

PromiseLand



PromiseLand's Market Commentaries

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12 August 2021



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1 Introduction

Option positions in the options markets on indices and equities can be used to infer market movements and sentiments. The counterparties of an options trade are the investor, and the dealer. Investors who establish positions in options are generally likely to have a view on the underlying investment. In contrast, dealers generally do not adopt a view on the underlying investment. Dealers must therefore protect, or employ hedges against their options positions, and this entails buying and selling of the underlying investment. Such large hedging activity by dealers is able to influence the prices and volatility of the underlying. By knowing the expected activity taken by the dealers, we are able to infer price movement direction, to gather volatility expectations, and to assess market sentiment.

Notes and commentaries will be periodically provided.

The appendix contain explanatory notes on how to utilize price levels.



2 Concise Summary

2.1 S&P500

The S&P500 closed with a return of 0.25%. The overall market garnered support on Wednesday as inflation concerns cease. July consumer prices came in near expectations. The consumer price index rose 5.4% in July from a year earlier, in line with June's figure and matching the largest jump since August 2008. Core inflation, which excludes energy and food, rose by 0.3% last month, which fell short of a forecasted 0.4%.

Atlanta Fed President Bostic stated that, "the FOMC will no longer preemptively raise interest rates in response to a "hot" labor market because of fear that inflation will eventually be a result.", and Chicago Fed President Evans stated that, "I'd like to see a few more employment reports" before making a decision on tapering quantitative easing. These suggest a dovish stance from the Fed with respect to monetary policy.

We do not expect the S&P500 to cross over the 4460 price level, due to the significant presence of dealer long gamma from the 4450 strike level and above, unless there is a fundamental positive change, or sudden huge positive investor sentiment in the markets.

The Key Gamma Strike of 4400 will continue to be significant level, whereby there is significant long gamma exposure, which should provide some support for the S&P500 to remain buoyant. The level whereby investors are targeting a top upside potential remains at 4450.

Expected trading range: 4400 - 4460.

2.2 NASDAQ100

The NASDAQ100 closed with a return of -0.17% Returns fell for a second straight day. There is also an increase of magnitude of option put gamma, which signals that it is likely that investors are seeking greater downside protection now across various strike prices.

Negative sentiment appears to mount for the Technology index. The Put Wall has increased from 14000 to 15000, which signals that more market participants seek greater downside protection at a higher strike (threshold) level. The Key Gamma Strike also decreased from 15100 to 14500, which indicates heightened option activity in the 14500 level, presumably from investors who wish to protect their portfolios by purchasing downside insurance in the form of put options.

We look for the Zero Gamma level of approximately 15000 to keep price levels buoyed. Given the close proximity of current prices levels to the Zero Gamma Level, investors can anticipate heightened volatility if current prices approaches or breaches this level.

The level whereby investors are targeting a top upside potential remains at 15200. The level whereby investors are targeting a top downside potential is at 14500.

Expected trading range: 15000 - 15100.

2.3 STOXX50

The STOXX50 closed higher with a return of 0.44%, as fresh consumer price data from the US indicates a possibility that inflation is peaking. This could alleviate concerns of the Fed hiking rates sooner than anticipated. The best performers include Financials, Real Estate, Industrials, and Materials. Lagging were Travel & Leisure and Food & Beverage shares



The level whereby investors are targeting a top upside potential remains at 4250. We do not expect the STOXX50 to cross over the 4260 price level, due to the significant presence of dealer long gamma from the 4250 strike level and above, unless there is a fundamental positive change, or sudden huge positive investor sentiment in the markets

Expected trading range: 4150 - 4260.

2.4 DAX

The DAX closed with a return of 0.35%. Gains in the Financial Services, Insurance and Industrials sectors led shares higher while losses in the Technology, Retail and Software sectors led shares lower.

The DAX remain extremely close to the Zero Gamma Level. If the price level approaches this level, we expect that prices should rebound, given that the Zero Gamma Level has always been a reliable support level.

Expected trading range: 15750 - 15800.

2.5 Gold

Gold traded slightly higher. As predicted, due to option activity, Gold prices has indeed 'ramped' up to, and remained at the 1750 level.

Atlanta Fed President Bostic stated that, "the FOMC will no longer preemptively raise interest rates in response to a "hot" labor market because of fear that inflation will eventually be a result." Such comments are negative for the USD currency, which provided some upside support for Gold. Gains were capped after the S&P500 reached all time highs, which caused decreased demand for Gold as a safe haven.

We are still seeing increases in investor put activity, which indicates that short term bearishness is here to stay. Nevertheless, Gold still remains as a safe-haven support from uncertainties regarding the COVID-19 disease.

Gold remains sandwiched between a slew of gamma strikes between the 1720 and 1800 levels. This indicates that Gold can be expected to be volatile around this range, with price movements accentuated by dealer activity. Such volatile momentum needs to be triggered by a spark, which in this case, a sudden rush by investors to buy or sell Gold in significant amounts.

Expected trading range: 1720 - 1775.

2.6 Silver

Silver traded slightly higher. We continue to expect that downside volatility should be curtailed at the 23 level, barring any negative fundamental news. We are still seeing increases in investor put activity, which indicates that short term bearishness is here to stay.

Expected trading range: 23 - 25.

2.7 Crude Oil

Both Brent and WTI posted moderate gains again, in light of Fed comments which signaled that rate hikes may not come as soon as expected, which caused the USD to weaken. A rally in the S&P500 to all time highs bolstered optimism in the global markets, which is positive for energy and energy demand. However, gains were capped due to the Biden administration's pressuring on OPEC to boost crude output.



The price level of 70 continues to remain as a reliable support/pinning area.

Expected trading range: 65 - 75.



3 Market Price Levels

Table 1: Key Price Levels for Market Indices

	S&P500	NASDAQ100	STOXX50	DAX
Current Price	4447.70	15027.76	4206.33	15826.09
Previous Price	4436.75	15053.58	4187.82	15770.71
Return	0.00246	-0.00172	0.00441	0.00351
Call Wall	4450	15200	4250	16100
Key Delta Strike	4000	14500	4100	15600
Key Gamma Strike	4400	14500	4100	15600
Max Gamma Vanna	4415	15040	4150	15800
Max Gamma	4485	15340	4275	16300
Max Vanna	4405	15030	4125	15750
Put Wall	4200	14500	3900	15000
Zero Gamma Vanna	3626.70	13214.66	3289.72	13882.69
Zero Gamma	4389.92	14996.74	4105.51	15718.50

Table 2: Key Dates for Market Indices

	S&P500	NASDAQ100	STOXX50	DAX
Largest Gamma Strike Date	2021-09-17	2021-08-13	2021-09-17	2021-08-20
Largest Gamma Strike	0.233	0.270	0.263	0.372
Largest Delta Strike Date	2021-09-17	2021-09-17	2021-12-17	2021-12-17
Largest Delta Strike	0.269	0.301	0.425	0.527
Next Expiration Date	2021-08-13	2021-08-13	2021-08-20	2021-08-20
Next Expiration Gamma	0.127	0.270	0.242	0.372
Next Expiration Delta	0.0149	0.0707	0.0471	0.1310



Table 3: Key Price Levels for Single-name Indices

	Gold Futures	Silver Futures	ICE Crude Oil Brent	Crude Oil WTI
Current Price	1750.4200	23.4779	71.4400	69.2500
Previous Price	1751.40	23.53	70.63	68.29
Return	-0.00056	-0.00211	0.01140	0.01400
Hedge Wall (Lower)	1722.500	22.975	65.750	65.500
Hedge Wall (Upper)	1862.5	35.4	84.5	76.5
Key Delta Strike (Call)	1850.00	18.25	75.00	50.00
Key Delta Strike (Put)	1700	24	35	110
Key Gamma Strike	1750	24	70	70
Min Gamma Vanna	1727.500	24.975	72.250	70.500
Min Gamma	1800.000	24.975	74.750	71.500
Min Vanna	1710.000	23.625	53.500	59.500
Zero Delta	1743.49	24.12	61.67	60.33

Table 4: Key Dates for Single-name Indices

	Gold Futures	Silver Futures	ICE Crude Oil Brent	Crude Oil WTI
Largest Gamma Strike Date	2021-08-26	2021-08-26	2021-10-26	2021-08-17
Largest Gamma Strike	0.317	0.446	0.348	0.410
Largest Delta Strike Date (Put)	2021-08-26	2021-08-26	2021-11-24	2021-09-03
Largest Delta Strike (Put)	-1.72e+00	1.13e+00	-3.95e-04	-1.94e-06
Largest Delta Strike Date (Call)	2022-05-26	2022-06-27	2021-10-26	2021-11-16
Largest Delta Strike (Call)	2.040	-0.295	0.622	0.557
Next Expiration Date	2021-08-13	2021-08-13	2021-08-25	2021-08-13
Next Expiration Gamma	0.0737	0.0636	0.3100	0.0172
Next Expiration Delta	-0.31200	0.14100	0.03660	0.00156

