Minute 1:

Okay, so pretty big overnight range here to start the year, obviously. People have been asking questions about the late year volatility and all this kind of stuff. My interpretation is that there's probably some sort of mechanical selling. There's been strain on funding spreads for a while. I'm not going to get too much into exactly why. But it looks like window dressing type of stuff when it happens. It happened last year as well, different time. But it's a very similar type of sell-off and recovery. I don't know if we are moving into a period of… real volatile market or not. I think it's too early to say. And I also think that it's probably too early to ride the bearish kind of trend or topping sentiment before the start of the year. I know people have mixed opinions on this. I think it's a little bit overblown. The extent of the hypothesis that Cem has popularized, that we're going to have a tremendous amount of buying flow. I don't see it behaving the same way. And I don't think the collateral works exactly that way. Overall, though, I still would expect inflows. And so I wouldn't jump on the bandwagon just yet. I would let this play out a little bit and establish a direction. Still haven't seen resolution in some of the different greeks or parameters, I should say, in the market either.

Minute 2:

And so today I would expect vol to fade a little bit or start to fade. It looks like in the overnight, at least it's already started to happen in the zero day straddles. But I guess before we get ahead of ourselves, the move on Tuesday. So last move of the year or last day of the year, generally bearish. There's a lot of selling, a lot of passive selling and suppressive flows, kind of like we've seen in other expirations, especially like November. The actual inventory that we were moving into reminded me a lot of November. Some of it actually looked like it was moved around throughout the day and it was not quite as bearish in the second half. And you see, we kind of just chopped around and oscillated. For whatever reason 5860 seems to be a pretty serious level. I don't know if you guys have noticed, but several expirations now have lined up where the Opex moves have kind of landed around 5860. And then we bounced off of it. We've returned to it several times. And again, in the overnight we did that. This is still Tuesday's flow. This is the overnight range. So right there again, the low 5863 of implied. It seems incredible that we keep touching this level and bouncing off of it.

Minute 3:

I don't know if this is the end of the move. When I took this straddle snapshot or this market snapshot, we were trading 5937. We're down a bit already back to 5920. So to me, this also seems like an important level, this 5920 level around here. It doesn't need to be so precise, but

5915 to 5920, whatever in this range is minimum gamma today. So as straddles have gone up in general, that's done two things. Well, it means that market makers are shorter options overall. It's staggered. There's not just days where we're long everything on the board or short everything on the board. We're seeing them short some strikes, long some strikes. And that creates less of a gamma profile overall, like not as strong of a long gamma hedging profile. We still have some local variations. It becomes a little more important too to look at zero day inventory. I think when you have situations like this, when vol goes a little bit higher and gamma is a little more mixed and neutral, you're obviously not going to get a lot of information out of this, right? And so if you're used to reading these charts, you know, continue to do so, these minimum gamma points are interesting.

Minute 4:

This is where positioning is changing, I should say. And we're still going to expect some resistance around 50… This is way up there, 5980 at this point. And we still will see this stuff become increasingly local as the day goes on. But you get actually quite a bit more information out of the inventory. And so to talk a little bit about why this is, I think it just… There's nobody that can tell you for sure exactly what every firm is doing. But my hypothesis is that there are some firms that are more prominent in zero day flows. And those firms are hedging things where they might not even be touching something like the March quarterly collar that traded or anything in Jan or end of Jan. But they have a large influence on the hedging of the zero day positions. And so for that reason, you'd almost have to kind of anchor your brain to think, okay, well, there is this overall gamma profile. But you want to consider, too, that you might want to focus a little bit more on the granularity that would come out of the zero day profile. We don't have a zero day only profile. It might be interesting to have that.

