
ARE FUTURES AND SWAPS
THE
Secret
SAUCE
TO PRICE MOVEMENT?
MEME STOCKS MOVE IN BASKETS. FUTURES CAN BE OPENED ON BASKETS WHICH CAN BE ROLLED OUT BEFORE FOUR MAJOR DATES. ROLLING OUT REQUIRES LOSSES ON THE ORIGINAL CONTRACT TO BE SETTLED.
u/Criand

# Are futures or swaps the secret sauce to price movements? Meme stocks move in baskets. Futures can be opened on baskets, which can be rolled out before four major expiration dates: March 11, June 10, September 9, December 9. Rolling out REQUIRES losses on the original contract to be settled.

Discussion

## 0. Preface

I am not a financial advisor - and this is not financial advice.

I was looking this up last night and it made me lose some sleep because everything started to click.

Seriously I think I got maybe four hours at most. I'm flipping out. I need you guys to be reasonable and put me down if I'm on a nothing burger path.

I'm throwing these thoughts to the wolves (you guys) to pick at it and get more discussion.

Reddit About To Kill My Hype

# 1. Futures Vs Options

Both Options and Futures are derivatives. Which you can essentially think of as a side bet of an underlying asset.

An options contract **does not** require the purchase or sale of the underlying asset. While futures contracts **do** require the purchase or sale of the underlying asset.

> An **options contract gives an investor the right, but not the obligation**, to buy (or sell) shares at a specific price at any time, as long as the contract is in effect.
>
> By contrast, **a futures contract requires a buyer to purchase shares—and a seller to sell them**—on a specific future date, unless the holder's position is closed before the expiration date. - Source

And you can get futures contracts for Equity Indexes. Or in other words you can get future contracts on "baskets" of stocks.

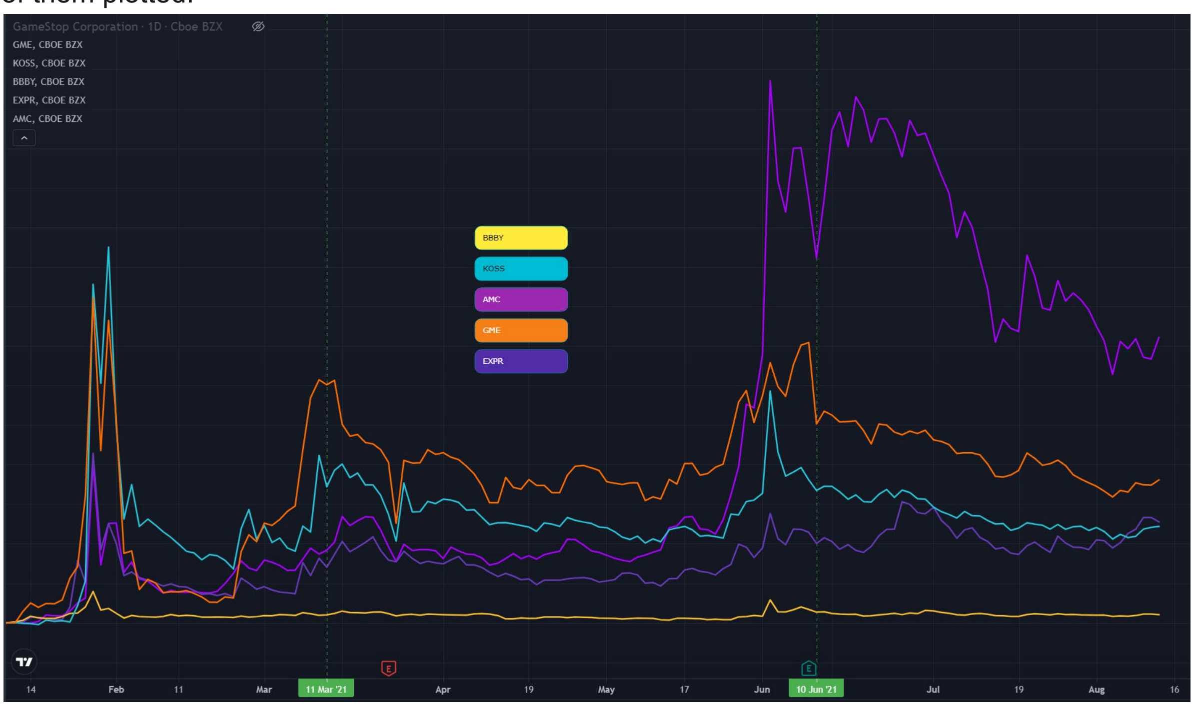
> Equity Index Futures are derivatives instruments that give investors exposure to price movements on an underlying Index. Market participants therefore can profit from **the price movements of a basket of equities without trading the individual constituents**. An index futures contract gives investors the ability to buy or sell an underlying listed financial instrument at a fixed price on a future date. - Source

# 2. "Meme" Stock Basket

It's without a doubt in my mind that a handful of "meme" stocks are following the same price movements, and they're all in this together. Notably: GME, AMC, KOSS, BBBY, EXPR.