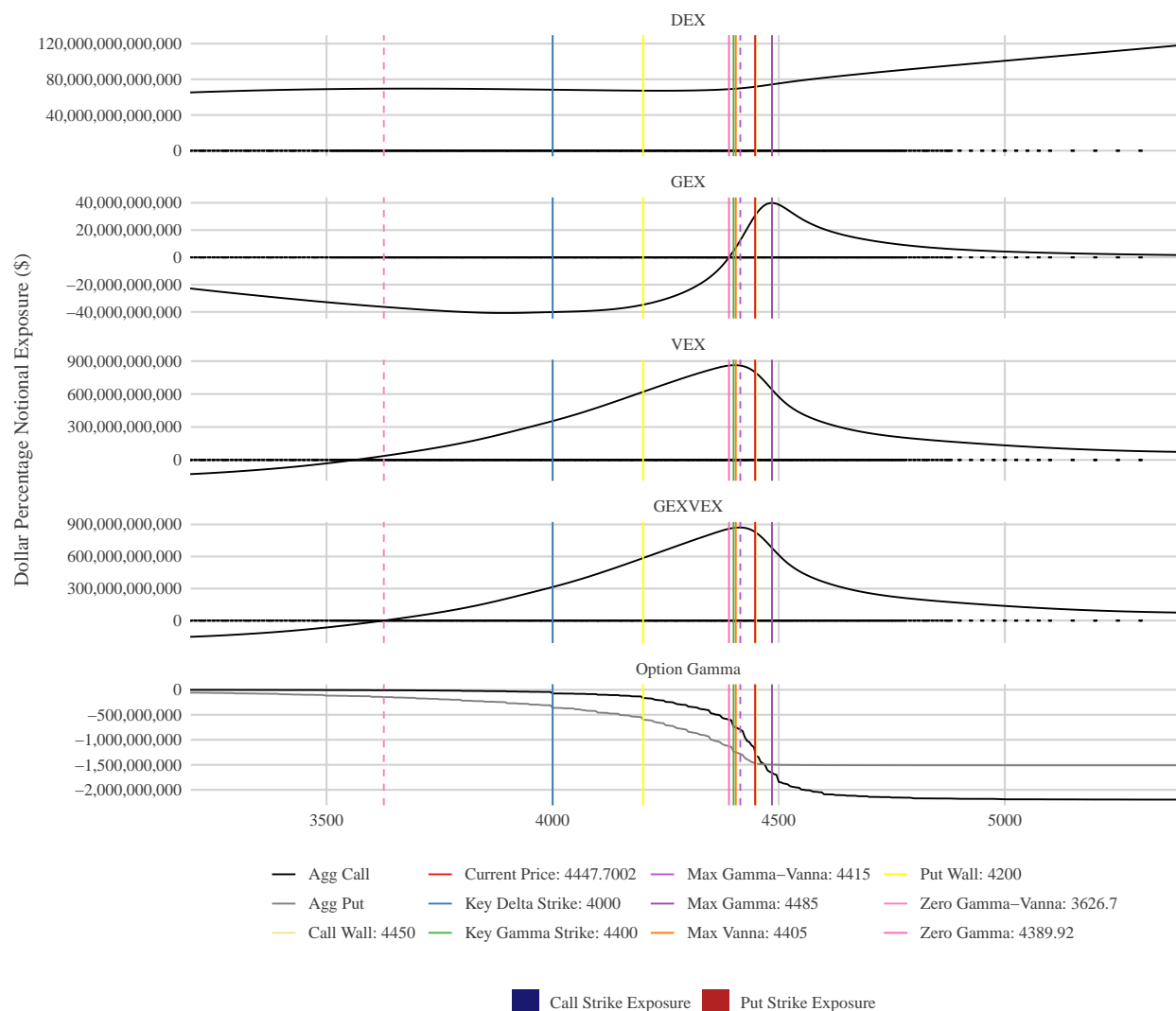


4 Market Indices

4.1 S&P500

Dollar Notional Exposure for SPX

Largest Gamma Strike: 2021-09-17 0.233
 Largest Delta Strike: 2021-09-17 0.269
 Next Expiration: 2021-08-13
 Next Expiration Gamma: 0.127
 Next Expiration Delta: 0.0149
 Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
 Data as of 2021-08-12



The S&P500 closed with a return of 0.25%. The overall market garnered support on Wednesday as inflation concerns cease. July consumer prices came in near expectations. The consumer price index rose 5.4% in July from a year earlier, in line with June's figure and matching the largest jump since August 2008. Core inflation, which excludes energy and food, rose by 0.3% last month, which fell short of a forecasted 0.4%.

Atlanta Fed President Bostic stated that, "the FOMC will no longer preemptively raise interest rates in response to a "hot" labor market because of fear that inflation will eventually be a result.", and Chicago Fed President Evans stated that, "I'd like to see a few more employment reports" before making a decision on tapering quantitative easing. These suggest a dovish stance from the Fed with respect to monetary policy.



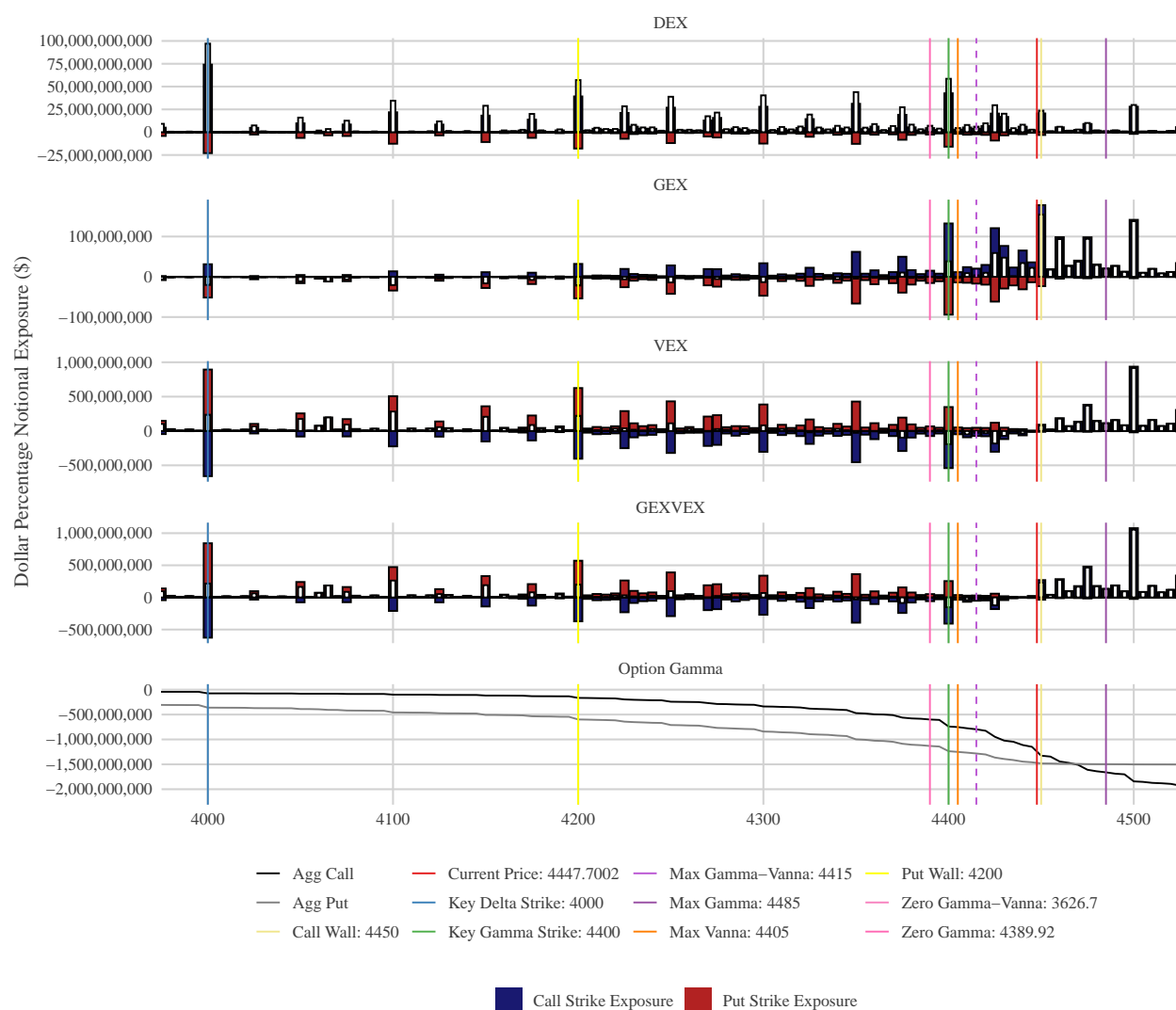
We do not expect the S&P500 to cross over the 4460 price level, due to the significant presence of dealer long gamma from the 4450 strike level and above, unless there is a fundamental positive change, or sudden huge positive investor sentiment in the markets.

The Key Gamma Strike of 4400 will continue to be significant level, whereby there is significant long gamma exposure, which should provide some support for the S&P500 to remain buoyant. The level whereby investors are targeting a top upside potential remains at 4450.

Expected trading range: 4400 - 4460.

Strike Notional Exposure for SPX

Largest Gamma Strike: 2021-09-17 0.233
Largest Delta Strike: 2021-09-17 0.269
Next Expiration: 2021-08-13
Next Expiration Gamma: 0.127
Next Expiration Delta: 0.0149
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12

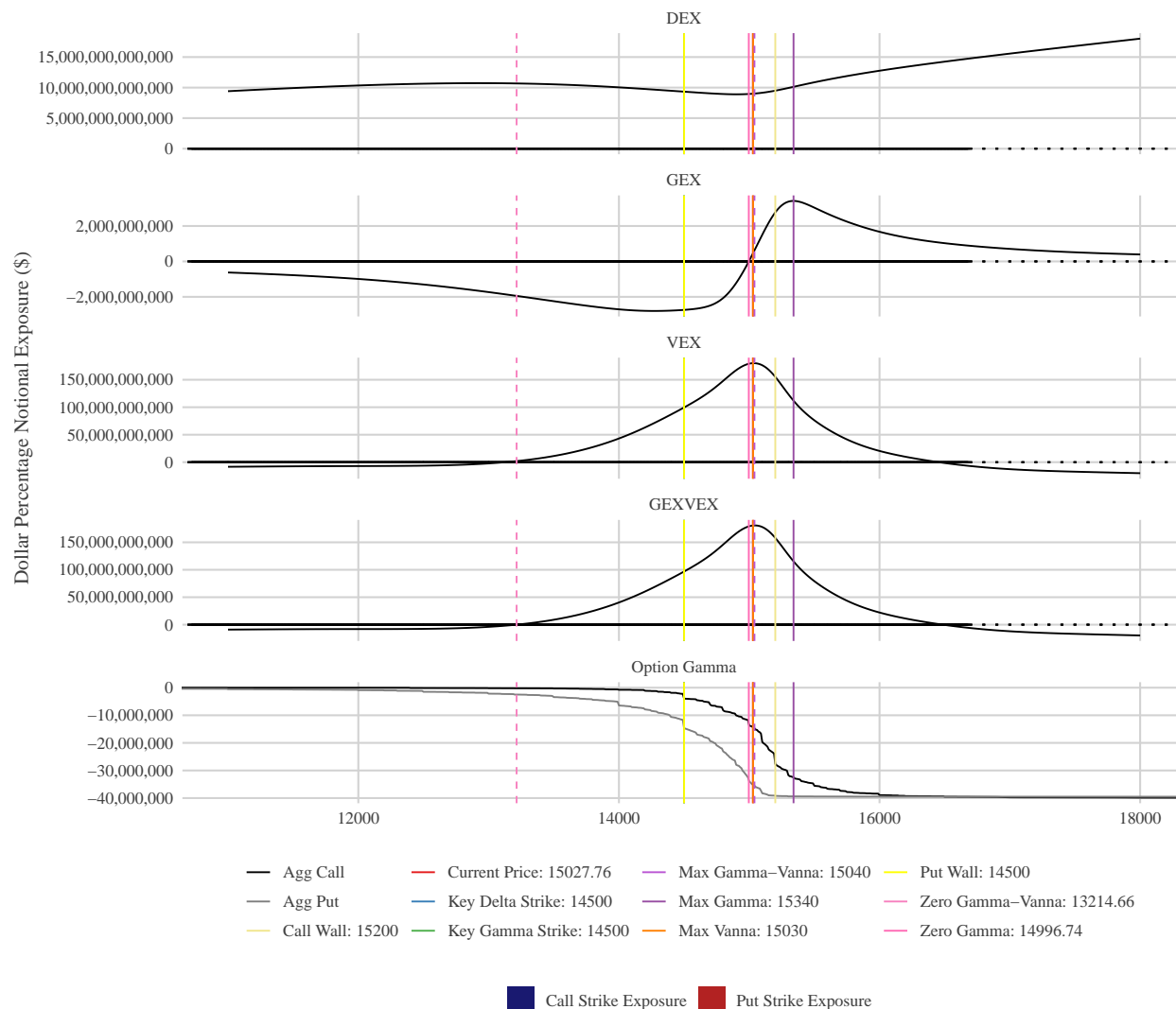




4.2 NASDAQ100

Dollar Notional Exposure for NASDAQ 100 E-Mini

Largest Gamma Strike: 2021-08-13 0.27
Largest Delta Strike: 2021-09-17 0.301
Next Expiration: 2021-08-13
Next Expiration Gamma: 0.27
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12



The NASDAQ100 closed with a return of -0.17% Returns fell for a second straight day. There is also an increase of magnitude of option put gamma, which signals that it is likely that investors are seeking greater downside protection now across various strike prices.

