	PUTS										
Strike	Bid X	Ask X	Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	Mark
											268.64% (±1.714)
31 / 30	.46	.48	.47	-.10	-17.54%	292.78%	-.10	.01	561	5,019	.470
31.5 / 30.5	.53	.56	.56	-.11	-16.42%	285.82%	-.11	.01	174	252	.545
32 / 31	.62	.65	.63	-.16	-20.25%	277.46%	-.12	.01	69	812	.635
32.5 / 31.5	.73	.76	.73	-.10	-12.05%	261.40%	-.14	.01	292	758	.745
33 / 32	.84	.89	.88	-.06	-6.38%	245.77%	-.16	.01	424	1,115	.865
33.5 / 32.5	.97	1.03	.99	-.01	-1.00%	235.33%	-.17	.01	163	563	1.000
34 / 33	1.12	1.17	.14	.05	+4.59%	223.66%	-.19	.00	271	706	1.145
34.5 / 33.5	1.26	1.33	.28	.11	+9.40%	220.46%	-.19	-.01	65	111	1.295
35 / 34	1.42	1.50	.42	.14	+10.94%	210.43%	-.20	-.03	484	748	1.460
35.5 / 34.5	1.58	1.63	.45	.10	+7.41%	205.04%	-.19	-.05	97	167	1.605
36 / 35	1.73	1.79	.81	.41	+29.29%	199.61%	-.17	-.08	1,772	1,624	1.760
36.5 / 35.5	1.84	1.94	.91	.47	+32.64%	199.10%	-.12	-.11	147	305	1.890
37 / 36	1.94	2.04	.03	.54	+36.24%	197.59%	-.06	-.14	658	921	1.990
37.5 / 36.5	1.99	2.12	.02	.70	+53.03%	197.77%	.02	-.16	134	191	2.055
38 / 37	2.00	2.12	.08	.55	+35.95%	200.65%	.10	-.16	541	478	2.060
38.5 / 37.5	1.94	2.12	.18	.68	+45.33%	202.59%	.17	-.15	264	178	2.030
39 / 38	1.88	2.06	.03	.63	+45.00%	207.38%	.24	-.13	748	1,335	1.970
39.5 / 38.5	1.79	2.02	.00	.53	+36.05%	205.56%	.30	-.10	249	174	1.905
40 / 39	1.64	1.88	.14	.84	+64.62%	214.13%	.32	-.07	461	298	1.760
42 / 40	.45	.65	.55	.10	+22.22%	237.55%	.38	.01	372	485	.550
43 / 41	.10	.40	-.10	.05	-33.33%	269.53%	.34	.02	63	125	.250
44 / 42	-.10	.10	-.15	-.60	-133.3...	83.79%	.38	.04	112	253	0
45 / 43	-.40	-.15	-.35	-.35	N/A	320.04%	.27	.03	24	111	-.275
46 / 44	-.60	-.35	-.40	-.33	+471.4...	352.27%	.23	.03	19	139	-.475
47 / 45	-.75	-.55	-.90	-.60	+200.0...	86.28%	.28	.04	N/A	29	-.650

Target, $1.25.

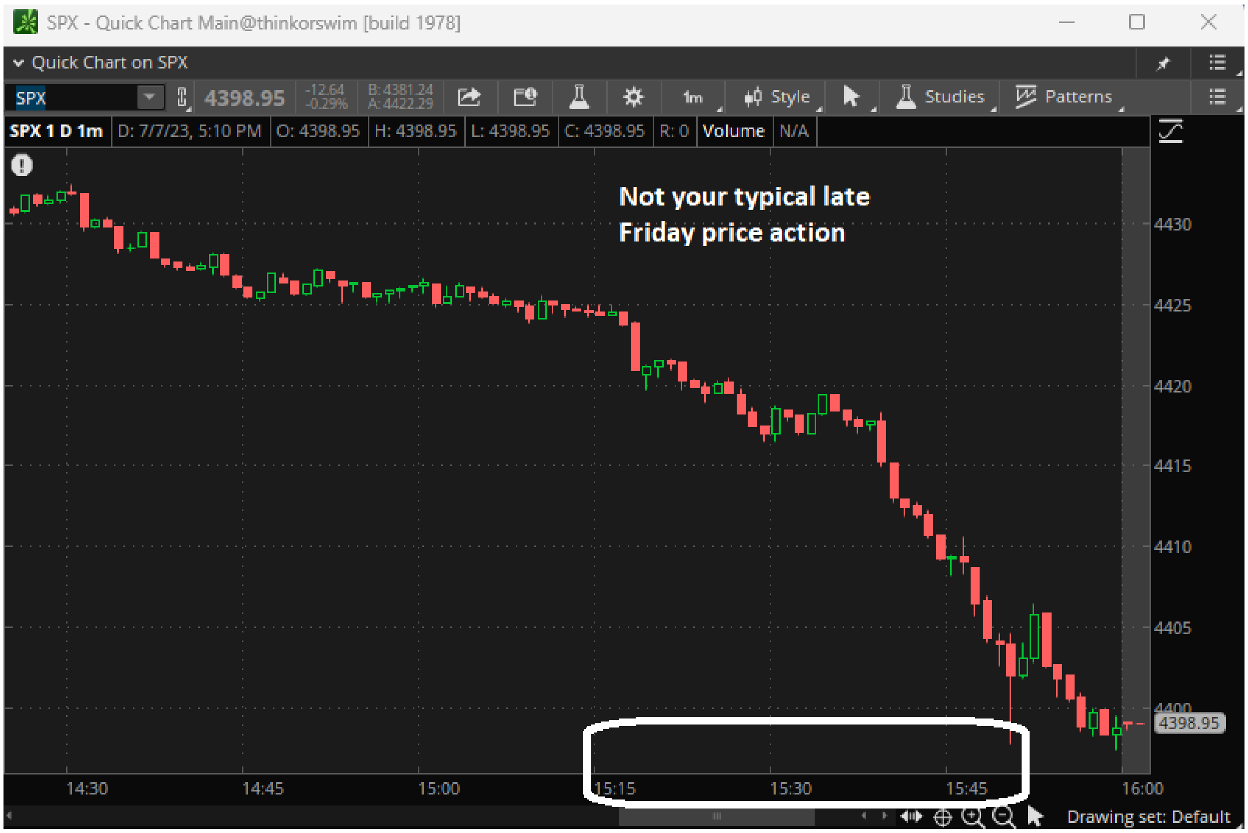
I was going to post some earnings vol trades today, but the markets have been so volatile to the upside that today is, frankly, a bad time to put those on. I will circle back with a few ideas in the next note Tuesday or Wednesday.

VOLATILITY ANALYTICS NEWSLETTER – AUGUST 14TH

CHART STORM TO MAKE A CASE FOR A RISE IN VOLATILITY IN THE SHORT-TERM

VOLATILITY SUMMARY

Friday's close was quite interesting, and if you are a bull, or a consistent seller of 0-1DTE volatility, it should have made you abruptly take notice of the potential for a change in market conditions:



Vol sellers had another fun day on Thursday, as they sold vol/bought the dip at 10:30am for the Nth time in a row and cruised to another casual victory as they didn't have to break a sweat for the rest of the day. On the other hand, this price action was something completely different for a Friday, in July no less.

If you have simply been buying S&P 500 futures at 10:30am and selling at 2pm, after the typical post Euroclose ramp, a pattern that is now seemingly a daily event from 11:30-1:30 or so, your record since quarterly opex would be an astounding 11-1-1 (one loss one draw). And they say you can't time the markets.

But you haven't seen a down and dirty Friday close in eons. SPX lost almost 1% in the last two hours alone, unheard of lately. That's realized vol.