GME of course being the outlier that has massive, massive short interest. Where the SI% is most likely hidden because of a swap of the short position through ITM CALLs.

Here's all of them plotted:




GME, AMC, KOSS, EXPR, BBBY Price Movements

I'm getting convinced that these price movements are driven by derivatives around indexes/ETFs that contain the "meme" stocks as a basket because their price movements are so synchronous.

Thanks to /u/turdfurg23 - and I'm sure many others who he has worked with - one of the main ETFs containing GME, AMC, KOSS, BBBY, EXPR is **VTI**. The actual weights of GME in VTI is quite low. Extremely low. But, it's an example of a basket that holds these "meme" stocks.

Again, I'm throwing this all to the wolves to help pick this apart. Because way more eyeballs on this right now is better than just myself looking into it.

Best guess? Someone *cough* is on the wrong side of a futures contract trade for a basket which holds all of GME, AMC, KOSS, BBBY, EXPR, and other "meme" stocks.

Because...

## 3. "Meme" Stock Prices Spike Prior To Equity Index Rollover Dates

When you open up a futures contract, you don't have to go to initial expiration and be forced to buy/sell. You can essentially "extend" the expiration of the position forward. You still maintain the same position, but your position isn't completely closed out. This is done by closing the original contract and then opening a newer contract for the **exact same underlying asset at the current market price**.

This "rolling" of a futures allows you to maintain that same risky position beyond the initial expiration of the contract rather than being forced to close it out by buying/selling the underlying. The "rollover" is typically carried out shortly before expiration of the initial contract. But, by performing this rollover it requires the gain/loss on the original contract to be settled. Essentially a "partial" close-out of the initial contract.

I saw this chart last night which really caught my attention. It's the Equity Index Futures expiration and rollover dates per **CME Group** (more on them in a little bit).

I've circled a few rollover dates for the equity index futures. Interesting dates, huh? These are around the time when all of the "meme" stocks surged in price and subsequently GME flash crashed.

**Roll Dates for Upcoming Equity Index Quarterly Futures**

| YEAR | MONTH | U.S. INDEXES | | NIKKEI / TOPIX | |
|---|---|---|---|---|---|
| | | EXPIRATION | ROLL | EXPIRATION | ROLL |
| 2020 | 3 | 3/20/20 | 3/12/20 | 3/13/20 | 3/9/20 |
| 2020 | 6 | 6/19/20 | 6/11/20 | 6/12/20 | 6/8/20 |
| 2020 | 9 | 9/18/20 | 9/10/20 | 9/11/20 | *9/8/20 |
| 2020 | 12 | 12/18/20 | 12/10/20 | 12/11/20 | 12/7/20 |
| 2021 | 3 | 3/19/21 | 3/11/21 | 3/12/21 | 3/8/21 |
| 2021 | 6 | 6/18/21 | 6/10/21 | 6/11/21 | 6/7/21 |
| 2021 | 9 | 9/17/21 | 9/9/21 | 9/10/21 | *9/7/21 |
| 2021 | 12 | 12/17/21 | 12/9/21 | 12/10/21 | 12/6/21 |

https://www.cmegroup.com/trading/equity-index/rolldates.html

Take another look at the "meme" stock price chart. On there are two dashed green lines marking 3/11/21 and 6/10/21. Huge surges in price occur just before these dates. Afterwards - decay in stock price.

But this does not mean that the futures **must** be rolled over on those specific dates.

Actually, they can start to be rolled over **before** these dates within a defined timeframe. The ones circled in the table are basically the "deadline" dates, or the "Last Trading Day" dates.

> **A futures position must be closed out either before the First Notice Day****, in the case of physically delivered contracts, or before the** **Last Trading Day**, in the case of cash-settled contracts. The contract is usually closed for cash, and the investor simultaneously enters into the same futures contract trade with a later expiry date. - Source

So, the timeframe where rollouts can start is on of just before the "First Notice Day". Which is defined as follows:

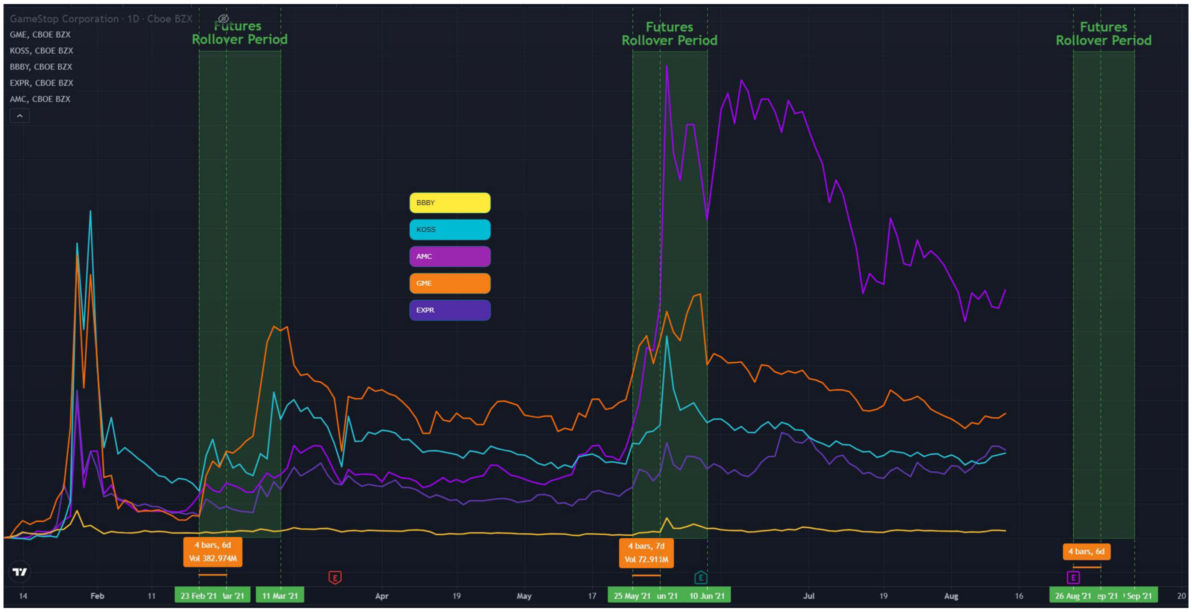
> A First Notice Day (FND) is the day after which an investor who has purchased a futures contract may be required to take physical delivery of the contract's underlying commodity. The first notice day can vary by contract and will also depends on exchange rules.
>
> **If the first business day of the delivery month was Monday, Oct. 1, first notice day would typically fall one to three business days prior, so it could be Wednesday, Sept. 26, Thursday, Sept.27, or Friday, Sept. 28. Most investors close out their positions before first notice day because they don't want to own physical commodities.** According to CME Group, only approximately 2.5% of futures contracts actually go to physical delivery.

From the above, the "First Notice Day" is typically three business days prior to the first business day of the month of settlement. And in some cases, rollovers occur one business day prior to that, coming out to be four business days total.

Which gives us these as possible "rollover" timeframes:

| Futures Expiration Date | First Notice Day (T-3 from first business day of the expiration month) | Day Before First Notice Day (Some rollovers occur starting here) | Last Trading Day / Roll Date | "Rollover Period" (Timeframe where Equity Indexes are rolled) |
|---|---|---|---|---|
| March 19 | **February 24** | February 23 | March 11 | February 23 - March 11 |
| June 18 | May 26 | **May 25** | June 10 | May 25 - June 10 |
| September 17 | August 27 | August 26 | September 9 | August 26 - September 9 |

Damn, look at that. February 24th should ring some bells. Likewise, May 25th. Rollovers initiate and must be completed by the Last Trading Day.

> Thus plotting it out on the chart gives this:
>
> 
> 
>
> Equity Index Rollover Periods And Price Movements

This is potentially driving the price spikes because they close out their original contracts, eating some losses.

> It is usually carried out shortly before expiration of the initial contract and **requires that the gain or loss on the original contract be settled.**

Only for them to extend their futures expiration to the next quarterly expiration date by rolling the contracts.

Meaning that they ate some losses in March by settling the losses, while simultaneously extending to June. Only to arrive at June to eat more losses by settling those losses, and simultaneously extending the futures to September.

I know that quite a few others have posted about these price movement patterns as well. Please understand that many other amazing apes have noticed these quarterly movements. Credit where credit is due! But I've always scratched my head as to WHY those movements happened. And this... this shit just makes too much sense.

So. Price run coming between August 26th and September 9th as they start closing based on losses? **Potentially amplified by the expirations of OTM PUTs**? Maybe triggering the MOASS?