Negative sentiment appears to mount for the Technology index. The Put Wall has increased from 14000 to 15000, which signals that more market participants seek greater downside protection at a higher strike (threshold) level. The Key Gamma Strike also decreased from 15100 to 14500, which indicates heightened option activity in the 14500 level, presumably from investors who wish to protect their portfolios by purchasing downside insurance in the form of put options.

We look for the Zero Gamma level of approximately 15000 to keep price levels buoyed. Given the close



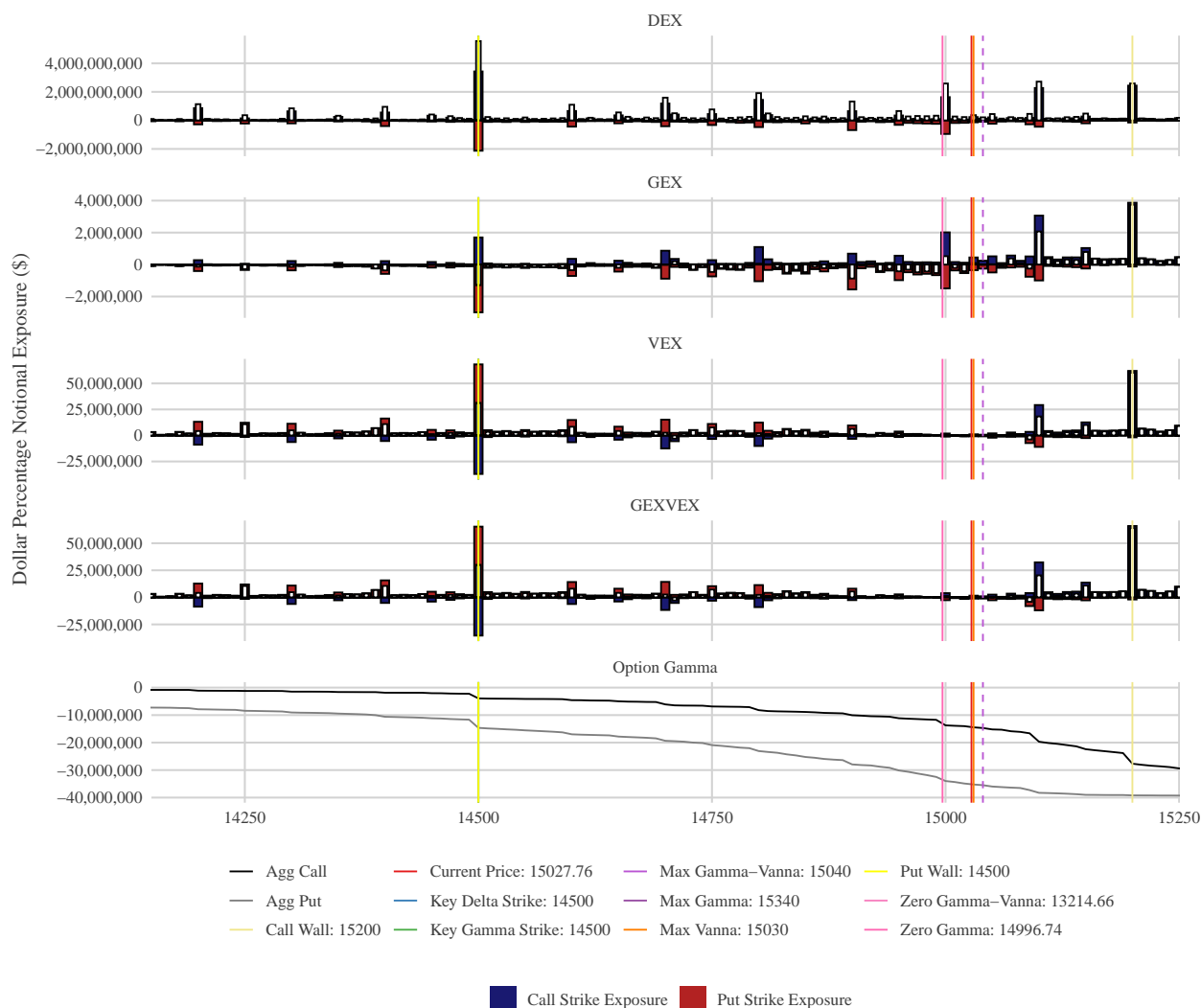
proximity of current prices levels to the Zero Gamma Level, investors can anticipate heightened volatility if current prices approaches or breaches this level.

The level whereby investors are targeting a top upside potential remains at 15200. The level whereby investors are targeting a top downside potential is at 14500.

Expected trading range: 15000 - 15100.

Strike Notional Exposure for NASDAQ 100 E-Mini

Largest Gamma Strike: 2021-08-13 0.27
Largest Delta Strike: 2021-09-17 0.301
Next Expiration: 2021-08-13
Next Expiration Gamma: 0.27
Next Expiration Delta: 0.0707
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12

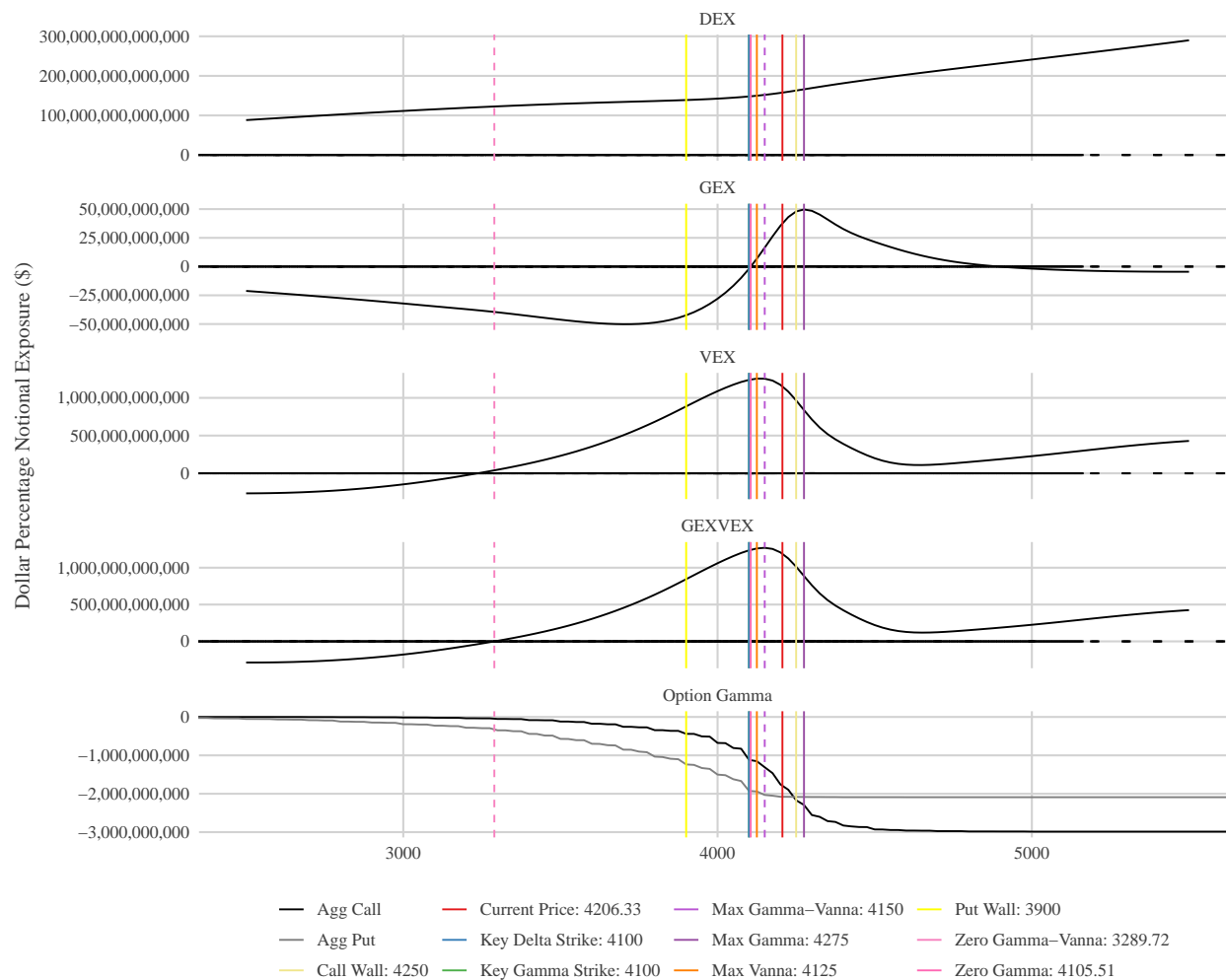




4.3 STOXX50

Dollar Notional Exposure for Euro Stoxx 50 Futures

Largest Gamma Strike: 2021-09-17 0.263
 Largest Delta Strike: 2021-12-17 0.425
 Next Expiration: 2021-08-20
 Next Expiration Gamma: 0.242
 Next Expiration Delta: 0.0471
 Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
 Data as of 2021-08-12



Call Strike Exposure Put Strike Exposure

The STOXX50 closed higher with a return of 0.44%, as fresh consumer price data from the US indicates a possibility that inflation is peaking. This could alleviate concerns of the Fed hiking rates sooner than anticipated. The best performers include Financials, Real Estate, Industrials, and Materials. Lagging were Travel & Leisure and Food & Beverage shares

