Minute 1:

Interestingly enough, it looks like Goldman's projections might be decent this time. Okay, so obviously payrolls came out pretty hot. And as you can see here, it looks like part of the thesis is that the macro environment has a good news equals bad news type of response function. And clearly we sold off pretty quickly because obviously the assumption there is that we're putting rate cuts on hold. So Wednesday's profile, it was pretty choppy, obviously. Not going to spend too much time on it. We had the iron condor that defined these local zones here on the top and the bottom. This was a day that was miserable because it didn't really compel a pin or a trend ever throughout the day. I mean, it did in a couple of different time frames, but we didn't land anywhere that was specifically aligned with the biggest inventory. So that was kind of frustrating. Sometimes we see this action and we grind to one strike or the other. This time we kind of just ping ponged in between, which is certainly another possibility. We did not get to see this grow. Unfortunate because it would have already been through whatever size it was this morning, I'm sure. You can see here too that again, we gravitated towards really both sides of the structure and they acted as boundaries.

Minute 2:

But we never actually got to pin in the end. This was before the drop, obviously. So we came in and had a pretty bearish overnight session. Straddle stayed high. We recovered all of the drop in the overnight. Sorry, I didn't have like a tests and ranges today because actually most of the range is reset actually. The main inventory actually looks like it was probably here on the bottom where the low was set overnight around 5880. As you guys can see, probably looking in the dealer position yourselves, there's a put spread there, 5860-5880 put spread. That seems to be now very important. It's not huge, but it's large enough to be creating a local influence here. Where if we don't escape this range, especially above 5880, I would argue, there's a good chance that we'll just get trapped here and be forced to maybe test 5840 if other selling comes in. But as you can see here, it's an expensive zero-day straddle or was. I'll reprice it in a minute. But here we have this yellow line is the gamma minimum.

Minute 3:

And this is kind of an interesting feature because it's actually descending or decaying onto the 5880 strike, which is the largest zero-day position. Obviously, there's wasn't enough here to act as a real test throughout the morning, at least not visibly. We would have dropped the ball right away as NFP came out and moved lower into this. You have the charm profile here, which really kind of is, again, interesting curvature. It's like distributed pretty widely here, and it collapses into the strikes. As far as ranges and levels go, if this position is not moved or other positions don't change substantially, we're going to wind up being in a situation where we're fighting these passive decay flows. And so super important today to check the intraday updates. Obviously, I've already been doing that and don't see a lot of movement yet, a lot of repositioning. They still look mostly intact. I don't know what this position was. This is not like the 20 wide put spread seller that restrikes, et cetera, something a little bit different. Yeah, it looks pretty much still intact. And so the real danger here, if you guys have looked at the profile, I put an extra slide in because we reset the range as soon as we dropped.

Minute 4:

So I started out $75 around. We obviously moved the straddle and then some right away. This is the main inventory in the range around Wednesday's close. Again, the main feature of interest here is the 5880 put and what's below it. Now, you don't really get to see this, but we snapped all the way down to this range past the negative gamma strike. And the difficulty here is that this is a high straddle price and all this stuff below it skews dealer long. So this was what happens when you have like a lot of put spread buys where maybe a dealer sells one strike and buys one below it or put ratio buys for hedges. It used to become commonplace sometimes on higher volatilities to buy like back spreads, for example, put one by two. And so this dealer position would… I'm not saying those were the trades that did this, but it's common to see in higher vol environments where you have multiple legs on the downside where if you wind up going through a strike, you can easily get trapped there.

Minute 5:

And this is a frustrating experience for a market maker, but it does happen a lot where your hedging again kind of nudges you down to your worst case outcome, the customer's best case outcome. On the bright side, this is interesting. These are pretty big positions. They're more interesting to trade around, and hopefully we do get more of these. So let's see what happens. But again, if there's any level to test here that's below like 5860s should provide consolidation. This is the SPX equivalent price action since the release. And what we want, if you're bullish here playing for a bounce, is to get over 5880. And again, the trapping just happens because the size of the inventory that market makers are long below spot winds up having so much delta to decay out. That compels selling on behalf of the market maker balancing the position. So if there are long puts, the market maker’s long a lot of delta, they're out of the money. As they decay away and they expire today, they have a shot clock that's pretty rapid. All the delta is hedged with futures that don't decay, they’re linear. They have to actually sell those out. So the options will kind of disappear, but the delta needs to be sold back out. It always depends on proximity.