[/u/jsross] left me this very interesting [comment] which makes me more jacked about the PUTs expiring:

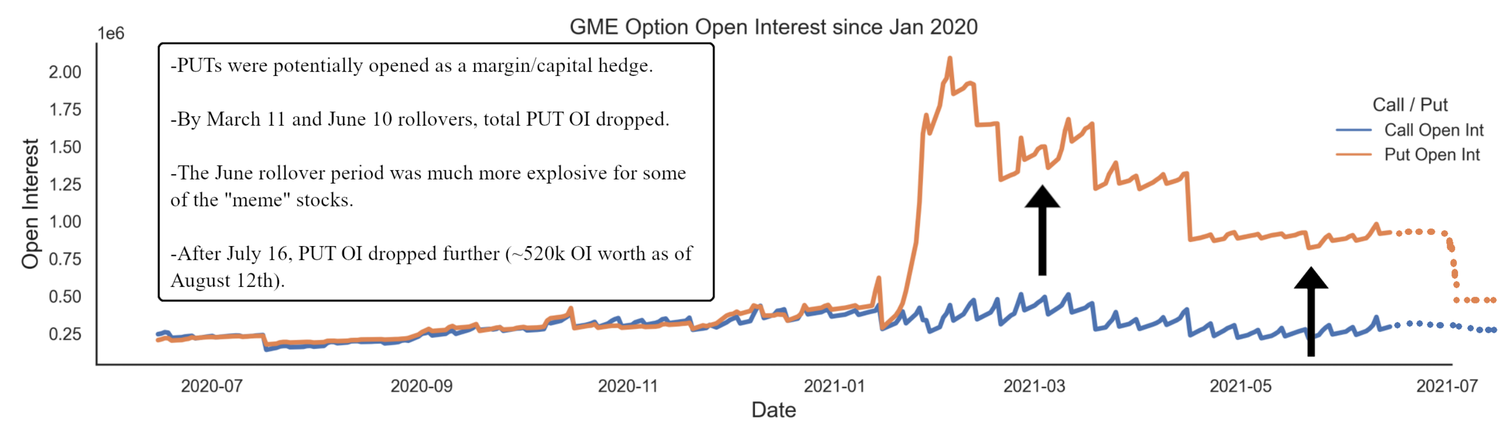
> So I asked someone that used to be a market maker (supposedly) about **what all purposes those puts could serve**. Here was his response:
>
> "sorry for the delayed response. **These puts can be used to limit capital requirements by decreasing margin**."
>
> So this makes sense, actually with the whole aspect of a hidden short position and the purpose of the puts. I'm wondering if those puts satisfied some of the margin requirements for SLD. If on this SLD cycle we run up, I think our whole thesis is actually proven as much as it can be, because they effectively just lost a buttload of margin with the puts expiring.
>
> So, here is what I'm thinking. As these quarterlies expire, they essentially have less capital for margin, resulting in a buy-in as we have seen before. (I'm not entirely sure how that process works). This would be evident in the run-ups, the cycles, the purpose, etc. Why would they need margin of they closed their short position?

Sounds like it's possible that the PUTs are used as a hedge to decrease their margin and limit their capital requirements.

**Oof**.

If that's true, then each futures rollover period could become more explosive as the OTM PUTs expire. It already appears to be explosive for some stocks in the basket, such as AMC, which ripped upward to $70 on June 2nd.

Referencing from /u/broccaaa's GME OI chart once again, you can see PUTs dropping off slowly as they expire worthless. They're not opening up more of these, and we can see that because the OI was around 2,000,000 at the end of January only to drop to about 520,000 today. Maybe they are unable to open up more PUTs for this hedging purpose. Who knows.




https://www.reddit.com/r/Superstonk/comments/o14ccz/the_naked_shorting_scam_in_numbers_part_deux_up/

I shittily drew in the trends following July 16th expirations. As of August 11th, the following is the total OI for CALLs and PUTs. It's still not back to normal, as many PUTs won't expire until January 2022. But, it's almost there:

| CALL OI | PUT OI | Difference |
|---|---|---|
| 219,564 | 518,759 | 299,195 |

With all that, I'm going to leave you with something juicy regarding CME Group.

## 4. CME Group & Citad

CME Group is the "Chicago Mercantile Exchange" located in, well, Chicago. Know who else is there?


These guys are a massive derivatives marketplace. They're currently the largest options and futures contracts exchange of any futures exchange in the world. CME Group is where I got the above table for the "rollover dates" of Equity Index Futures. Odds are that they are being used to trade futures (or maybe even swaps) around the "meme" stock basket.

I came across this post by u/TheLunarnautics when scrounging around:

https://www.reddit.com/r/Autisticats/comments/ojrh8x/chicago_mercantile_exchange_cme_group_and_citadel/

I don't want to steal the OPs thunder by copy/pasting their stuff. **So seriously, go read it.** But the jist of it is:

- Citadel has a stake in CME group. About [287,159 shares of CME as of May 21st, 2021](#).
- Citadel and CME Group have a long relationship together, going back to 2008.
- CME Group and Citadel established a clearing house for Swaps that are priced electronically and competitively, by Citadel's systems.
- Citadel has a massive amount of trades going through CME Group just in Credit Default Swaps. They accounted for ~11.5% of total trading of the contracts.

## Definitely think it's worth looking into CME Group.

Oh yeah. [Hedgies are fukd](#).

Buying More I'm Jacked