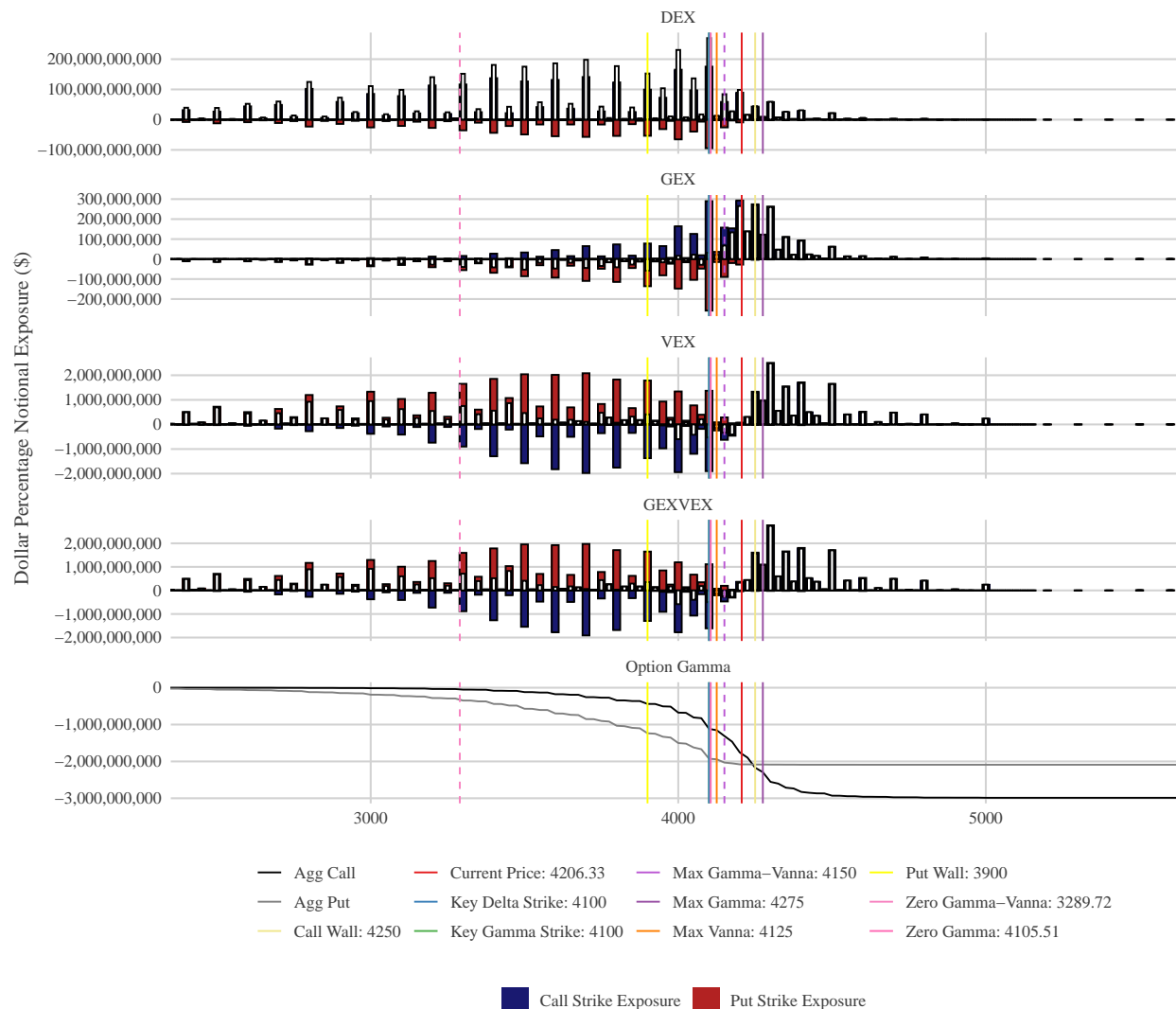
The level whereby investors are targeting a top upside potential remains at 4250. We do not expect the STOXX50 to cross over the 4260 price level, due to the significant presence of dealer long gamma from the 4250 strike level and above, unless there is a fundamental positive change, or sudden huge positive investor sentiment in the markets

Expected trading range: 4150 - 4260.



Strike Notional Exposure for Euro Stoxx 50 Futures

Largest Gamma Strike: 2021-09-17 0.263
Largest Delta Strike: 2021-12-17 0.425
Next Expiration: 2021-08-20
Next Expiration Gamma: 0.242
Next Expiration Delta: 0.0471
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12

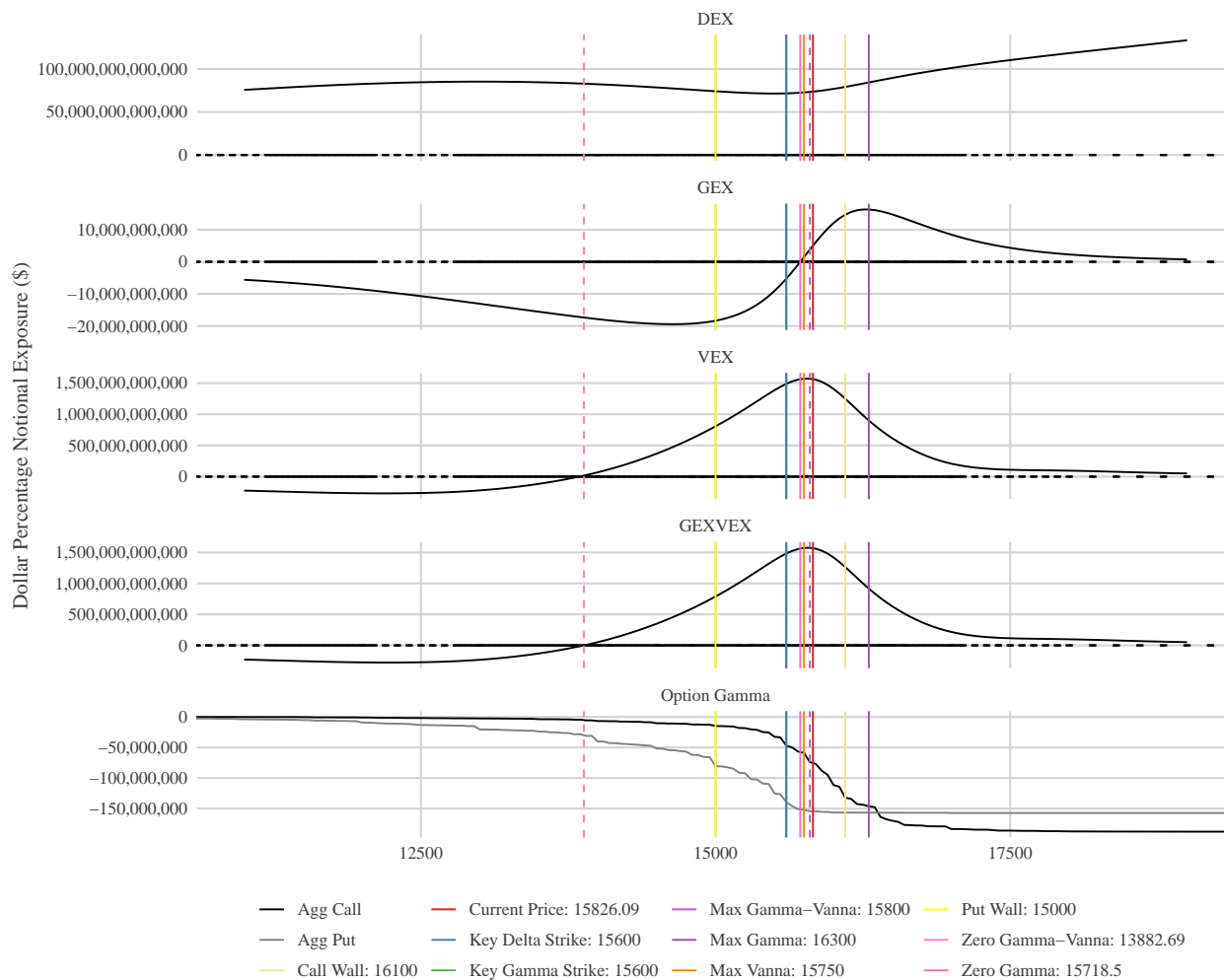




4.4 DAX

Dollar Notional Exposure for DAX Futures

Largest Gamma Strike: 2021-08-20 0.372
 Largest Delta Strike: 2021-12-17 0.527
 Next Expiration: 2021-08-20
 Next Expiration Gamma: 0.372
 Next Expiration Delta: 0.131
 Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
 Data as of 2021-08-12



■ Call Strike Exposure ■ Put Strike Exposure

The DAX closed with a return of 0.35%. Gains in the Financial Services, Insurance and Industrials sectors led shares higher while losses in the Technology, Retail and Software sectors led shares lower.

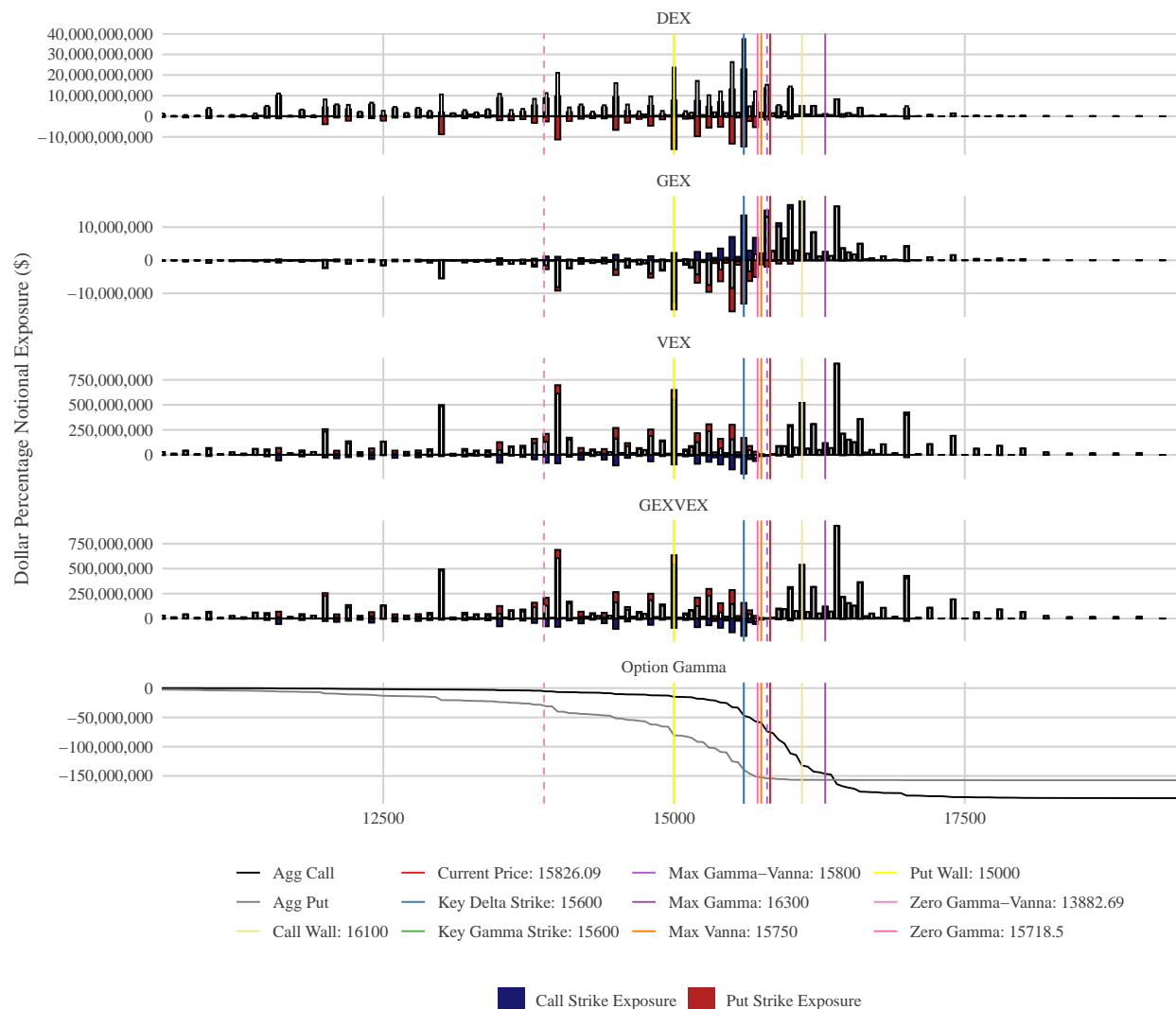
The DAX remain extremely close to the Zero Gamma Level. If the price level approaches this level, we expect that prices should rebound, given that the Zero Gamma Level has always been a reliable support level.

Expected trading range: 15750 - 15800.