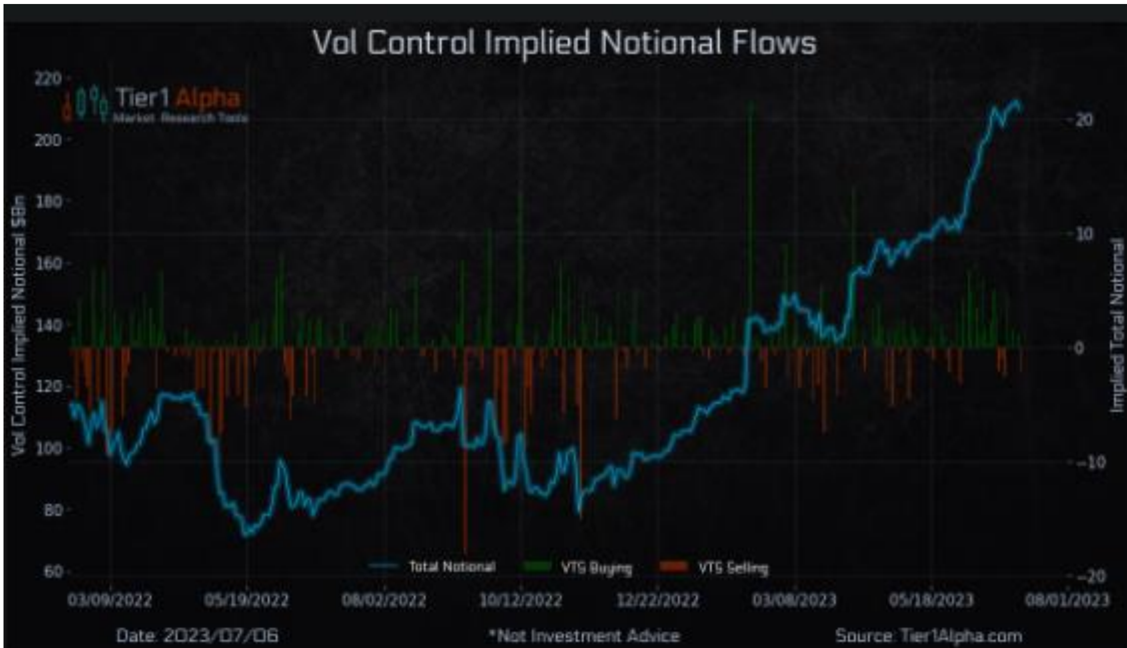
And, you aren't going to believe this, but puts actually rose in a significant way on Friday. Here is an intraday chart of Tuesday SPX 4400 puts:

Getting two days for $4 at $4400 was maybe not the steal of the century at the time but it was far from expensive, and if you are short puts a couple days out for 20% of what you sold them for originally, you aren't trading smart, most certainly.

One of these days, folks are going to get stuck in a lot of short puts when actual sellers of stocks arrive, or put buyers, and it will cascade in on them as they will be forced to chase them for huge losses. What lights that self-fulfilling vortex, almost impossible to know.

So, on top of the usual stuff, like student loan repayment drag, declining cyclical macro (don't look at XLI, the industrials ETF for that though, it's on fire), Fed QT/hikes, etc, let's run through a few more eye-opening storm clouds gathering, that might just eventually dent the goldilocks scenario hopium.

Systematic Vol Control Exposure:



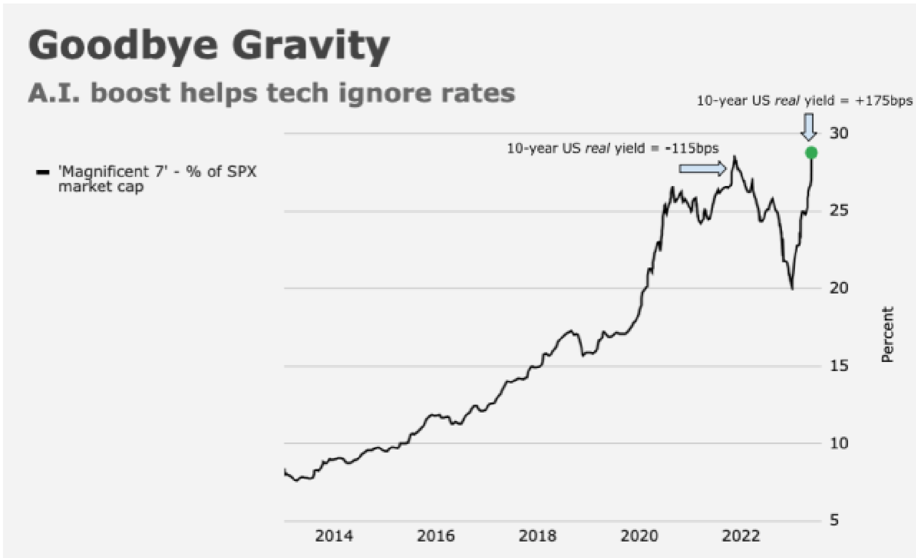
With equity exposure still high in the 70%ile, we continue to be concerned about a shift in positioning. As we've been highlighting this week, the lack of large returns in both the 1-month and 3-month trailing sample windows means that any incoming data will have a more substantial impact on overall volatility levels, ultimately leading to more forced selling taking place from the vol control community.

Source: Tier1Alpha letter July 7th

This is the highest since August of 2021, which leads us to this amazing chart:

Giga Tech Suddenly Ignorant of Real Rates:

Recall that the so-called "Magnificent 7" now command nearly the same share they did when stocks peaked towards the end of 2021. Edwards called the situation "simply nuts."



The keen among you will also recall that the last time those seven stocks enjoyed this kind of sway over the cap-weighted benchmark, real US yields were *negative* 115bps. They're 290bps higher now.

Source: https://heisenbergreport.com/2023/07/07/albert-edwards-not-wavering-now-on-recession-call/

Now, remember we were all marveling at how mega cap tech was so large relatively at the time, but what is amazing about this is, that percentage is higher now and real rates are almost 300 bps higher as well! Is the connection between duration broken or is the market dislocated? I'll leave it to you. But, on the rates front:

10-YR Yield Spike Correlated to SPX Rising?

Over the last year, when the 10-yr yield spiked and headed over 4%, stocks were none too happy. Well, welcome to July 2023, when the fear of missing your automatic July gains trumps an alternative to stonks. Was Friday's close a clue of what's to come? And consider, the last time we were up here with rates, the bank problems began. But that was idiosyncratic right?

Speaking of the fear of July, a few charts:

Shorts Rush to Cover:

Short sellers likely lost $37 billion in June, according to an estimate by analytics provider Ortex. Losses have been piling up for bears all year as optimism over artificial intelligence propel technology giants, lifting the S&P 500 to double-digit returns that have defied doomsayers.

Signs are multiplying that skeptics, willingly or not, are in retreat after initial resistance. Large speculators, mostly hedge funds that saw their net short positions in S&P 500 swell to a record at the end of May, were busy unwinding bets in the following four weeks. Their bearish holdings fell by 226,000 contracts over the stretch, the largest drop since mid-2020, according to data from the Commodity Futures Trading Commission compiled by Bloomberg.

Source: https://www.bloomberg.com/news/articles/2023-07-07/force-firing-up-the-stock-market-cools-off-with-shorts-conceding?sref=1zxv5xkq

That's a sign of folks just throwing their hands up combined with the fear of July. How about the other investor types:

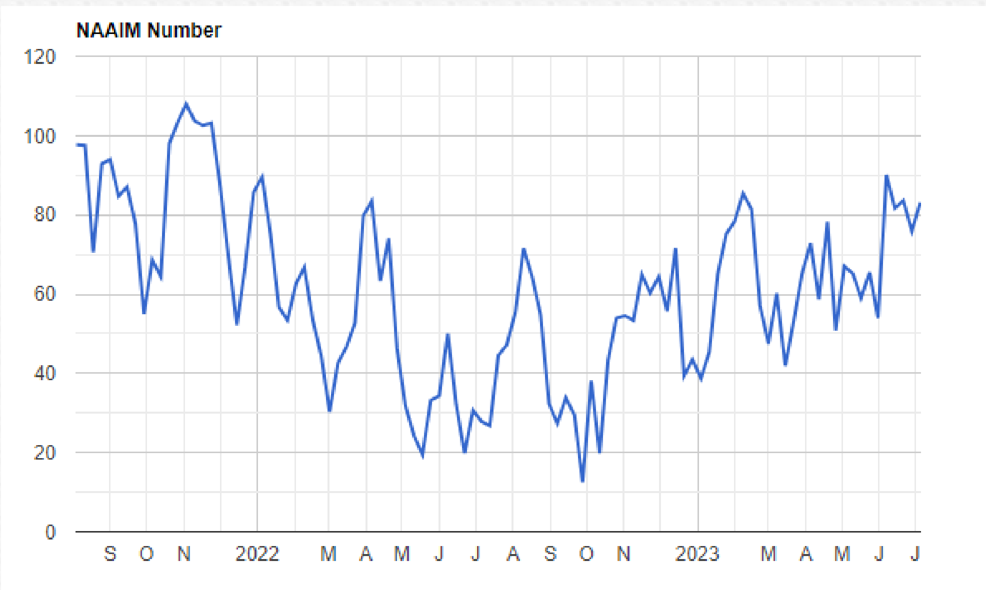
NAAIM/AAII at Recent Highs:

NAAIM Exposure Index

The **NAAIM Exposure Index** represents the average exposure to US Equity markets reported by our members.

The green line shows the close of the S&P 500 Total Return Index on the survey date. The blue line depicts a two-week moving average of the NAAIM managers' responses.

It is important to recognize that the NAAIM Exposure Index is not predictive in nature and is of little value in attempting to determine what the stock market will do in the future. The primary goal of most active managers is to manage the risk/reward relationship of the stock market and to stay in tune with what the market is doing at any given time. As the name indicates, the NAAIM Exposure Index provides insight into the actual adjustments active risk managers have made to client accounts over the past two weeks.



