Intraday Gamma Repricing Scalp

A Professional Playbook for Option Premium Mean Reversion After Liquidity Shock

1. Strategy Overview

This strategy exploits short-lived mispricing in index options caused by sudden liquidity shocks. A sharp impulsive move in the underlying index forces panic option selling, leading to excessive premium collapse. Market makers absorb this flow and, due to gamma exposure, are compelled to rebalance. When the index retraces slightly, option premiums reprice rapidly, creating a high-probability scalp opportunity.

2. Market Logic Behind the Strategy

- Option prices are temporarily distorted by order-flow imbalance, not by changes in fair value.
- Index options have mandatory market maker participation and continuous hedging.
- High gamma near ATM strikes amplifies small index retracements into large option price moves.
- Theta decay is negligible over very short holding periods.

3. Instruments and Time Window

Applicable only to highly liquid index options such as NIFTY, BANKNIFTY, and FINNIFTY. Weekly expiries are preferred due to elevated gamma. The optimal execution window is between 9:25 AM and 10:30 AM, when liquidity is high and dealer hedging activity is most intense.

4. Market Structure Requirement

The setup requires a single impulsive candle (usually red for CALL trades) with large body size and volume expansion, followed by immediate loss of downside momentum. Continuous trending invalidates the setup.

5. Option Chain Selection Rules

- Strike selection limited to ATM or ±1 strike only.
- Option premium collapse of at least 55–70% within minutes.
- Delta between 0.30 and 0.55 at entry.
- High traded volume and tight bid–ask spread.
- Open Interest should remain stable or increase.

6. Entry Conditions

A long option entry is taken only when the index forms a higher low or closes above the midpoint of the impulsive candle, and the option premium stops falling despite marginal weakness in the index. This divergence indicates liquidity return and dealer repricing.

7. Exit Rules

- Target profit between 25% and 40% of option premium.

- Exit near option VWAP or upon 0.382–0.5 retracement of the impulsive index candle.
- Typical holding time ranges from 2 to 8 minutes.

8. Risk Management

Stop loss is triggered immediately if the option makes a new low or the index breaks the impulsive candle low. No averaging is permitted. Risk per trade should be capped at 1–2% of total capital.

9. Failure Conditions

- Strong trend days with follow-through.
- Major news or event-driven moves.
- Sharp implied volatility collapse across the chain.
- Low liquidity or widening spreads.

10. Example Scenario

At market open, the index drops sharply in one minute, causing ATM CALL premium to fall from 10 to 3. Volume spikes but subsequent candles fail to extend the downside. The index retraces modestly, and the CALL premium rebounds to 4.5 within minutes. The trade captures the repricing, not a directional move.

11. Trader Mindset

This is a liquidity and microstructure-based scalp, not a prediction strategy. Execution discipline, speed, and strict rule adherence define success.