Strike Notional Exposure for DAX Futures

Largest Gamma Strike: 2021-08-20 0.372
Largest Delta Strike: 2021-12-17 0.527
Next Expiration: 2021-08-20
Next Expiration Gamma: 0.372
Next Expiration Delta: 0.131
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12



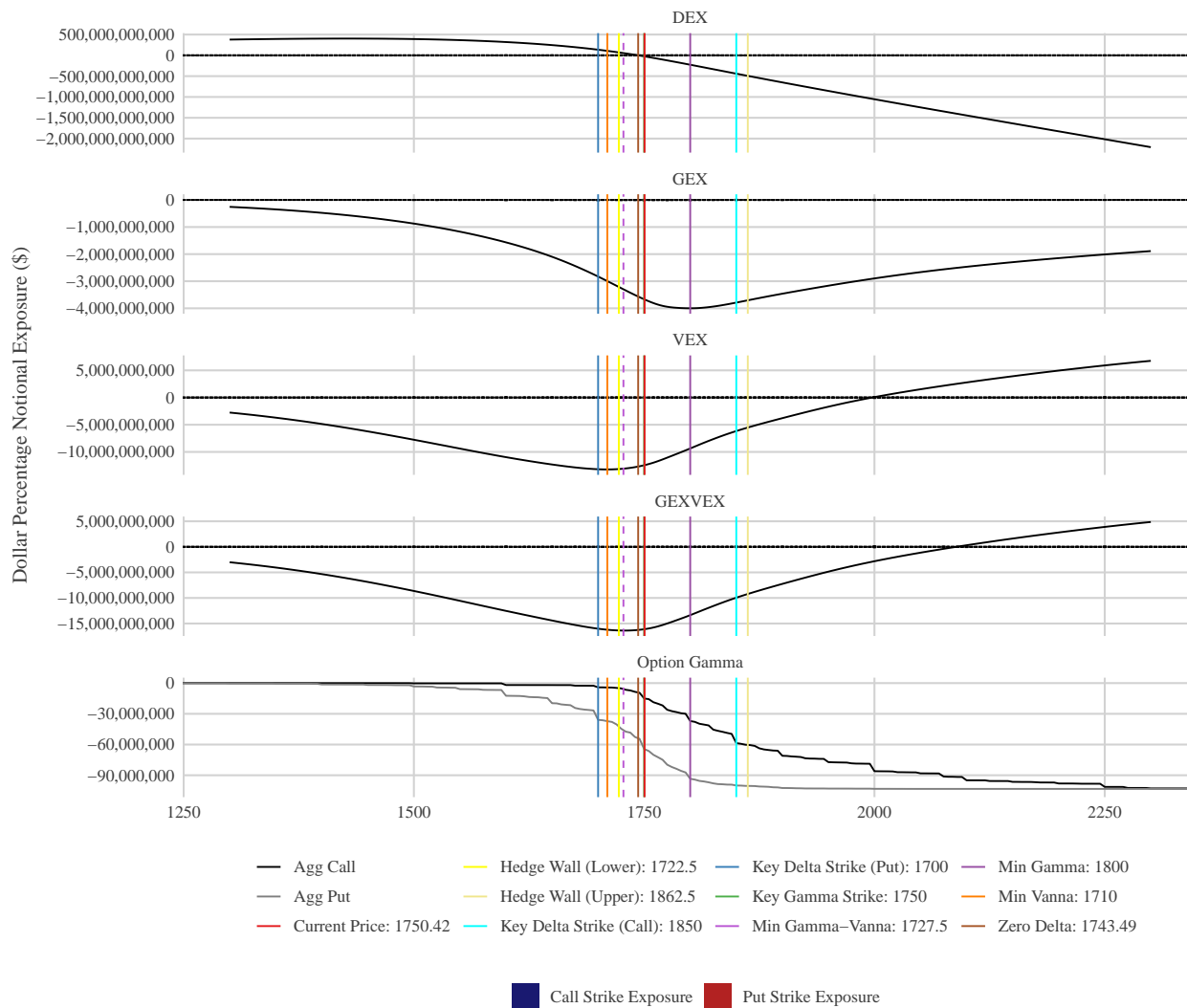


5 Commodities

5.1 Gold

Dollar Notional Exposure for Gold Futures

Largest Gamma Strike: 2021-08-26 0.317
Largest Delta Strike (Put): 2021-08-26 -1.72
Largest Delta Strike (Call): 2022-05-26 2.04
Next Expiration: 2021-08-13
Next Expiration Gamma: 0.0737
Next Expiration Delta: -0.312
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12



Gold traded slightly higher. As predicted, due to option activity, Gold prices has indeed ‘ramped’ up to, and remained at the 1750 level.

Atlanta Fed President Bostic stated that, “the FOMC will no longer preemptively raise interest rates in response to a”hot” labor market because of fear that inflation will eventually be a result.” Such comments are negative for the USD currency, which provided some upside support for Gold. Gains were capped after the S&P500 reached all time highs, which caused decreased demand for Gold as a safe haven.

We are still seeing increases in investor put activity, which indicates that short term bearishness is here to stay. Nevertheless, Gold still remains as a safe-haven support from uncertainties regarding the COVID-19



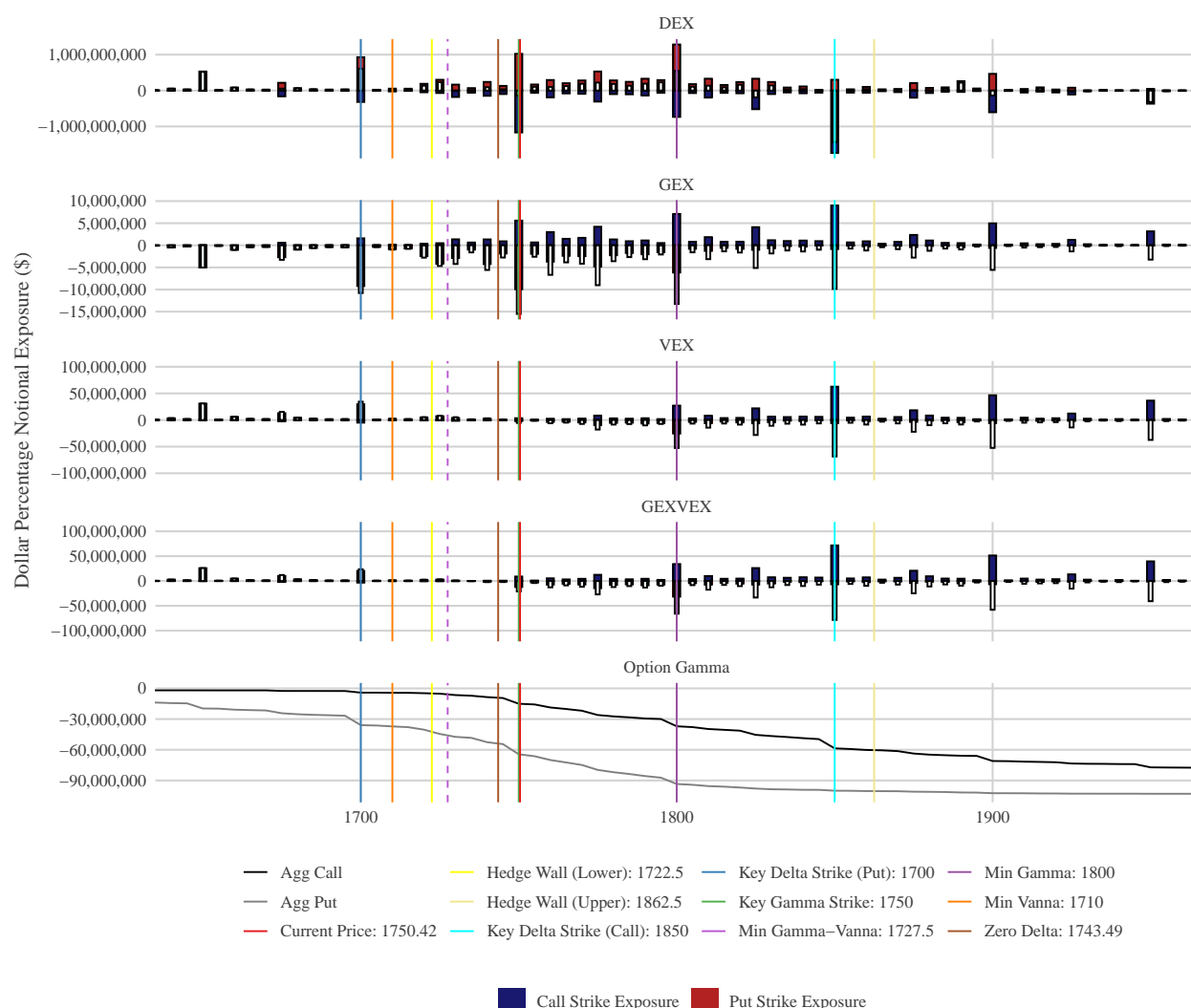
disease.

Gold remains sandwiched between a slew of gamma strikes between the 1720 and 1800 levels. This indicates that Gold can be expected to be volatile around this range, with price movements accentuated by dealer activity. Such volatile momentum needs to be triggered by a spark, which in this case, a sudden rush by investors to buy or sell Gold in significant amounts.

Expected trading range: 1720 - 1775.

Strike Notional Exposure for Gold Futures

Largest Gamma Strike: 2021-08-26 0.317
Largest Delta Strike (Put): 2021-08-26 -1.72
Largest Delta Strike (Call): 2022-05-26 2.04
Next Expiration: 2021-08-13
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Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12