Source: https://www.naaim.org/programs/naaim-exposure-index/

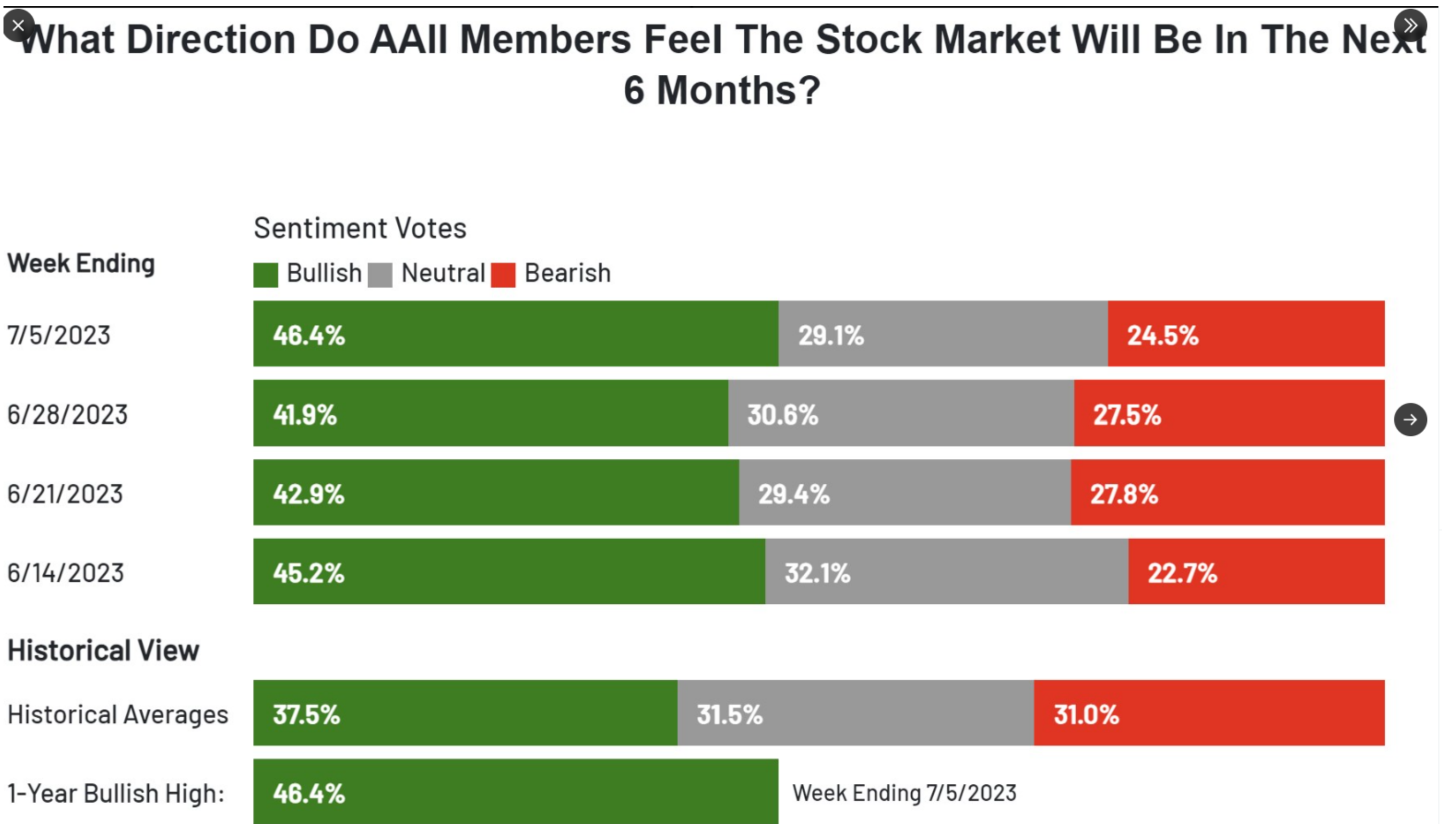
Active investment managers were hoping for a dip in June, but that never materialized in a meaningful way; it was a big up month, so back into the fray.

How about individual investors?

AAII SentimentSurvey @AAIISentiment · Jul 6

AAII Sentiment Survey:
*Optimism continues to improve; highest since Nov. 2021
*Neutral declines to back to a 2023 low
*Bearish stays below its historical average

aaii.com/sentimentsurvey



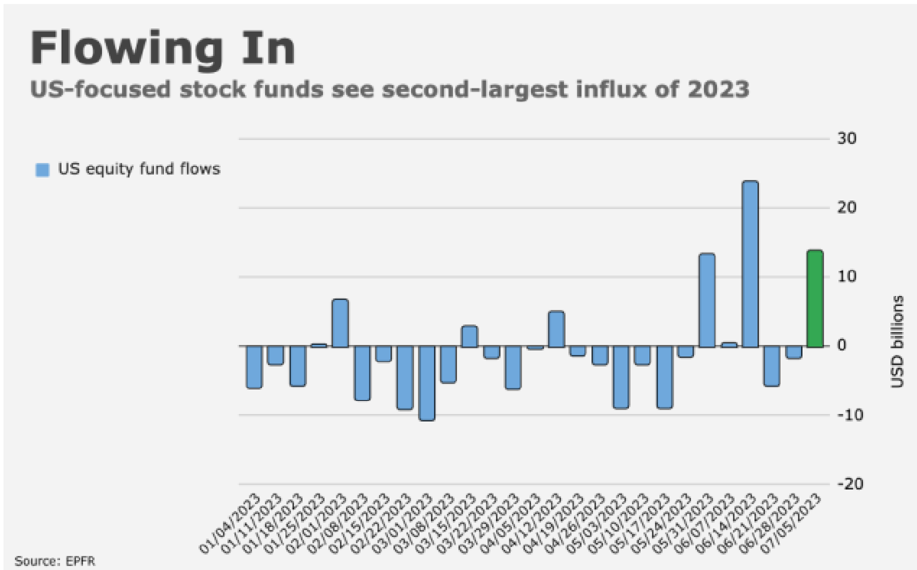
Source: https://twitter.com/AAIISentiment

Pretty darn bulled up, wouldn't you say?

Fund Flows Hot:

The $13.8 billion haul counted as the second-largest of 2023 for US shares, and suggested the inflows seen in and around last month's "new bull market" headlines weren't necessarily a false dawn.

As a reminder, ETF flows have been robust over the past several weeks. In fact, June was the best month since October for US equity ETFs.



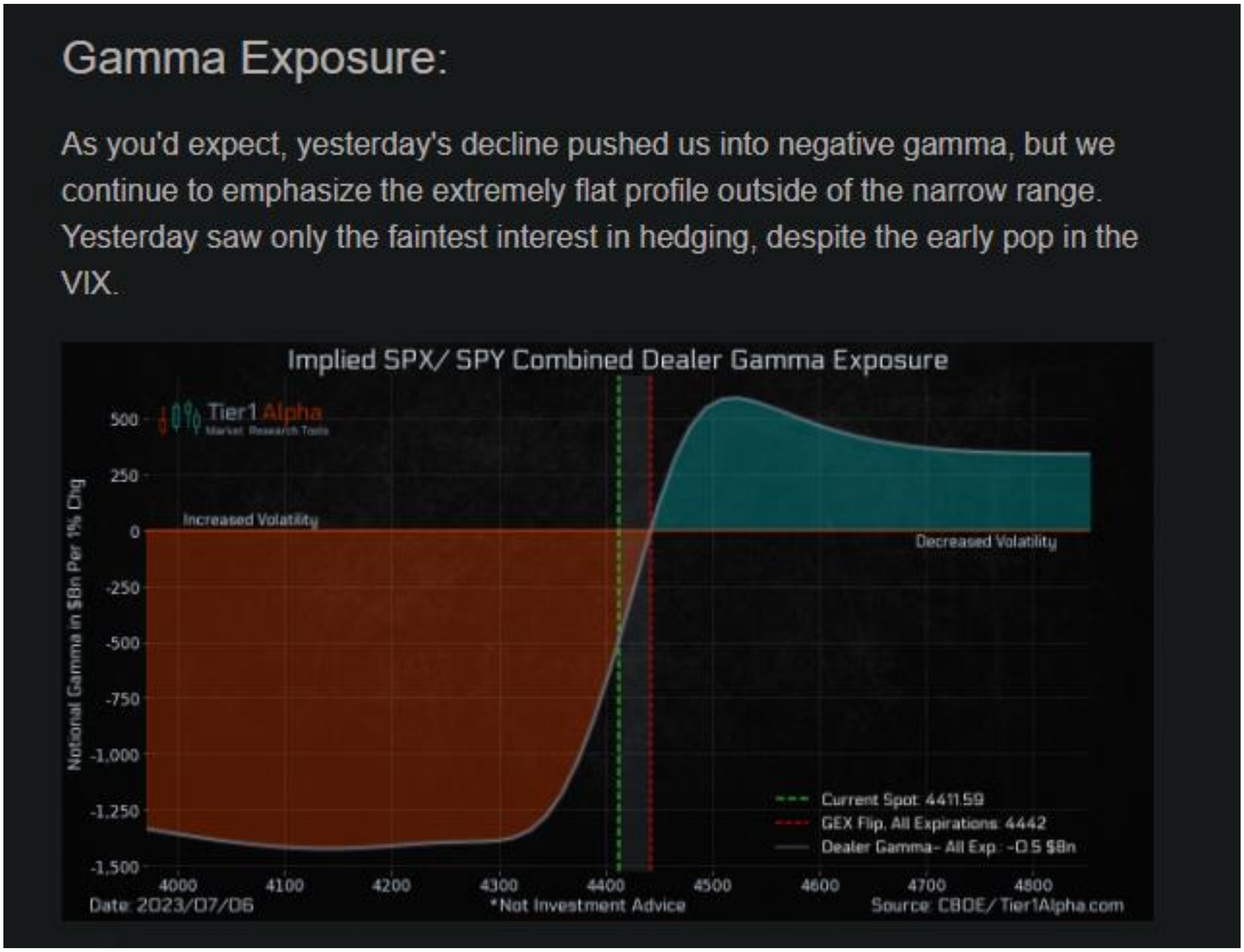
Nearly all of last week's inflow was attributable to US large-cap funds, which took in $12.9 billion. Growth and value funds both saw small net outflows.

