Minute 1:

Okay, so it seems like yesterday and today the character of the market is kind of changing. Vol caught a little bit of a bid yesterday on the sell-off as well and skew seems to be stabilizing at a higher level. Three month skew started to fade a little bit, now it seems to be coming back a little. I think we're in a new range obviously where the floor in skew is going to be a bit higher and I think we're probably right around there now. Yesterday's order flow or price action I guess really was bearish throughout the day. A lot of what happened was defined by falling through the iron condor. As you can see, the iron condor gamma can be substantial if you're on low volatilities, but when you have high implied vols like we have, like these straddle prices are significantly higher than we saw in summer, even these structures, the sizes we see, don't change the overall picture too much because the higher the vol, the more like each other the two strikes are. When the distribution is wider, the five point call spread, the five point put spread, they virtually have no gamma throughout most of the day. And you can see that on today's profile when we get to it. Yesterday for example, it was interesting, we had some volatility in the morning, we sold off and kind of bounced around the iron condor strikes.

Minute 2:

That was again coming off a pretty strong morning before the open, but fading into the iron condor put spread, we sold off, chopped through it a little bit and eventually kind of gravitated or in some ways we were repelled by the bottom strike. As you can see here in this picture, as this gamma becomes negative, this is also going to probably coincide with charm becoming suppressive because what's happening is the Greeks from the condor are becoming more local. So first, if you're trading 5935 and the condor put spread is 40-45, it's kind of like having a short call spread right on top of you, but having no gamma in it for a long time because the call strikes are so close, there's no real gamma in that structure. As the day wears on and it becomes much less than a zero day and, you know, we have a couple of hours left till expiration, it becomes dominated by the strike that's closer to the at the money. And when you're below it, that's going to mean that it's negative gamma in an increasing rate, but also that the charm will be repellent. And so if you're below it, it's going to push you lower. See that here, that the market kind of tried to rebound once it found some supportive flow.

Minute 3:

But overall, as passive flow switched to selling, it was a quick descent. Today's interesting. Today, this iron condor, I mean, a part of me that's kind of the sick part of me hopes that this guy blows out again, because I don't think we've seen it higher than 40,000. If they do run through the iron condor today, I don't know how high the strikes will get. I think the highest was 40 to 45,000 in July, but I can't validate off the top of my head exactly. Today, the implication would be much higher than that, obviously, if they have to double or nearly triple down on a 30 ,000 lot. So maybe Doc will chime in here and give the right number. But it would be interesting to see what happens. And if there's any time, you know, now's the time, I feel like if you guys looked at the profile, what I encourage you to do also, and I did this in the slides, combine Jan 9th and Jan 8th. It doesn't do much, but they are the same option for our purposes. The settlement date is different. I think Jan 9th officially will settle on Jan 10th. This is a bit of a cash flow implication here.

Minute 4:

But for the most part, like for our purposes, actually understanding market influence and mechanics, Jan 9th settles into today's settlement. So it's like a Jan 8th option. Holders of Jan 9th got kind of screwed over by the selection of the date because they lose one day of optionality there. Today's positioning is pretty vacant. So this here, this position is Jan 8th and Jan 9th combined. And this structure here is obviously defined by the iron condor, but this is not just scale. Meaning these strikes here in the middle, they're virtually non-existent. That may change throughout the day, obviously. But so far, the positioning is so light outside of this one iron condor that it creates... there would almost certainly be some negative gamma on the profile. It wasn't for the size of this position, but overall it's very, very neutral. So this is kind of the market that's free to move.

Minute 5:

I know it is quote unquote long gamma, but as you guys are familiar with, we often see gamma numbers, gamma values on the options depth profile approach 1000. Today, most of the range is between 200 and 500 with the local maximum way down here, kind of grinding towards 5835. This also creates the potential for a pin in that range. This is the max gamma and it's lower than we usually observe as an average. Doc makes the point that Jan 9th is closing only. So we don't need to monitor so much for like intraday trades, but for the existing positions, they're Jan 8th functionally. So today, usually I'm trying to do these tests and ranges. Today, there's almost nothing to speak of in terms of tests or ranges. 5900 becomes a little bit interesting, but it's not like a strong feature in the positions as you've seen. If you look at the charm profile, this is suppressive all the way through. I know this gradient makes a little bit difficult because the color scheme, but the flows everywhere in the beginning are negative.

Minute 6:

And they only really emerge with some buying potential if we find ourselves kind of above 5900 or 5910 into the afternoon, where the iron condor call spread will overtake whatever type of passive selling flow would be implied by the put spread side of the structure and the puts below it. The puts below it that I speak of, they're not huge. I mean, this 5835 put is quite large. So this is what to be aware of really. If you're thinking in terms of tests and ranges, all these structures here, all these positions in the middle are very small. I wouldn't even necessarily advise you to think of them as creating real boundaries at this point. The obvious thing here is the 5865-5870 put spread. This is going to create passive selling flow throughout most of the day. And then it will help consolidate the market because this gamma and the decay flow around this structure overall down here becomes attractive. The gamma, strictly speaking, isn't attractive. The gamma is supportive, meaning if we go down towards it, the buying flow will pick up a little bit because the negative speed feature, you can see that in the market here.

Minute 7:

Whenever we have a gamma maximum below a gamma minimum, all of this range here can be expected. For the most part, we would call this negative speed. It just means as spot goes down, gamma goes up, the correlation is negative. But we would call this suppressive. It's both supportive in the sense that it can stabilize the market because people are buying more and more futures as we sell off towards a higher gamma node. But as market makers buy futures on this range and the market remains at a level wherein most of the options are out of the money, the futures need to be sold back out. And that is what creates the suppressive element. There's two sides of the coin always. And as you can see, it's suppressive almost everywhere. Now that said, the support does emerge here, but it becomes a little bit tricky because you almost have to thread the needle at 5870. There's a very small range in which you have some supportive flows.