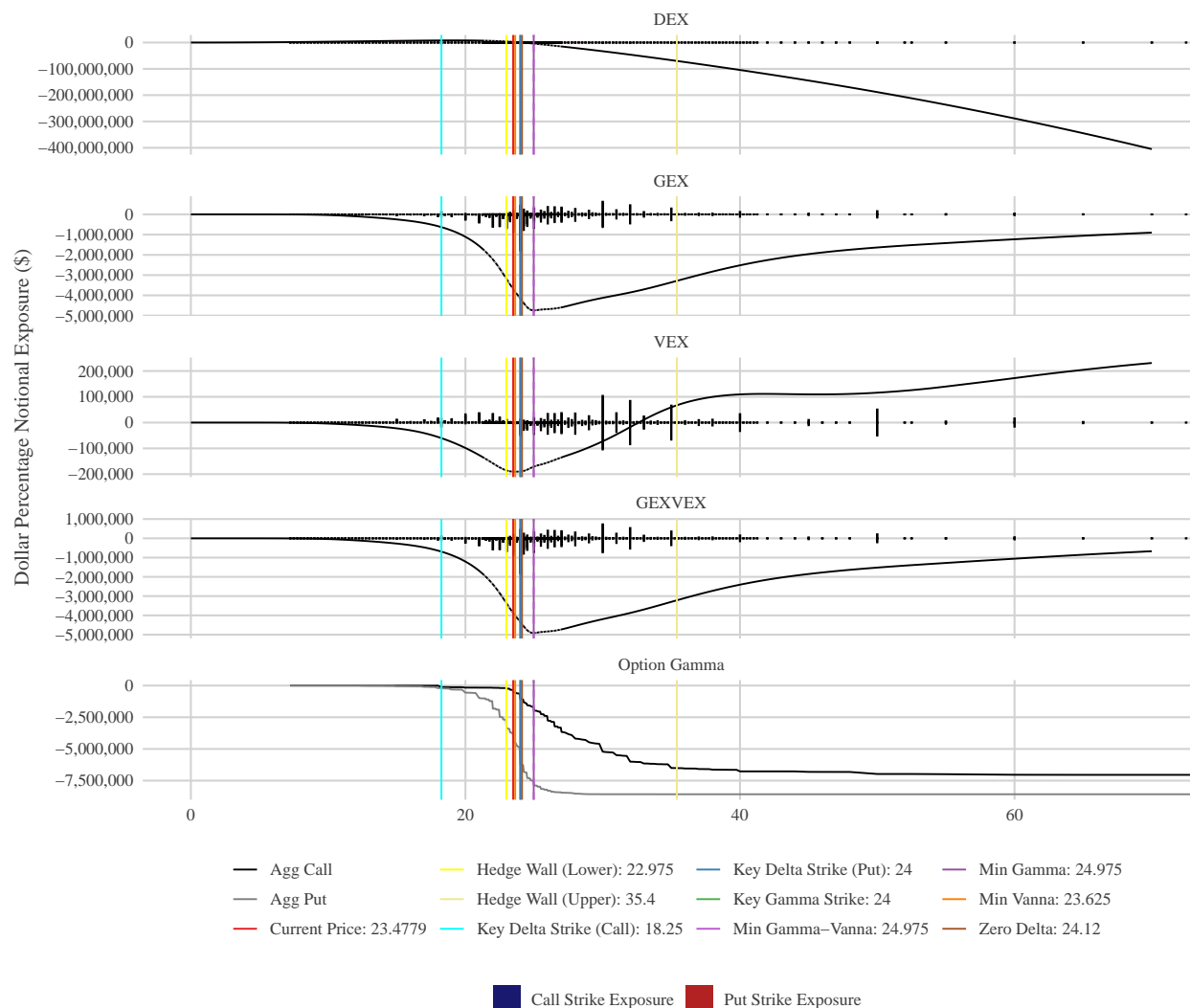




5.2 Silver

Dollar Notional Exposure for Silver Futures

Largest Gamma Strike: 2021-08-26 0.446
 Largest Delta Strike (Put): 2021-08-26 1.13
 Largest Delta Strike (Call): 2022-06-27 -0.295
 Next Expiration: 2021-08-13
 Next Expiration Gamma: 0.0636
 Next Expiration Delta: 0.141
 Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
 Data as of 2021-08-12



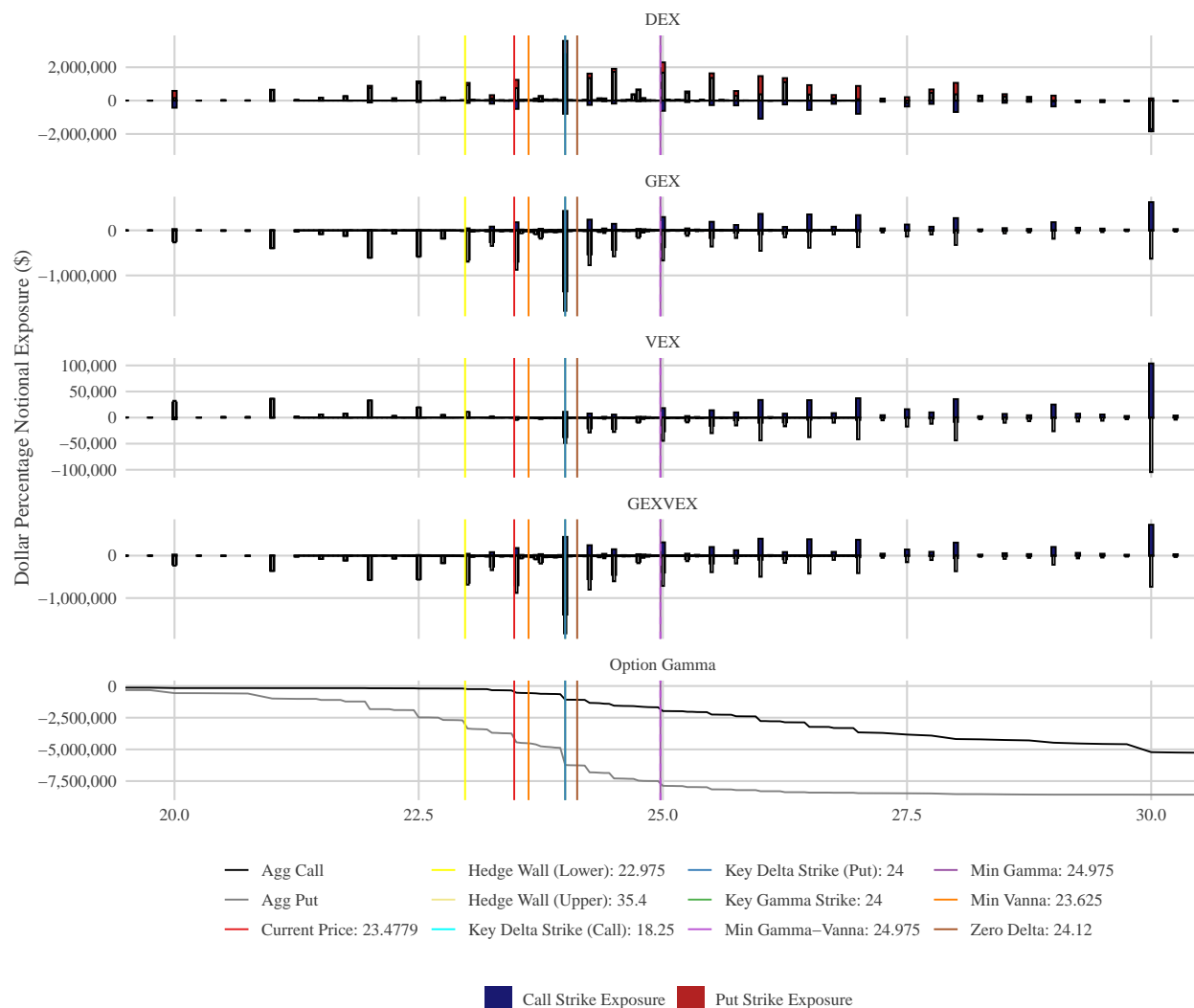
Silver traded slightly higher. We continue to expect that downside volatility should be curtailed at the 23 level, barring any negative fundamental news. We are still seeing increases in investor put activity, which indicates that short term bearishness is here to stay.

Expected trading range: 23 - 25.



Strike Notional Exposure for Silver Futures

Largest Gamma Strike: 2021-08-26 0.446
Largest Delta Strike (Put): 2021-08-26 1.13
Largest Delta Strike (Call): 2022-06-27 -0.295
Next Expiration: 2021-08-13
Next Expiration Gamma: 0.0636
Next Expiration Delta: 0.141
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12





5.3 Crude Oil

Both Brent and WTI posted moderate gains again, in light of Fed comments which signaled that rate hikes may not come as soon as expected, which caused the USD to weaken. A rally in the S&P500 to all time highs bolstered optimism in the global markets, which is positive for energy and energy demand. However, gains were capped due to the Biden administration's pressuring on OPEC to boost crude output.

Such gains are likely to be speculative, given fresh news on the outlook of demand and supply of energy. Fresh negative news indicate that globally, airline capacity stands at 64% of pre-pandemic levels and may worsen after Bloomberg News reported that the European Union is considering reintroducing travel restrictions for visitors from the US as recent US COVID-19 infection rates have surged again.

The price level of 70 continues to remain as a reliable support/pinning area.

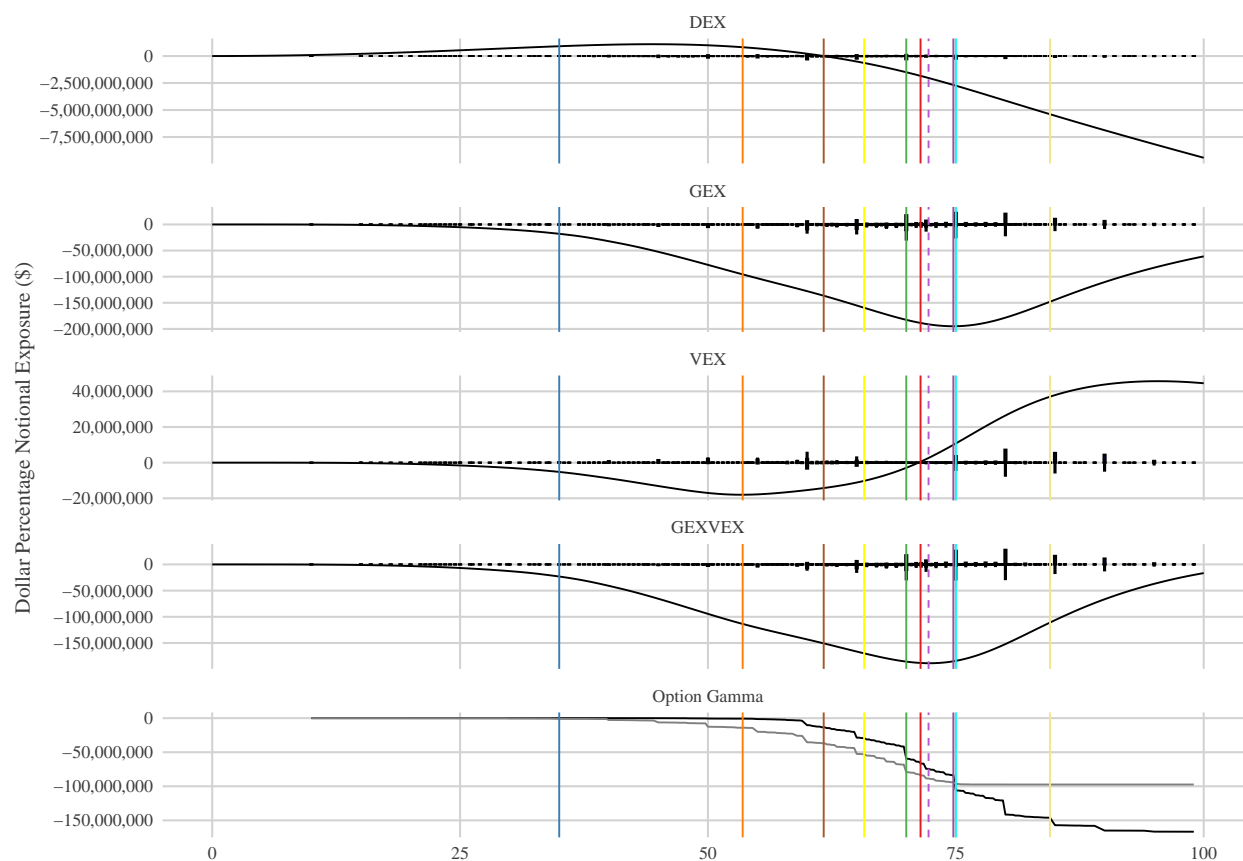
Expected trading range: 65 - 75.