Source: https://heisenbergreport.com/2023/07/07/us-equity-funds-get-second-biggest-inflow-of-2023-as-h2-dawns/

Full on 'calendar risk' present. Time is running out to chase performance into year-end, and the pain point has been reached for managers. It's plug your ears to the bad news and just buy what's working.

Is anyone prepared for a potential unwind of all this?

Hedges? Nope:



Source: Tier1Aphal letter, July 7th

This is an eye-opening chart. What it shows is that there is no short gamma chase for dealers below 2% of spot, and this is for all expirations. Translation: nobody owns puts that dealers would have to rebalance for by selling futures if the market dropped.

Here is the bottom line, the boat is loaded and the vol kindling is set. All it needs is a match to catch a lot of folks napping.

Earnings expectations are high, for this quarter and for the rest of the year. Something is going to happen but is it July/August/September/October/January 2024, that is the only question that remains. Not an easy one.

Volatility Trades:

SPX Opex put calendar spread

Sell July 19th 4375 put

Buy July 21st AM 4375 put

Net debit: $1.75-2.25

This is a range-bound to bearish trade that you should be able to buy for around 2 SPX points. The back leg holds standard morning monthly settlement for opex in the back leg but selling Wednesday prior, so essentially you get overnight market action for the cost of one day.

And if volatility rises, so much the better. Target $3.50-4. Here is how one-day spreads are currently pricing:

Option Chain Filter: Off Spread: Calendar Layout: Last X, Net Change, % Change, Impl Vol,... Strikes: 10

CALLS Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	Mark	Bid X	Ask X	Strike	PUTS Bid X	Ask X	Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	Mark
7 JUL 23/10 JUL 23 (-1/2) 100 (Weeklys)																						7.76% (±2.058)
8.00	6.05	+310.2...	--	-.26	.01	384	884	8.950	5.00	12.90	4375 / 4375	2.35	2.60	2.60	-.34	-11.56%	19.08%	-.17	.01	6,313	1,707	2.475
9.08	5.83	+179.3...	--	-.29	.01	216	263	9.400	5.80	13.00	4380 / 4380	3.05	3.40	3.33	-.02	-0.60%	16.16%	-.21	.01	5,905	1,028	3.225
10.36	6.31	+155.8...	20.72%	-.25	.00	215	257	8.650	6.70	10.60	4385 / 4385	3.95	4.30	4.20	.67	+18.98%	13.13%	-.26	.01	4,797	1,867	4.125
11.49	7.47	+185.8...	15.81%	-.28	-.01	436	609	9.900	8.00	11.80	4390 / 4390	5.15	5.40	5.49	1.91	+53.35%	10.01%	-.32	.01	5,236	738	5.275
12.47	9.33	+297.1...	--	-.44	.01	811	292	11.800	10.40	13.20	4395 / 4395	6.55	7.00	6.85	3.15	+85.14%	6.72%	-.38	-.02	5,657	1,419	6.775
13.15	10.50	+396.2...	6.11%	.39	-.21	2,636	838	12.450	12.20	12.70	4400 / 4400	6.00	8.20	7.60	3.65	+92.41%	6.92%	.17	-.14	10,553	1,377	7.100
10.35	6.46	+166.0...	9.14%	.41	.00	4,305	330	9.675	9.45	9.90	4405 / 4405	2.70	6.50	3.92	-.09	-2.24%	10.59%	.30	-.02	5,001	1,153	4.600
7.87	3.38	+75.28%	12.00%	.35	.01	4,260	554	7.275	7.05	7.50	4410 / 4410	.80	4.10	2.40	-1.45	-37.66%	9.85%	.29	.01	6,670	482	2.450
5.91	1.36	+29.89%	14.80%	.29	.01	7,446	1,353	5.375	5.15	5.60	4415 / 4415	-3.00	2.60	-.65	-4.56	-116.6...	21.01%	.08	.00	5,981	1,454	-.200
4.23	-.17	-3.86%	17.51%	.23	.01	8,429	568	3.825	3.65	4.00	4420 / 4420	-3.40	.60	-.94	-4.59	-125.7...	20.57%	-.03	.00	4,387	881	-1.400
10 JUL 23/11 JUL 23 (2/3) 100 (Weeklys)																						8.92% (±23.137)
7.25	6.46	+817.7...	12.18%	-.04	.00	8	884	3.550	2.00	5.10	4375 / 4375	2.80	3.40	2.78	.13	+4.91%	8.90%	-.07	.00	879	918	3.100
.78	-2.83	-78.39%	11.69%	-.03	.00	16	95	3.850	2.50	5.20	4380 / 4380	3.00	3.80	3.07	.57	+22.80%	8.66%	-.07	.00	1,054	327	3.400
3.76	1.91	+103.2...	11.24%	-.03	.00	70	257	4.250	3.10	5.40	4385 / 4385	3.40	4.10	3.50	.73	+26.35%	8.39%	-.06	.00	642	265	3.750
5.24	3.09	+143.7...	10.87%	-.02	.00	142	126	4.600	3.50	5.70	4390 / 4390	3.80	4.40	3.71	.74	+24.92%	8.13%	-.04	.00	1,301	144	4.100
3.96	.44	+12.50%	10.50%	-.01	.00	28	247	4.900	3.90	5.90	4395 / 4395	3.90	4.80	3.80	.95	+33.33%	7.89%	-.02	-.01	647	165	4.350
5.04	.49	+10.77%	10.18%	.01	.00	447	632	5.000	4.30	5.70	4400 / 4400	3.90	4.90	4.28	.93	+27.76%	7.59%	.01	-.01	1,783	1,033	4.400
5.30	1.69	+46.81%	9.86%	.02	.00	139	148	4.950	4.50	5.40	4405 / 4405	4.00	4.90	4.25	1.05	+32.81%	7.31%	.04	-.01	674	125	4.450
5.28	1.58	+42.70%	9.63%	.04	.00	601	554	4.950	4.50	5.40	4410 / 4410	3.90	4.80	5.10	1.99	+63.99%	6.91%	.08	-.01	1,192	296	4.350
4.81	1.31	+37.43%	9.44%	.06	.00	2,401	947	4.650	4.20	5.10	4415 / 4415	3.20	5.30	3.95	.85	+27.42%	6.32%	.14	.00	714	598	4.250
4.72	1.62	+52.26%	9.27%	.08	.00	700	251	4.300	3.90	4.70	4420 / 4420	2.70	5.00	3.80	-.35	-8.43%	5.11%	.24	.01	836	690	3.850
11 JUL 23/12 JUL 23 (3/4) 100 (Weeklys) POS																						10.55% (±33.534)
.08	-4.96	-98.41%	12.72%	-.03	.00	8	134	4.700	2.80	6.60	4375 / 4375	3.70	4.50	4.19	.89	+26.97%	10.29%	-.05	.00	511	718	4.100
3.64	.75	+25.95%	12.42%	-.03	.00	16	95	5.000	3.30	6.70	4380 / 4380	3.90	4.90	4.15	-.05	-1.19%	10.10%	-.05	.00	675	327	4.400
1.36	-3.16	-69.91%	12.17%	-.02	.00	59	173	5.250	3.80	6.70	4385 / 4385	4.20	5.10	6.45	2.21	+52.12%	9.91%	-.04	.00	568	265	4.650
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	.00	142	126	5.400	4.10	6.70	4390 / 4390	4.40	5.30	4.63	.60	+14.89%	9.75%	-.03	.00	1,301	144	4.850
5.47	1.07	+24.32%	11.72%	-.01	.00	28	106	5.500	4.20	6.80	4395 / 4395	4.40	5.40	5.10	.83	+19.44%	9.55%	-.01	.00	369	165	4.900
6.32	.37	+6.22%	11.51%	.00	.00	414	632	5.650	4.60	6.70	4400 / 4400	4.60	5.60	4.82	.93	+23.91%	9.35%	.00	.00	1,783	1,033	5.100
5.80	1.50	+34.88%	11.27%	.01	.00	139	148	5.700	5.20	6.20	4405 / 4405	4.50	5.50	4.80	.70	+17.07%	9.16%	.02	.00	406	125	5.000 POS
5.73	1.13	+24.57%	11.14%	.03	.00	601	778	5.600	5.10	6.10	4410 / 4410	4.50	5.50	7.00	2.79	+66.27%	8.95%	.04	.00	884	296	5.000
5.72	.92	+19.17%	10.96%	.04	.00	482	622	5.400	4.90	5.90	4415 / 4415	3.60	6.20	9.11	4.78	+110.3...	8.72%	.06	.00	714	598	4.900
5.30	.53	+11.11%	10.83%	.05	.00	700	251	5.200	4.70	5.70	4420 / 4420	3.20	6.10	4.45	1.23	+38.20%	8.44%	.08	.00	481	271	4.650

The next note will focus on tech earnings vol trades and Fed meeting ideas.