Minute 6:

For example, if it's in the money calls and not out of the money puts, if it's downside options, if it's in the money calls, they are decaying up to 100 delta instead of decaying down to 0 delta. And so the market maker has to sell more and more futures as that happens. So that creates the trapping. And so that happens when you wind up in between a sold put spread, like the strikes of a sold put spread. So right now when you see SPX implied 5873, we should again experience 5880 as a little bit of a test. It's still pretty early in the day. Obviously, the day hasn't really started yet. And the gamma is not as local as it might be at the end, but it still could be a moment here where we either get over it and it can start to change the character, it can start to move us out of this passive selling flow and into something a little bit more neutral and passive buying flow eventually. Yeah, and obviously, real volume could, you know, could step in and do anything here. We'll see. It's interesting because this is going to be a day where if we don't get over this hump here, like we're already kind of fading back. You can see it's a bit difficult to get through this strike level.

Minute 7:

The real problem is that if you look at the charm profile, like if you guys have options depth up, just do yourself a favor and look at some of the different numbers that come into play. If we wind up down here. This is probably not even the strongest. There's inventory in the 5700s that becomes relevant, especially if vols stay high or zero day vols stay high and they have premium to decay out towards the end of the day. It's going to become very, very difficult to get out of. Like this is a type of flow that I usually term like undertaker flow because there's just so much delta for sale to close the position. So again, if there's levels to test here, it's 5880 first. And if we cross over 5880, then at least we can stand a chance of observing a passive bull trend through the morning and afternoon. Again, we have no idea what kind of character we'll see out of the gates. There should be volatility. There should be real volumes. I don't think the dealer profile alone will drive things. I also think that if we rally out of this range, the dealer profile has less influence. I do think if we drop, like if we fail here to reclaim 5880 and slide back towards 5860, we would consolidate there theoretically because that's a long gamma point. If that is a put spread and not just like an independent coincidence, then we could consolidate around 5860.

Minute 8:

The risk then becomes that there's any selling beyond that, the next test is around 5840. And clearly, if we go below 5840, the actual charm flows are pretty significant. Yeah, it's always important to balance this stuff out like it's just one slice of a pie. And it always helps to kind of keep in mind, like when there's a lot of other participants, you have to discount your edge. And when your position is huge or when the hedging flows are huge, you know, that obviously supports your case when it's smaller, that should prevent you from overtrading it. It's just important to keep that frame. OK, so yeah, charm accelerates pretty heavily. Noteworthy, It approaches like values of, 30, 40, 50, midday, which is sometimes rare. Oftentimes you don't see values like that until the end. But again, it's the size of the positions below… really 58 quarter even, there's like 10,000 lots around 5780, 5790 and offset by… at that point a lot of the stuff to the upside has already been kind of taken off the distribution. And the only real inventory locally above would be a short at the 5840 line.

Minute 9:

So all this stuff increases the charm flow as you move down. The perspective of like whether we can reclaim the levels we had before, 5860 is the next consolidation level, like the ledge. And then 5840 would be the test where if we don't pass it and I should be clear, too, we have suppressive charm flow kind of throughout this entire range. But it's going to get stronger and stronger below 5840, like significantly so where it's going to be very difficult to get out of it. And so even if you might get a bounce on many days, this inventory can sometimes create a very difficult trading day for bulls, for example, trying to buy the dip because they're facing off against just a passive 100 minis every couple of minutes that does create, you know, attention. So we'll see what happens. If discretionary flows are real, are market maker flows fake? I just call them passive or I call one like active and one passive. Yeah, mechanical, mechanical or passive or systematic or structural. There's a lot of different terms that kind of have the same connotation.