Minute 8:

The size of the position at 5835 does imply that if we go too far, below 5860 probably, some number like that, these suppressive flows, these passive selling decay flows, pick up significantly. And when they do, the only obvious target, as you can see, there's a very little bit of positive gamma here that's going to help absorb some of this pressure. But for the most part, I would say that the combination of the delta that would have to decay out of the 65-70 put spread at this point, as well as the delta that would decay out of the 10,000 lot of the 5835 puts on the vols that we've been experiencing, would probably chew through this. So this is close to what I would call the undertaker flows. This is the kind of thing that would be a real risk at the end of the day if there's not a lot of interest. So Jec's point here, it's a really good profile for low volume. If you could elaborate a little bit, I would appreciate it because I think I know what you're saying, but I feel like I could interpret it two ways. Yeah, that's a good point. So if we don't see a lot of interest in the market today, the passive flows could really just dominate.

Minute 9:

If we do see a lot of interest, it could be a very volatile day, especially given the fact there's not a lot of gamma on the profile. So it's really a combination of two features here where there's like a drag against buying flows, which can create some pretty sharp retracements and oscillation. And there's really not a lot of gamma in between to do anything with. So it's a very interesting day. Not a day I'd feel safe doing anything really. So I mean, in the morning too, we often observe and just watch like the RTM signal has been pretty good. We tend to wait for London close these days because it seems like the character of the market changes. If you're going to play the profile, the middle of the day, depending on where we are, middle to late part of the day might be a good time to do it. But obviously, we can move very fast today. So keep that in mind with entries, exits and trade sizing, of course. So this other question, am I reading it right that there's good support below 5900 and more freedom above 6000? So 6000 is pretty far away here. I wouldn't consider it too much on the zero day profile, but that may be the case. The way I read this is that it's a negative speed profile.

Minute 10:

There's more local long gamma below the market here. That's going to compel us or kind of attract us lower as it decays out. It does create support, but it also creates an attractive force. It compels a consolidation towards the lows. So it really just depends what's going to happen. If we do drift higher, if there is buying flow early in the morning, for example, the base case or the likelihood of sticking to the iron condor call spread becomes very high. It just depends on how much gamma the structure has when we're near it. Yeah, exactly. So the support is almost helpful in the sense that it can stave off some of the selling. It absorbs the selling, but it's only temporal, meaning like by the end of the day, you need to find some some buyers to step in and turn it around. Otherwise, the influence is going to be very sticky on the put spread strikes. So for those reading the chat who don't have familiarity with the RTM room, in RTM we notice that the London close sometimes brings a lot of noise with it. And sometimes it's helpful to sit out until afterwards. Just keep this in mind that that period is 11:30 Eastern.

Minute 11:

Just know that what Trading Closed is saying is if you're in a position, maybe just be extra cautious or aware at that time. And what about put spread below the create support? Yesterday was a good day to look at things through the lens of the tests and ranges. I would say that we saw that the iron condor put spread created a test. When the market finally failed the test, we kind of channeled between 59 quarter and 5940. Eventually 59 quarter like the next short strike on the dealer profile. We failed that test. And the next logical point was 5900. We then had suppressive flow that kind of dragged us down. Whenever you have short strikes above spot that pushes us lower. And we obviously had a little bit of a bounce at the end of the day. But by and large, we failed most of the tests. There was pretty heavy selling. Today, the analog would be falling through the iron condor put spread first at 65-70. The difference here today is that there's not a lot of like test ranges where you fall through.

Minute 12:

And you're going to maybe experience some choppiness and some bounce. Really what happens below 5865 today is that all of the passive flows eventually gravitate towards much, much more suppressive. So whereas they're suppressive as a whole today, you can see that the strongest suppression is going to be between 5835 and 5865. And then if you're between 5870 and 5900, it's almost all for sale. And that's going to be hard to get through. But it could create sharp bounces out of it if we absorb all the remaining option delta. So just be aware that there might be volatility for two reasons. And there's not a lot of gamma anywhere to absorb it. Yeah, and I like Jec's point here. Thin gamma is almost more dangerous than negative gamma. What's interesting about thin gamma is that you don't have a lot of signal. When you think about what negative gamma means, if somebody's hedging, well, then there might be an incentive to unwind a hedge. There might be volatility influences when volatility spikes that actually force price the other way because of Vanna. But when you have nothing on the profile, it's almost like a void.

Minute 13:

And if you imagine if there are participants that are not hedged, they could come in and hedge at any time. And we have no ability to tease that out of any kind of positioning data. And so I wouldn't necessarily relate this to the holiday. Well, it could be two things. There could be some positioning like moved forward to Jan 10th instead of… Sorry, I guess back to Jan 10th instead of earlier. But I think it's just the pickup in realized volatility is probably shaking a little bit of the gamma sellers out right now. And they're probably on like a pause mode. And to Danvol’s point, today’s profile reads like an inverted classic GEX, I do agree, that's the base case. That's like the suppressive charm feature. So we will see what happens. The interesting thing is there's a pretty expensive straddle. So just by like mechanics alone, the fact that the straddle is a bit more pricey does imply that the risk to the downside is a bit exacerbated. Like as that straddle decays, the selling pressure is stronger than if it was like a very cheap straddle. Seems like the market likes the risk reward of selling the 58 half-ish puts. I guess the only point there is that the…

Minute 14:

if you were to sell a put like that, then just be aware that the influence to the downside if you get in that range is very much likely to put your puts in the money. Yeah, the higher the straddle, the more delta there would be to decay, right? And the more options, like the wider the distribution of options that fall into that profile. Cool, I'm going to close here. Thank you very much and good luck.