5.3.1 Brent

Dollar Notional Exposure for ICE Crude Oil Brent

Largest Gamma Strike: 2021-10-26 0.348
Largest Delta Strike (Put): 2021-11-24 -0.000395
Largest Delta Strike (Call): 2021-10-26 0.622
Next Expiration: 2021-08-25
Next Expiration Gamma: 0.31
Next Expiration Delta: 0.0366
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12



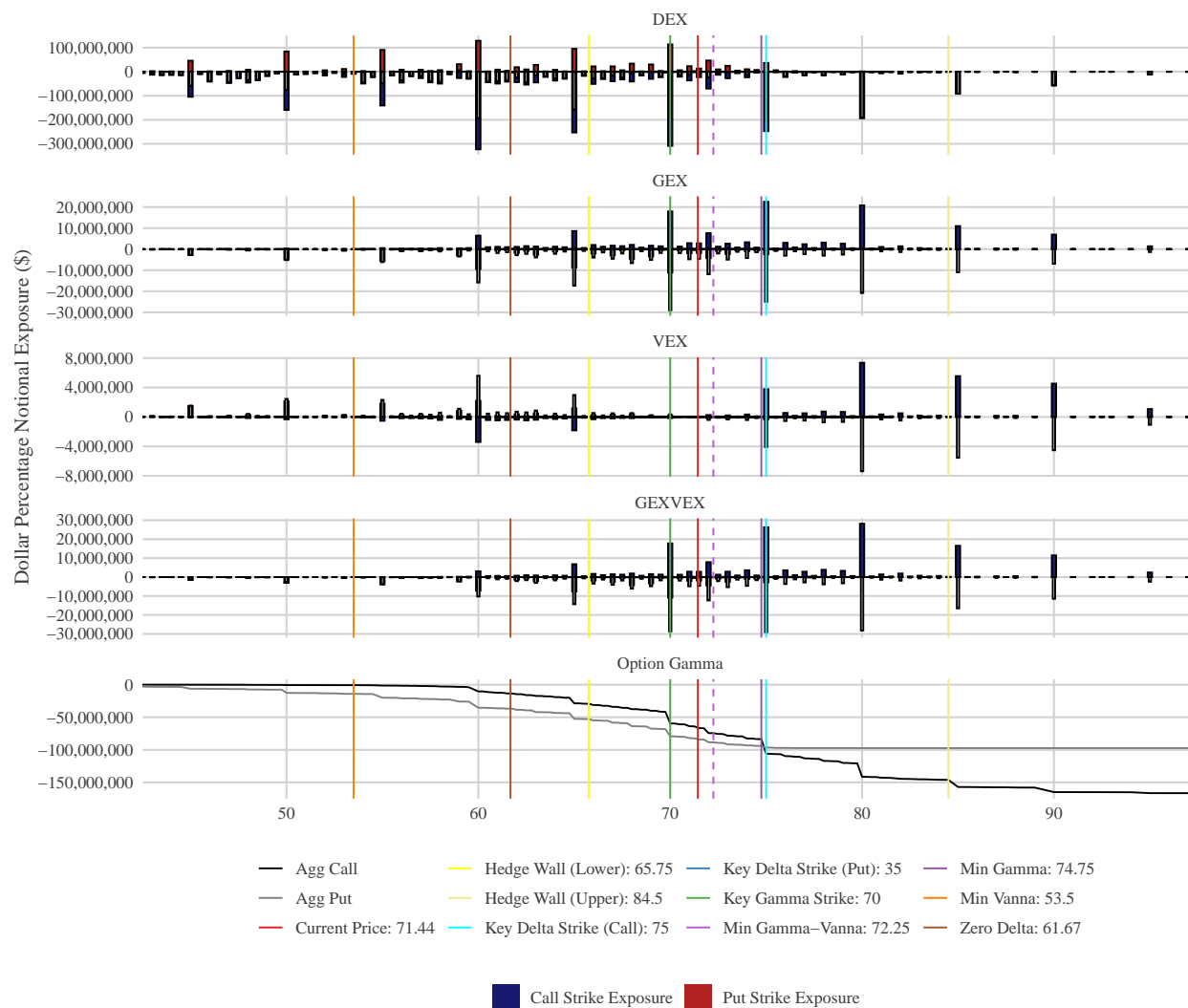
— Agg Call — Hedge Wall (Lower): 65.75 — Key Delta Strike (Put): 35 — Min Gamma: 74.75
— Agg Put — Hedge Wall (Upper): 84.5 — Key Gamma Strike: 70 — Min Vanna: 53.5
— Current Price: 71.44 — Key Delta Strike (Call): 75 — Min Gamma-Vanna: 72.25 — Zero Delta: 61.67

■ Call Strike Exposure ■ Put Strike Exposure



Strike Notional Exposure for ICE Crude Oil Brent

Largest Gamma Strike: 2021-10-26 0.348
Largest Delta Strike (Put): 2021-11-24 -0.000395
Largest Delta Strike (Call): 2021-10-26 0.622
Next Expiration: 2021-08-25
Next Expiration Gamma: 0.31
Next Expiration Delta: 0.0366
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12

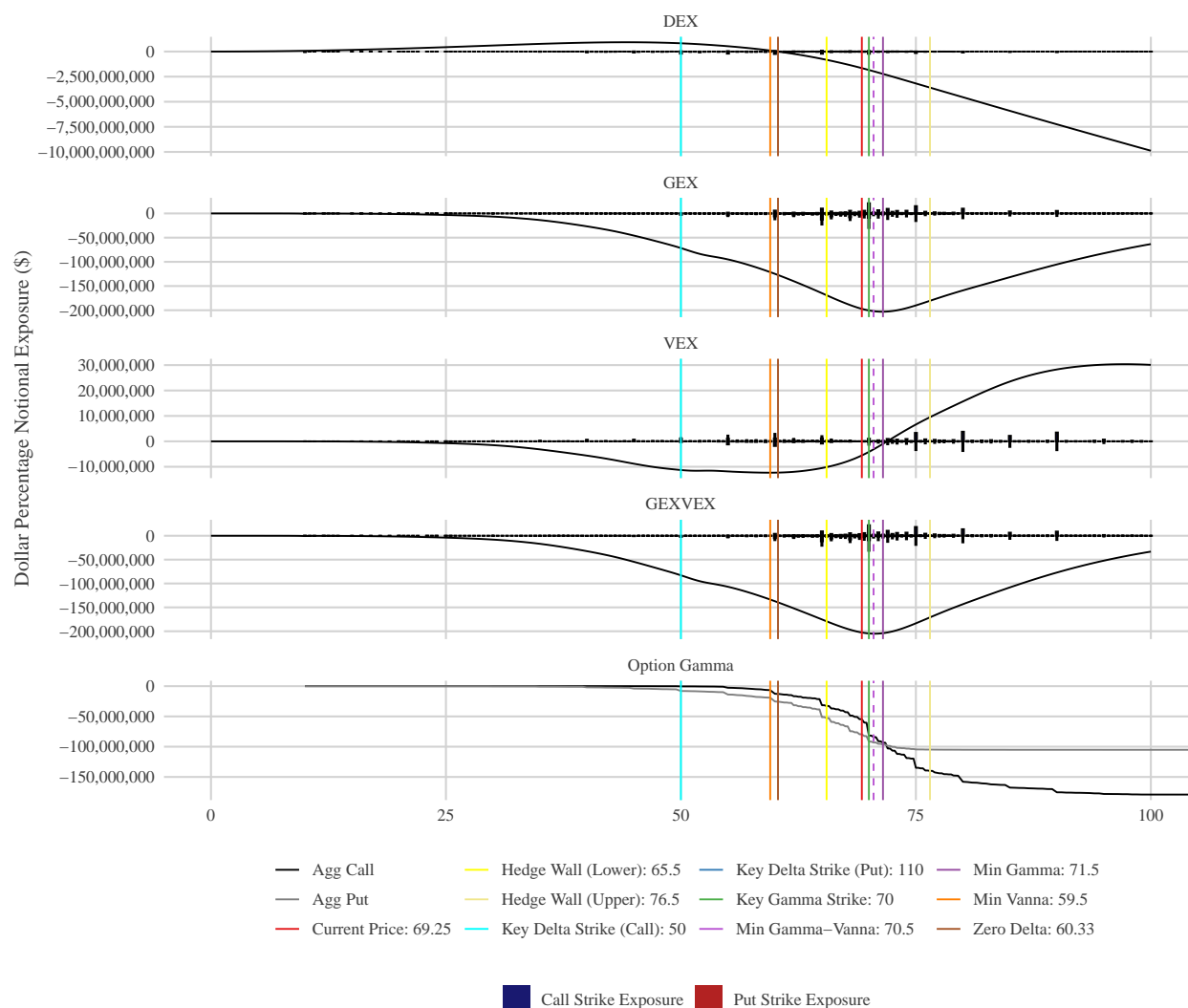




5.3.2 West Texas Intermediate (WTI)

Dollar Notional Exposure for Crude Oil WTI

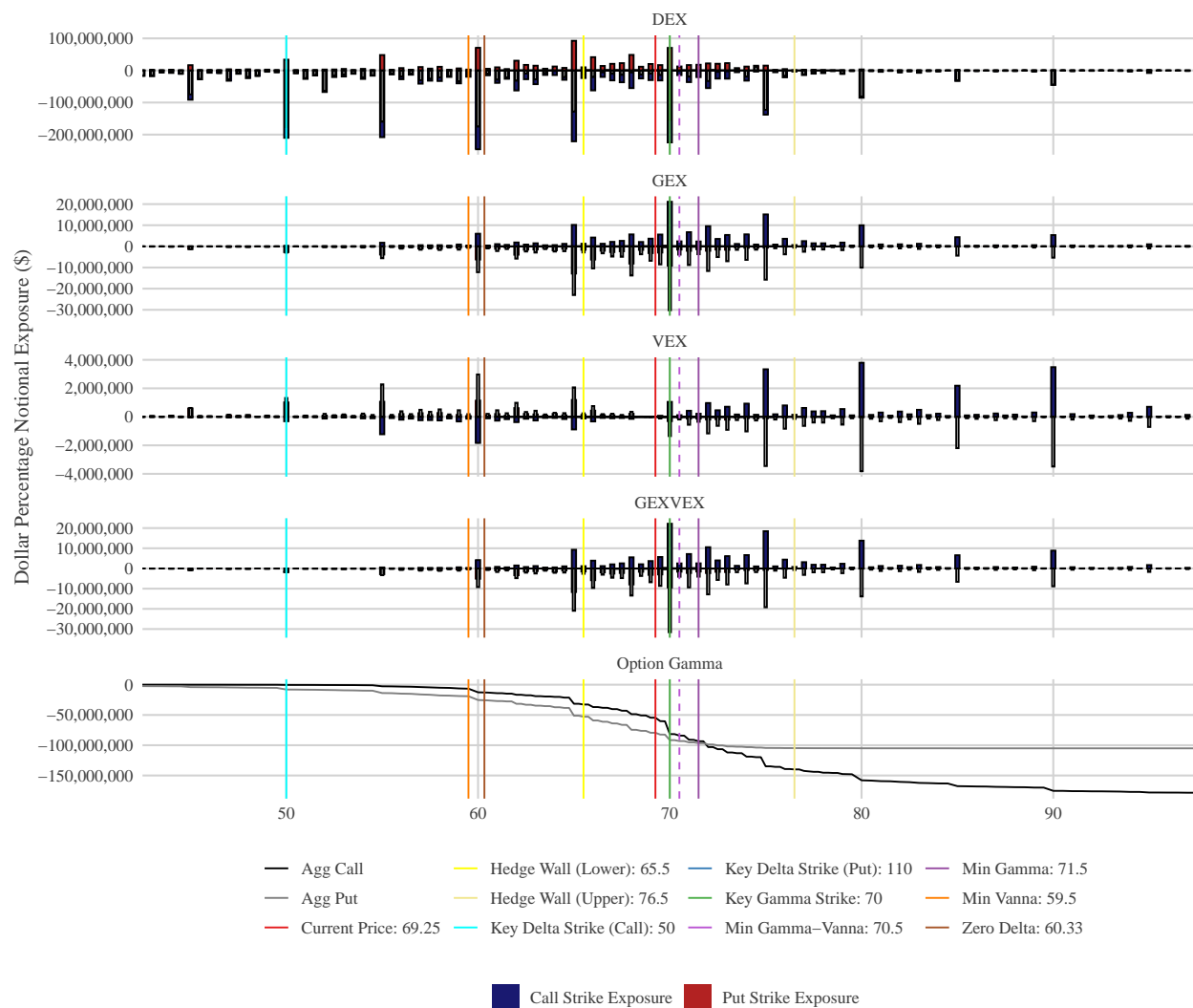
Largest Gamma Strike: 2021-08-17 0.41
Largest Delta Strike (Put): 2021-09-03 -1.94e-06
Largest Delta Strike (Call): 2021-11-16 0.557
Next Expiration: 2021-08-13
Next Expiration Gamma: 0.0172
Next Expiration Delta: 0.00156
Source: CBOE, COMEX, EUREX, NYMEX, ICE/EU, author's compilation
Data as of 2021-08-12





Strike Notional Exposure for Crude Oil WTI

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6 Appendix

6.1 Introduction to Options

A derivative is an investment instrument whose investment value is dependent on an underlying investment. Options are a form of derivative instrument that allows investors to engage in investing, speculating, and risk management activities. Options give market participants the right to purchase and sell the underlying security, or to deliver and receive the underlying security, at a predetermined price, which is also known as the Strike price. Each option has an expiration date, by which the holder of the option must decide whether to exercise the option.