Minute 10:

But the idea is that obviously the market making flows are really not active in the sense that these entities are not really using a lot of discretion when they trade. Basically, yes, zombie market makers. Yes, kind of. OK, cool. I'm going to close here. I'll try to give a lot of updated intraday commentary today. It might be a busy day. It might not. Who knows? There might be some pent up interests after the closure yesterday. I've been sending some of the commentary from the RTM room for the dealer profile side to the active VIP chat. I'll continue to try to do that every now and then. Maybe not as frequently, but especially when there are important updates or at least like midday and towards the close. And I'll keep you guys updated today. If we see anything big with the market on close. Again, for the sake of everybody who's been doing this before or has asked the question, now is a good time to start looking ahead to Jan Opex. And so maybe it's a bit premature today, but certainly by like Monday, Tuesday, it's important to start being aware of those inventories as well, because even if they're not zero day and they are strictly speaking, the Greeks are dwarfed by zero day options. There's something about it. I can't really explain it technically. I'm not even going to try.

Minute 11:

I do know they're linked to OTC positions we can't always see very easily, but they seem to have more weight than would be implied by the overall profile. Like oftentimes it would seem that zero day interests would overtake or counteract the Opex, the traditional Opex Greeks. But for some reason, it's almost like there's a background track with the legacy positioning that can be quite dominant. So I'll start going through those as well for next week's meetings and hopefully it'll be useful because it's already off to a very volatile start. And this question too, ES, SPY, SPX. Yeah, there are some volume breakdowns. Obviously SPX is by far the largest in the complex of the options. Even as far as like US equity and equity index options, they're extremely dominant. But I would say also with things like ES, SPY and SPX, a lot of the flow in the adjacent products are just like layoffs for the main product. Main customers tend to operate still on SPX and then dealers obviously ping-pong things back and forth in ES. A lot of ES delta trading goes on, of course, too, but it's not huge. As far as the other indices, yeah, I wouldn't advise you not to look at them.

Minute 12:

I do know, however, that there's not as much positioning at this point. There might be, but I don't think… for example, NQ and QQQ. The problem with QQQ and SPY, for example, they're multiply listed. So it's difficult. Whereas with SPX, you get a very, very dominant picture. I think Qs, more positioning happens in Qs than NQ. So if it was just NQ or like the CBOE cash index, NDX, whatever, it would actually be easier to do this just like SPX. But because of the way the users have or the customers in retail have used the options, it creates a bit more noise, a little more difficult to get a clean data set. And yeah, to the other question, OPEX will have more weight, at least more weight than we usually assume. It's not clear why that is. You can say for sure that they are tied to OTC contracts that have relevance beyond what we can see in the listed vanilla stuff. But it's not like an obvious thing. But I just have noticed anecdotally that I would always see the positions there kind of drive the direction earlier than you'd expect them to if you're just looking at the Greeks.

Minute 13:

And so the thing about the OPEX positioning, it is going to be an accelerant. It does have a broader implication, but it's going to work the same way as zero day type stuff. So if there's a lot of negative gamma above, it's going to be a potential accelerant. But to the effect we can't get through it, it's going to just kind of push us lower. And for all we know that might be happening to some extent now, this is where like a tenor by tenor, IV and vanna matrix would help to understand some of the pass-throughs. But nevertheless, like even just understanding like the nature of the position does help because it's all just scaling. So if you think of the mechanics we talk about for zero day every day and apply those to the delta ranges in the expirations behind, works the same way functionally, it's just a bit different. The actual time frame is a bit different. The patterns are a little bit different. Sometimes you can experience the trend overnight. Maybe there could be some interesting features where you have that trend play out overnight more often. I don't know, but I do know that I've never been hurt by looking at the OPEX prescription a week ahead of time. So I'll start doing that and I'll give some analysis also in the meetings next week for it as I do. So cool. Good luck and I will keep you guys updated mid day.