VOLATILITY ANALYTICS NEWSLETTER – AUGUST 14TH

JULY'S LOW VOL MARKETS ARRIVED EARLY – THE SNOOZER SHOULD CONTINUE UNTIL LATE IN THE MONTH – FED MEETING MAY BE THE WATERSHED FOR VOL

VOLATILITY SUMMARY

Not much has changed since the last note, the omnipresent voices keep crooning phrases like 'macro weakness', 'valuations' and 'overdue for a correction', but the market laughs. It will worry about it when it finally sees the whites of the eyes of a real problem or a surprise out of left field. It is July after all and we all know by now that it never fails, right?

So, in lieu of another long-winded note about the headwinds, overleveraging, 0DTE, systematic vol exposure levels et al in front of a vacation week for the people and the markets (3.5 trading days next week), I will simply put up a few trade ideas and post the next note after JOLTS and NFP next Thursday and Friday respectively.

Let the record show though, some intraday vol could arise between now and Friday. First, SCOTUS is going to approve or decline the student loan forgiveness plan, which if denied is obviously another economic headwind, but again, the market probably won't care about that until the fall, so it should be short-lived vol.

Secondly, there is a large amount of QT on Friday, both from new treasury issuances and notes rolling off the Fed balance sheet:

Date	Security Type	Total Offering	Total Publicly Held Maturing	Net New Cash or (Pay Down)
07/05/2023	Bills	$176,000	$115,948	$60,052
06/30/2023	Coupons	$173,000	$105,577	$67,423
06/29/2023	Bills	$173,000	$102,004	$70,996

Previous **June 21, 2023**

Posted June 22, 2023 at 4:30 PM

SUMMARY | T-BILLS | **T-NOTES AND T-BONDS** | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

MATURITY DATE	CUSIP	COUPON (%)	PAR VALUE ($Thousands)	TOTAL OUTSTANDING (%)
06/30/2023	91282CCK5	0.125	9,107,503.1	13.18%
06/30/2023	912828S35	1.375	8,333,656.5	25.97%
06/30/2023	9128284U1	2.625	18,657,272.5	46.09%

$67B in coupons and $35B in rolling off the Fed balance sheet is not chopped liver, so it will be interesting to see how the market handles that and how it acts once the JPM collar is rolled Friday morning.

Volatility Trades:

SPX CPI put calendar spread

Sell SPX July 11th $4350 put

Buy SPX July 12th $4350 put

Net debit: $2.65 (filled)-2.85

Pretty basic owning the vol event pair trade. CPI still matters and less than 3 points of the underlying is cheap, target $4.50-5.

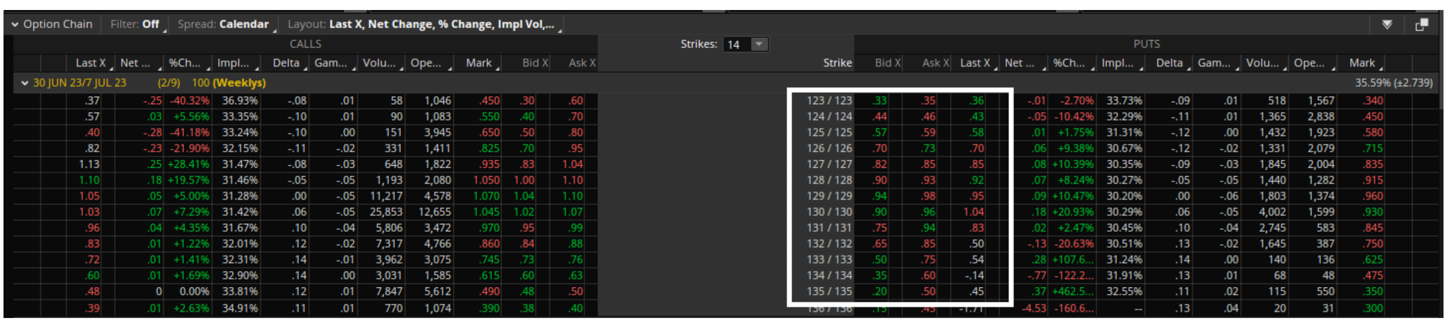
AMZN Prime Day put calendar spread

Sell $140 July 7th put

Buy $140 July 14th put

Net debit: .19 (filled) -.25

This is a very inexpensive trade. Look at how 30th/7th put pairs are pricing with the back leg having only 3.5 trading days:



Option Chain | Filter: Off | Spread: Calendar | Layout: Last X, Net Change, % Change, Impl Vol,... | Strikes: 14

30 JUN 23/7 JUL 23 (2/9) 100 (Weeklys) — 35.59% (±2.739)

CALLS Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	Mark	Bid X	Ask X	Strike	PUTS Bid X	Ask X	Last X	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	Mark
.37	-.25	-40.32%	36.93%	-.08	.01	58	1,046	.450	.30	.60	123 / 123	.33	.35	.36	-.01	-2.70%	33.73%	-.09	.01	518	1,567	.340
.57	.03	+5.56%	33.35%	-.10	.01	90	1,083	.550	.40	.70	124 / 124	.44	.46	.43	-.05	-10.42%	32.29%	-.11	.01	1,365	2,838	.450
.40	-.28	-41.18%	33.24%	-.10	.00	151	3,945	.650	.50	.80	125 / 125	.57	.59	.58	.01	+1.75%	31.31%	-.12	.00	1,432	1,923	.580
.82	-.23	-21.90%	32.15%	-.11	-.02	331	1,411	.825	.70	.95	126 / 126	.70	.73	.70	.06	+9.38%	30.67%	-.12	-.02	1,331	2,079	.715
1.13	.25	+28.41%	31.47%	-.08	-.03	648	1,822	.935	.83	1.04	127 / 127	.82	.85	.85	.08	+10.39%	30.35%	-.09	-.03	1,845	2,004	.835
1.10	.18	+19.57%	31.46%	-.05	-.05	1,193	2,080	1.050	1.00	1.10	128 / 128	.90	.93	.92	.07	+8.24%	30.27%	-.05	-.05	1,440	1,282	.915
1.05	.05	+5.00%	31.28%	.00	-.05	11,217	4,578	1.070	1.04	1.10	129 / 129	.94	.98	.95	.09	+10.47%	30.20%	.00	-.06	1,803	1,374	.960
1.03	.07	+7.29%	31.42%	.06	-.05	25,853	12,655	1.045	1.02	1.07	130 / 130	.90	.96	1.04	.18	+20.93%	30.29%	.06	-.05	4,002	1,599	.930
.96	.04	+4.35%	31.67%	.10	-.04	5,806	3,472	.970	.95	.99	131 / 131	.75	.94	.83	.02	+2.47%	30.45%	.10	-.04	2,745	583	.845
.83	.01	+1.22%	32.01%	.12	-.02	7,317	4,766	.860	.84	.88	132 / 132	.65	.85	.50	-.13	-20.63%	30.51%	.13	-.02	1,645	387	.750
.72	.01	+1.41%	32.31%	.14	-.01	3,962	3,075	.745	.73	.76	133 / 133	.50	.75	.54	.28	+107.6...	31.24%	.14	.00	140	136	.625
.60	.01	+1.69%	32.90%	.14	.00	3,031	1,585	.615	.60	.63	134 / 134	.35	.60	-.14	-.77	-122.2...	31.91%	.13	.01	68	48	.475
.48	0	0.00%	33.81%	.12	.01	7,847	5,612	.490	.48	.50	135 / 135	.20	.50	.45	.37	+462.5...	32.55%	.11	.02	115	550	.350
.39	.01	+2.63%	34.91%	.11	.01	770	1,074	.390	.38	.40	136 / 136	.15	.45	-1.71	-4.53	-160.6...	--	.13	.04	20	31	.300

So, the full weeklong leg of the 14th will have Prime Day in it, July 11-12. If AMZN rises 5-7% into the 7th of July, this pair will be worth far more than 19 cents. Target, .75.