A Call Option gives the holder the right to buy the underlying at the strike price, while a Put Option gives the holder the right to sell the underlying at the strike price. Accordingly, the seller of a Call Option has the obligation to deliver the underlying at the strike price, while the seller of a Put option has the obligation to receive the underlying at the strike price. Whether the holders of the options would exercise their rights, and whether the sellers of the options would be obligated, depends on the moneyness of the option.

An Out-of-the-Money (OTM) option would not be exercised by options holders, as they would be better off by transacting in the underlying directly. For instance, if a Call Option has a Strike of 100, and the underlying is at 90, it would be better for the investor to directly purchase the underlying at 90, rather than to exercise the right to purchase the underlying at 100. If a Put Option has a Strike of 100, and the underlying is at 110, it would be better for the investor to directly sell the underlying at 110, rather than to exercise the right to sell the underlying at 100. Accordingly, such options would have little value.

An In-the-Money (ITM) option would generally be exercised by options holders, as they would not be better off by transacting in the underlying directly. For instance, if a Call Option has a Strike of 100, and the underlying is at 110, it would be better for the investor to exercise the right to purchase the underlying at 100, rather than to directly purchase the underlying at 11. If a Put Option has a Strike of 100, and the underlying is at 90, it would be better for the investor to exercise the right to sell the underlying at 100, rather than to directly sell the underlying at 90. Accordingly, ITM options would have greater value than an OTM option.

The value of an option is influenced by many factors. The more pertinent factors are the price of the underlying, the strike price, the volatility of the underlying, and the time to expiration.



6.2 Quantifying Dealer Market Exposure

For market indices, dealers are assumed to be long call options, and short put options. For single-name indices, dealers are assumed to be short call options, and short put options.

For single-name indices, call gamma strike exposure and vanna strike exposure are assigned positive numbers, and put gamma strike exposure and vanna strike exposure are assigned negative numbers.

Dealers are generally exposed to three kinds of exposures: Delta, Gamma, and Vanna. Delta exposure refers to the value of the hedge that dealers are notionally exposed to, at a particular strike price. It is the dollar notional amount that dealers are holding or selling in order to remain protected (against small price movements).

What is of greater interest are the gamma and vanna exposures. Gamma exposure refers to the rate of change of the value of the hedge that dealers are notionally exposed to, with respect to changes in the underlying price. It measures the sensitivity of the delta notional exposure to changes in the underlying price. The metric utilized to assess dealer gamma exposure is known as Total Gamma Exposure (GEX). The rate of change of GEX can be denominated in per unit points, or percentage points.

Vanna exposure refers to the rate of change of the value of the hedge that dealers are notionally exposed to, with respect to changes in the volatility of the underlying. It measures the sensitivity of the delta notional exposure to changes in the volatility of the underlying. The metric utilized to assess dealer gamma exposure is known as Total Vanna Exposure (VEX). The rate of change of VEX can be denominated in per unit points, or percentage points.



6.3 Making Inferences

A high GEX indicates heightened dealer hedging activity, whereas a low GEX indicates subdued dealer hedging activity. A high GEX implies that dealers must purchase or sell a greater amount of the underlying in order to be protected against small price movements, while a low GEX implies that dealers must purchase or sell a lesser amount of the underlying in order to be protected against small price movements.

A positive GEX indicates that dealers would have to sell the underlying as the underlying price increases, and to buy the underlying as the underlying price decreases. Accordingly, a positive GEX indicates relative market calmness and tempered volatility, as dealer selling activity would put downward pressure on market highs, and dealer buying activity would put upward pressure on market lows. Expected market trading ranges can then be inferred.

A negative GEX indicates that dealers would have to sell the underlying as the underlying price decreases, and to buy the underlying as the underlying price increases. Accordingly, a negative GEX indicates relative market aggressiveness and heightened volatility, as dealer selling activity would put further downward pressure on market lows, and dealer buying activity would put further upward pressure on market highs. Expected market momentum and volatility can then be inferred. A high VEX indicates a heightened additional adjustment to the delta notional exposure for a given change in volatility, while a low VEX indicates a subdued additional adjustment to the delta notional exposure for a given change in volatility.

A positive VEX indicates that dealers would have to sell the underlying as the volatility of the underlying price increases, and to buy the underlying as the volatility of the underlying price decreases.

A negative VEX indicates that dealers would have to buy the underlying as the volatility of the underlying price increases, and to sell the underlying as the volatility of the underlying price decreases.

If GEX is positive, and if markets are experiencing decreasing volatility, a positive VEX, which induces buying activity of the underlying, tempers and subdues the selling activity of a positive GEX. This is usually the case for a market uptrend. If markets are experiencing increasing volatility, a positive VEX, which induces selling activity of the underlying, tempers and subdues the buying activity of a positive GEX. This is usually the case for a market downtrend. Expected market trading ranges can then be inferred.

If GEX is negative, and if markets are experiencing decreasing volatility, a positive VEX, which induces buying activity of the underlying, amplifies the buying activity of a negative GEX. This is usually the case for a sharp upward rebound in the market. If markets are experiencing increasing volatility, a positive VEX, which induces selling activity of the underlying, amplifies the selling activity of a negative GEX. This is usually the case for large downward spirals in the market, until the volatility of the underlying can no longer increase further. Expected market momentum and volatility can then be inferred.

The charts show the calculated distributions of DEX, GEX, VEX, and GEXVEX across different underlying prices, and the distributions of call and put gamma at each strike level (for plotting purposes, calls are given positive gamma, puts are given negative gamma). The net effect is also shown. The aggregated option gamma exposure for calls and puts indicates the volatility profile, and market sentiment of the underlying. Key price levels are indicated, and those serve as important price levels to be wary of.

For market indices, call delta strike exposure are assigned positive numbers, put delta strike exposure are assigned negative numbers, and call option gamma are assigned negative numbers for plotting purposes.

For single-name indices, call gamma strike exposure and vanna strike exposure are assigned positive numbers, and put gamma strike exposure and vanna strike exposure are assigned negative numbers for plotting purposes.



6.4 Key Price Levels

6.4.1 Market Indices

Zero Gamma: The Zero Gamma level is the price whereby there is zero dealer gamma notional exposure. At this level, expected dealer hedging activity is zero. This is a crucial level whereby dealer hedging activity may swing from suppressing volatility to exacerbating volatility, and it therefore acts as a major pivot point; large underlying price drawdowns may be observed if the underlying price crosses below this level, and it acts as a support level if the underlying price approaches this level.

Max Gamma: The Max Gamma level is the price at which dealer hedging activity due to changes in the underlying price is at the maximum. It serves as a major pinning point if the underlying is trading near that level.

Max Vanna: The Max Vanna level is the price at which dealer hedging activity due to changes in the volatility of the underlying is at the maximum. It serves as a major pivot point for the underlying, whereby the price movement of the underlying is most affected, and contingent on the volatility trend of the underlying.

Key Delta Strike: The Key Delta Strike level is the strike price whereby there is the largest positive delta notional position. It is the level whereby there is the highest level of dealer call and put delta. Downward price trends may be reversed upon expiration of this delta notional position. It serves as a support or resistance level for the underlying.

Key Gamma Strike: The Key Gamma Strike level is the strike price whereby there is the largest total gamma notional position. It is the strike price whereby there is heightened dealer hedging activity, and hence there should be heightened dealer influence in the underlying. It serves as a support or resistance level for the underlying.

Call Wall: The Call Wall level is the strike price whereby there is the largest net positive gamma notional position. It indicates the market sentiment and expectation of the upper limit of the underlying, should the underlying trend upwards. It serves as a major resistance point. If this level moves higher, it indicates a bullish sentiment whereby the upward run is not overextended. If this level moves lower, it indicates a bearish sentiment whereby the upward run is overextended.

Put Wall: The Call Wall level is the strike price whereby there is the largest net negative gamma notional position. It indicates the market sentiment and expectation of the lower limit of the underlying, should the underlying trend downwards. It serves as a major pivot point. If this level moves higher, it indicates a bearish sentiment whereby more market participants are seeking greater downside protection. If this level moves lower, it indicates a bullish sentiment whereby more market participants are seeking lower downside protection.

6.4.2 Single-name Indices

Key Delta Strike (Put): The Key Delta Strike (Put) level is the strike price whereby there is the largest positive net delta notional position. If the strike is above the price of the underlying, downward price trends may be reversed upon expiration of this delta notional position. It serves as a support or resistance level for the underlying.

Key Delta Strike (Call): The Key Delta Strike (Call) level is the strike price whereby there is the largest negative net delta notional position. If the strike is below the price of the underlying, upward price trends may be reversed upon expiration of this delta notional position. It serves as a support or resistance level for the underlying.



Key Gamma Strike: The Key Gamma Strike level is the strike price whereby there is the largest total gamma notional position. It is the strike price whereby there is heightened dealer hedging activity, and hence there should be heightened dealer influence in the underlying. It serves as a support or resistance level for the underlying.

Zero Delta: The Zero Delta level is the price whereby there is zero dealer delta notional exposure. It serves as a pivot point for the underlying, whereby the impact of dealer hedging activity on the market is minimized.

Lower Hedge Wall: The Lower Hedge Wall level is the price whereby downside gamma exposure starts to decrease. It serves as a price level whereby downside market volatility may reduce.

Upper Hedge Wall: The Lower Hedge Wall level is the price whereby upside gamma exposure starts to decrease. It serves as a price level whereby upside market volatility may reduce.

Min Vanna: The Min Vanna level is the price at which dealer hedging activity due to changes in the volatility of the underlying is at the maximum. It serves as a major pivot point for the underlying, whereby the price movement of the underlying is most affected, and contingent on the volatility trend of the underlying.

GEXVEX aggregates the effects of Gamma and Vanna.