Minute 5:

For our purposes, we can get a lot of information just looking over at the inventory. Before I get there, though, the gamma picture here is not negative. So we get used to positive gamma and neutral gamma feels negative. I would say I think of it that way, too. Now, this is not negative gamma. It's just very little bit of gamma. We do still have a positive speed profile, meaning as we go higher, there is a slowing feature in the market. Actually, I would argue that we already bounced off of it the first time today when we ran into 5945 equivalent where we started to see market makers long options. And so all these calls here between… I mean, this is trivial, 5940, but these are not huge strikes, obviously, not huge inventories on strike. But this is a serious cluster where everything is increasingly long gamma. So as you move up into this range in the zero day profile, you're not only moving away from strikes that are short gamma, but you're moving into things that are longer gamma and clustering. And so it becomes a very different picture very quickly. All of a sudden, the market moves from a place where it can move around freely to a zone where it's seeing increasing resistance.

Minute 6:

This is technically just speed. It's called speed. Positive speed just means positive value on Dgamma/Dspot. As spot value goes up or the SPX goes higher, gamma becomes more positive as well. So the other feature here that this creates, which you guys should start to understand, it should start to cement in place. When you see these things, like dealer shorts or neutral territory, followed by dealer longs above you, that creates resistance. In terms of gamma, but it creates a trapping feature from charm because you're selling futures as you're rallying, you're selling more and more and more, and then you have to buy them back. And so this kind of just redistributes the buying. It slows it down. But to the extent that we don't just bounce off and rip back into a new range, these options have delta that will have become higher. It will decay away and go lower. That means the hedged delta will have to be bought back. That creates this here. So when I talk about charm flips or ranges or trends, charm creates trends and gamma defines behavior.

Minute 7:

Just keep that in mind. Charm actually does create trends because the passage of time is a given. It influences options all the same way. And it doesn't require understanding anything about a counterparty who strictly speaking we can't make assumptions about with certainty for the entire universe of counterparties. We can do pretty well with a lot of them, but we can't get all of them. And so charm actually does tell you what direction the market should go. What I should say is if the market were only being driven by dealer hedging flows, which direction would the market go? Charm is where you want to look for trend. So if you're thinking about the background track of the market, today it's bullish above 5915 and bearish below. What's interesting here is that the actual profile, if you go into options depth and remember the heuristic, you just take the value, the charm value multiplied by negative 2. When you look at that result, what you're getting is an amount of minis, ES futures contracts that would have to be bought or sold every five minutes, I think is the default feature on options depth, in order to continually balance that overall portfolio back to Delta neutral, according to charm.

Minute 8:

And so this gives you a way to kind of benchmark and understand the mechanics of it and map it to like something that is actually hitting the order book. The flows today are bullish above 5915, but they're not strong. In this range, they're actually mild and kind of weak actually compared to what we see sometimes. And they're much more bearish below 5915 than they are bullish above it. And so you get kind of the implication that we're going to have a passive upward drift here. And when I say here, I mean in this range here, which we kind of did overnight already. And if we do breach this level here, things get actually pretty violent pretty quick or, shouldn't say violent because it's not like we lose a lot of gamma. Actually, on the speed profile or the gamma profile, it's neutral. But technically, under this yellow line, it would be getting more positive gamma, not more negative. But it has that feature to it where the inventory below it and around it create decay flows. Sorry, create option decay flows that require passive selling.

Minute 9:

And so that defines a trend. And again, the inventory that does all this is right here. It's the call wall here. There's hedging around 5900 and 5920. And this creates kind of that decision point around 5915. Below that, we do have a little bit of support implied. And so this is why it's helpful to look at the zero day inventory too, not just the greek profile, because you'll see situations where this strike at 5890 may very well behave like an element of support, like a long gamma type support, not a short gamma quirky bounce off support, but like a real long gamma support where it allows price to consolidate a few minutes or like, you know, part of the day and then bounce off. You wouldn't even ever see that in this profile here. And so that's why I say it's interesting to think about the mechanics of the mechanics of the market through the lens of the market structure. Different entities are hedging different things. Some firms don't even touch zero day and some firms don't even touch one year. And it's not very easy to just distill the whole thing into one thing. But I think it's safe to say that we all agree that zero day hedging is important.