AAPL Put calendar spread and call diagonal spread

Sell AAPL July 21st $200 put

Buy AAPL July 28th $200 put

Net debit: .05 (filled)

Sell July 21st 197.5 call

Buy July 28th $200 call

Net debit: .10-.11 (filled)

This trade has two events in the back leg and potentially three. AAPL earnings might be the week of the 28th, that is when they reported in July last year. The market expects earnings to be in early August because they reported in May on the 4th. But if it is announced in the week of the 28th, the IV will shoot up, making these spreads rise in value.

The week of the 28th has a slew of tech earnings in it, and also a Fed meeting, which will help the IV in here as well. And don't forget one other thing, the march to $3 trillion in market cap, which has folks' attention and will occur around $194.

If AAPL continues to drift higher like it typically does in July, both of these pairs will do well.

Have a great 4th of July!

JULY TECH EARNINGS, 5-WK OPEX CYCLE, 0DTE, JPM COLLAR ROLL ALL CONTRIBUTING TO LOW REALIZED VOL – SLOW/LOW VOL TRADE IDEAS

VOLATILITY SUMMARY

It’s damn hard to find a reason for markets to correct in the short-term, regardless of the fact that I listed about ten more than decent ones last week with charts. Of course, I have a few more and they most certainly don’t have anything to do with Mike Wilson’s earnings recession thesis he launched about 1000 S&P points lower.

I suppose he would stick with it even if we crashed up to new highs, of which, we are not far away in SPX and QQQ mind you. Earnings don’t seem to matter much, it’s more about (or all about) skating to the where the next bubble theme money puck is going.

Through next Friday, a lot of eyes will be on SPX 4320, which the JPM quarterly rolling collar strategy short calls sit. The market lately has been attacking this fund, causing losses.

Last quarter, it took a decent hit when the index in late March and especially on the last day of the quarter shot right through the strike price level and the managers had to roll out to June at a loss for the quarter. @Squeezemetrics sums it up succinctly:

SqueezeMetrics
@SqueezeMetrics

Let's talk about this:

JPM's notoriously huge collar strategy got attacked at its last roll. Its next roll happens at the end of this month. The strategy's short call strike is 4320.

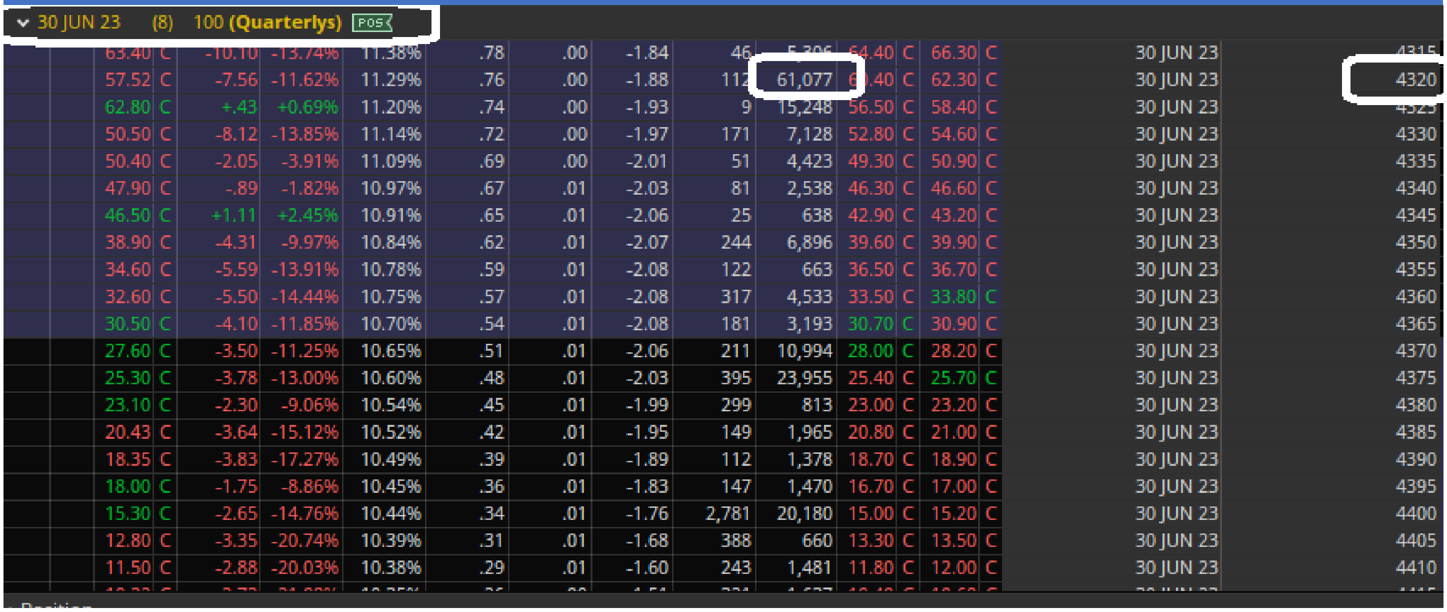
What happens this time?

Commentary from April 2nd.

> An apt quote, from a friend:
>
> > Sometimes, very rarely, you feel the whole market part like the sea to reveal a single overexposed player. And then come together, as one, to attack them.
>
> Pretty much all of Friday's 1.44% gain was ostensibly squeezing JPM's (JHEQX) oversubscribed SPX collar strategy. The short call strike at 4065 has long been a totem for silly market commentary ("it'll pin there, it's gonna pin, look out for the pin"), and to an extent the dealer long gamma at the call strike has become a self-fulfilling prophecy. But until now, the awareness of the collar hasn't hurt JPM's fund. Friday was the first time it's happened: Folks genuinely frontran the roll and cost the fund some meaningful performance.
>
> Two things can really hurt the JPM collar: If SPX shoots above the call strike before the roll is accomplished, causing the short call to lose money; and if SPX drops and pins the put strike before the roll is accomplished, causing the put to provide no principal protection.
>
> People are now clearly aware of this new game (let's call it "Pop the Collar"), so keep it in mind. Moving on...

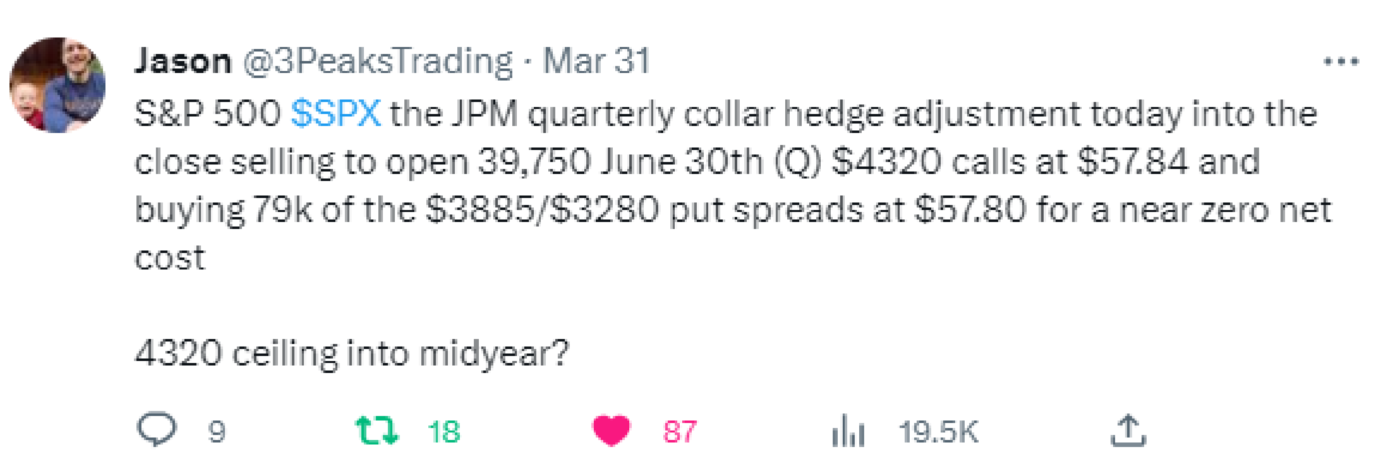
5:39 PM · Jun 11, 2023 · **139.4K** Views

And here it is, the June 30th short call to roll:



30 JUN 23 (8) 100 (Quarterlys)												
63.40 C	-10.10	-13.74%	11.38%	.78	.00	-1.84	46	[illegible]	64.40 C	66.30 C	30 JUN 23	4315
57.52 C	-7.56	-11.62%	11.29%	.76	.00	-1.88	112	61,077	[illegible].40 C	62.30 C	30 JUN 23	4320
62.80 C	+.43	+0.69%	11.20%	.74	.00	-1.93	9	15,248	56.50 C	58.40 C	30 JUN 23	4325
50.50 C	-8.12	-13.85%	11.14%	.72	.00	-1.97	171	7,128	52.80 C	54.60 C	30 JUN 23	4330
50.40 C	-2.05	-3.91%	11.09%	.69	.00	-2.01	51	4,423	49.30 C	50.90 C	30 JUN 23	4335
47.90 C	-.89	-1.82%	10.97%	.67	.01	-2.03	81	2,538	46.30 C	46.60 C	30 JUN 23	4340
46.50 C	+1.11	+2.45%	10.91%	.65	.01	-2.06	25	638	42.90 C	43.20 C	30 JUN 23	4345
38.90 C	-4.31	-9.97%	10.84%	.62	.01	-2.07	244	6,896	39.60 C	39.90 C	30 JUN 23	4350
34.60 C	-5.59	-13.91%	10.78%	.59	.01	-2.08	122	663	36.50 C	36.70 C	30 JUN 23	4355
32.60 C	-5.50	-14.44%	10.75%	.57	.01	-2.08	317	4,533	33.50 C	33.80 C	30 JUN 23	4360
30.50 C	-4.10	-11.85%	10.70%	.54	.01	-2.08	181	3,193	30.70 C	30.90 C	30 JUN 23	4365
27.60 C	-3.50	-11.25%	10.65%	.51	.01	-2.06	211	10,994	28.00 C	28.20 C	30 JUN 23	4370
25.30 C	-3.78	-13.00%	10.60%	.48	.01	-2.03	395	23,955	25.40 C	25.70 C	30 JUN 23	4375
23.10 C	-2.30	-9.06%	10.54%	.45	.01	-1.99	299	813	23.00 C	23.20 C	30 JUN 23	4380
20.43 C	-3.64	-15.12%	10.52%	.42	.01	-1.95	149	1,965	20.80 C	21.00 C	30 JUN 23	4385
18.35 C	-3.83	-17.27%	10.49%	.39	.01	-1.89	112	1,378	18.70 C	18.90 C	30 JUN 23	4390
18.00 C	-1.75	-8.86%	10.45%	.36	.01	-1.83	147	1,470	16.70 C	17.00 C	30 JUN 23	4395
15.30 C	-2.65	-14.76%	10.44%	.34	.01	-1.76	2,781	20,180	15.00 C	15.20 C	30 JUN 23	4400
12.80 C	-3.35	-20.74%	10.39%	.31	.01	-1.68	388	660	13.30 C	13.50 C	30 JUN 23	4405
11.50 C	-2.88	-20.03%	10.38%	.29	.01	-1.60	243	1,481	11.80 C	12.00 C	30 JUN 23	4410

Now, the goal of this strategy is to buy a put vertical spread for market protection while selling an out-of-the-money call to finance that. Here was the roll trade on March 31st:



So, how is the zero-cost collar doing? Well:

40,000 contracts x $100 x $65 = -$260,000,000 loss. It was -$560,000,000 last Thursday, so I suppose it could be worse. (Insert crying laughing emoji.)

This helps deflate realized volatility; dealers are long the calls sold to them, so above the strike as their calls gain value they are sellers of more S&P 500 futures, and as their calls decline in value they buy back short S&P 500 futures.

But you can imagine, like March 31st, when JPM was rolling, the 0DTE crowd did what they do, targeted strikes like 4100 versus JPM's 4065 to roll and added to their loss. It wouldn't surprise anyone to see that happen again next Friday. Why they don't roll earlier is beyond me, seems stupid to wait and put a target on your back on day zero.

Several other factors are contributing to low realized volatility:

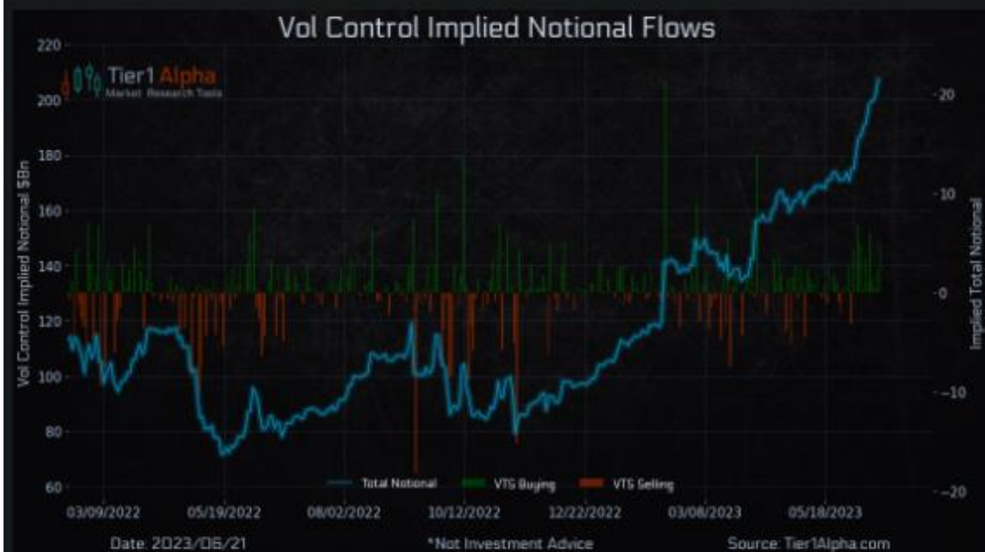
-It happens to be a 5-week OPEX cycle as well, which means that vixpiration was after opex this month and thus five weeks from one standard monthly options expiration to the next on July 21st. I've noticed over the years that early in these 5-week cycles, vol is frequently quite depressed.

-0-1DTE are selling large size in options every day, which sets put and call walls that depress volatility.

-Giga tech call buyers are in the market everyday pumping the A.I. stocks, which means dealers get long the underlying stocks, helping depress volatility

-Systematics and CTA's are still adding, look at vol control still pouring money in, this bid is a vol depressant:

Vol Control Implied Rebalancing:



The 3-month realized volatility fell another 3.8% on Wednesday, settling at another new 52-week low around 11.9. The collapse in vol, which was due to a large return dropping off the back of the sample data, triggered an implied $5 billion in new vol control flows, pushing the overall risk exposure into the 69%ile.

Source: Tier1Alpha.com daily note

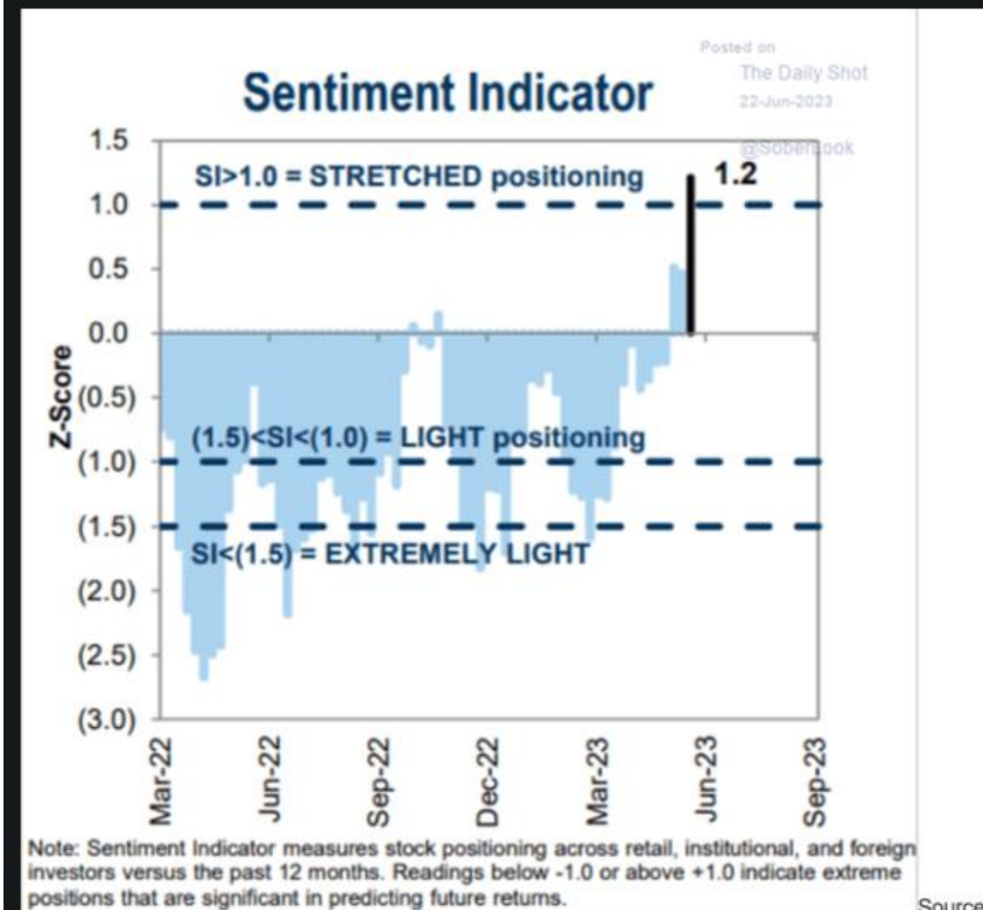
And you know, as I've mentioned before, July has this going for it:

> One right of passage for markets is tech rising (and markets in general) in July. ***QQQ hasn't had a down July month since…..2007!*** Even in 2008, it managed to eke out a gain. SPY hasn't had a down July since 2014.

On the ever growing pile of vol kindling, you continue to see investors of every type adding more and more exposure, as GS demonstrated yesterday:

T1 Alpha Sit-Rep: Thursday, June 22nd

As we note below, realized vol has been falling and driving increased allocations to equities by systematic strategies. A similar dynamic has been playing out in discretionary strategies since March, with positioning now reflecting "stretched" sentiment:

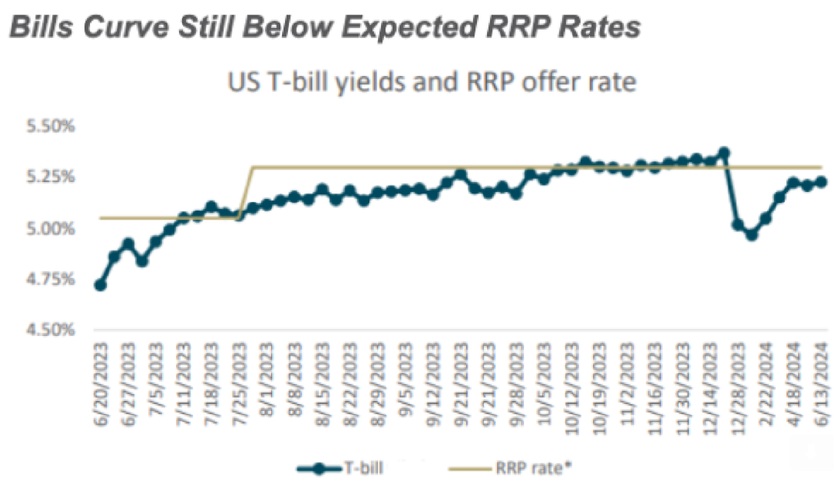


Note: Sentiment Indicator measures stock positioning across retail, institutional, and foreign investors versus the past 12 months. Readings below -1.0 or above +1.0 indicate extreme positions that are significant in predicting future returns.

Source: Goldman Sachs

And while a lot of folks have decided that the liquidity drain is a mythical non-factor, RRP outflows aren't going to be soaking up new treasury issuance if the rate math doesn't work:

"Given that the RRP facility has drained significantly over the last week or so, we might be tempted to think the additional issuance to come over the rest of the year will be easily financed by this transformation of RRP into bills [but] we caution that this might not be the case after the summer, or even in July and August," BNY Mellon's Velis wrote Tuesday.



Source: BNY Mellon Markets, Bloomberg
** Estimated after July 26, assuming a 25bp federal funds rate hike*

The figure above shows bill yields with the RRP rate assuming a July hike. The implication is clear enough.

"Not until Fed policy uncertainty is behind [us] should we expect to see any further big moves out of the overnight facility," Velis said. That "suggests there will be pressure on reserves going forward."

Source: https://heisenbergreport.com/2023/06/20/bearish-ceteris-paribus-of-course/

So, it still remains to be seen how things will turn out, with economic stress from a myriad of areas including the student loan moratorium ending this fall.

But it's a long way from here to there, and in between, a lot of A.I.-related earnings celebrations, that no one wants to miss, so, a slew of reasons why the 30-day VIX window is pricing so low. There's always room for surprise though, and the Biden loan forgiveness plan might be a decent vol smashing event, when the SCOTUS decision is released before July. A -2% move in SPX could trigger 20B+ of systematic vol selling but seeing a decent down day stick for long and before August would be surprising. (Surprises are certainly welcome at this point.)

Volatility Trades:

SPX put diagonal spread

Sell $4325 July 27th put

Buy $4320 July 28th put

Net debit: .75 (filled) - $1.

A 20-50 point drop in SPX, possibly triggered by the SCOTUS decision would treat this quite well. Target $3.

QQQ Post-July 4th credit put diagonal

Sell $360 July 5th put

Buy $359 July 6th put

Net credit: -.10 (filled)

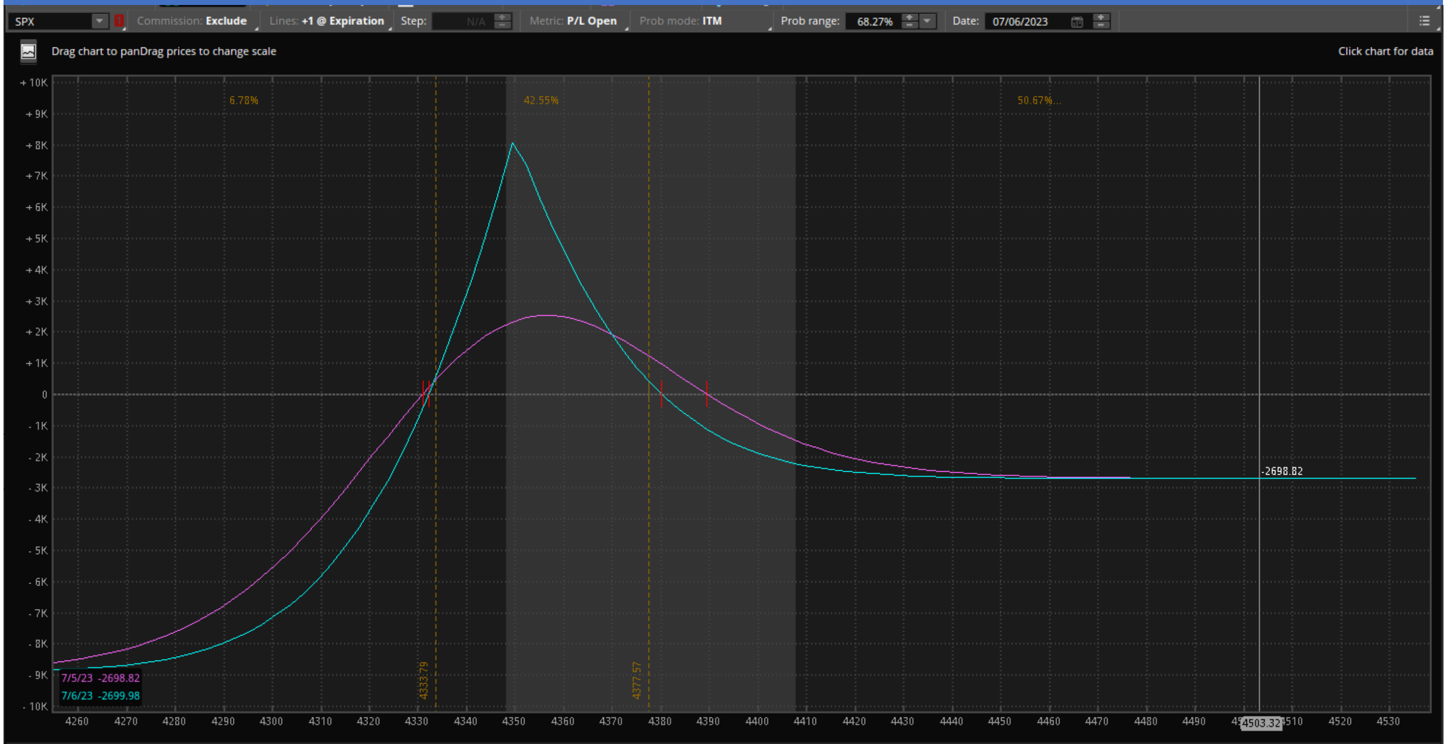
Getting paid to own time is a nice way to wait for realized vol. Maybe we there's a bit of unclench after the end of the quarter trades roll off. Target, .35-.40 debit.

SPX Non-Farm payrolls vol put diagonal spread

Sell $4325 July 5th put

Buy $4320 July 7th put

Net debit: $2.70 (filled) - $2.90



Stk Price	Offset	Delta	Gamma	Theta	Vega	P/L Open	P/L Day	BP Effect
4596.45	+5%	.00	.00	.00	.00	($2,700.00)	($2,700.00)	($5,000.00)
4377.57	$0	-100.66	-1.43	-804.09	714.52	$1,219.62	$1,219.62	($5,000.00)
4333.79	-1%	166.63	-4.73	89.17	813.52	$471.14	$471.14	($5,000.00)

Spread	Side	Qty	Symbol	Exp	Strike	Type	Price	Yield	Vol
OPT	LONG	+10	SPX	30 JUN 23 (Quarterl...	4320	PUT	11.32	-0.63%	10.93%
OPT	SHORT	-10	SPX	5 JUL 23 (Weeklys)	4350	PUT	18.68	1.14%	9.85%
OPT	LONG	+10	SPX	7 JUL 23 (Weeklys)	4345	PUT	21.38	0.77%	10.70%

A simple trade selling the slow Wednesday post- holiday and owning the NFP release, with two days in the back leg. Target, $6-8.