Minute 10:

And it does help to look at the inventory to figure out where there might be levels. The way I read this is these are like tests. So I'll get to the question in just a second. But the way I read this is these are like tests. Sometimes we slice through negative gamma. Sometimes we bounce right off it. There are reasons for both. It's frustrating because you can't assess it the exact same way as you do with long gamma. Generally speaking, there's customer behavior that you don't know. And there's also kind of some potential volatility things that would happen when you're moving through these strikes that might actually invert charm momentarily. It's just a strange thing to have an assumption about. Long gamma is easier to figure out. You're really just mostly going to have support or resistance or lack thereof. But here these are kind of like tests. And so 5915 I would say was kind of like the general average of the test range. And if we slice through it, we have a little bit of support here at 5890, but not a lot below that. There's a little bit of a cluster. These are all tiny option positions. I should emphasize that. These look like something, but it's all scale.

Minute 11:

These are not even 500 lots. This is not enough to really stop things. And then we have negative gamma again showing up at 58 half. So I don't know if we'll actually see 5860 again today. I don't know what kind of day it will be. The straddle got hit pretty hard, it looked like in the morning and may be coming back. But my guess would be that we are going to just kind of stabilize and find a little bit of support. And I would imagine we drift into like the 5940, 59 half range. But again, of course, we could see selling. If we do see selling, these are the levels that are possibly in play. Do clusters on the left cause suppressive charm? Clusters on the right cause supportive charm. So it's always going to be relative to spot. Proximity above or below spot levels for one. I think you probably know that. If there's a dealer short above us, that causes suppressive charm. Meaning if you're short a call, you're long futures against it. And to the extent that call remains out of the money and it's going to decay to zero. All the long futures are delta one instruments.

Minute 12:

They have nothing to do with time. You'll just have to sell those out. And that creates the selling flow that pushes you back down. And so I think it's generally safe to say that yes, clusters on the left above spot levels cause passive selling flow. Clusters on the right above spot levels cause passive buying flow. And vice versa on the downside. So remember the heuristic. The hedging flows push away from short options and towards the dealer's long options. So if a dealer has a cluster of long options on the profile that are near enough the money to have delta, especially when they start to drift between the two zones of the distribution, moving past the 20 delta zone, those options decay most rapidly. The delta hedging influences are the most, I guess, the strongest. Those clusters create strong influences. There are weird moments, I guess, what I'm trying to get at here. And I don't want to overly confuse you guys, but there are weird moments too. Or for example, you might be trading 5970.

Minute 13:

Let's just use this example here. And even though above you, is a long dealer call spread, like I would kind of just mentally understand this position as like the 5975-6000 call spread, right? That's a long call spread. That's out of the money that has option delta. But because the 20 delta options decay faster first, you're going to have the net of the influence here happen from things like the 6000 calls instead of the 5975 calls. And so just keep these basic things in mind. That will create something where like you have a charm profile that varies and then becomes supportive in the end. It's just interesting. I'm going to put the extended slides in the active VIP chat. I'm also going to break down McElligott's note. He put a long note out for New Year's Eve. It was interesting. I think we agree on most of the risks to the market. My view is kind of that we have a regime shift. And these happen all the time. You kind of switch back and forth. And I think we probably had…

Minute 14:

I think it's safe to say we experienced a regime shift away from traditional skew and traditional spot vol covariance in like 2022. We actually, I think, had a greater number of days or generally speaking, a greater realized vol to the upside and larger moves to the upside than we had to the downside. And so at some point with a long enough horizon, that type of market behavior would invalidate the concept of skew. There's no actual realized edge in holding short put long call or pricing puts above call. You wouldn't do that overall. Like we've had other markets that have completely lost their skew like the Nikkei. The S&P was on that path. But obviously some things that have happened even just this year. In April, for example, we started to see things shift aggressively the other way. And we've had periods of calm where you can almost see the market trying to go back to this low skew expensive call type of structure. But we have these spot vol shocks where all of a sudden we have a quick downside move. And in my opinion, it's been driven by the vol complex more so than the index delta.

Minute 15:

It's mostly VIX calls like VIX calls and things in the VIX space are huge now. And as we had this different type of market, it became interesting and commonplace and attractive also to hedge with VIX calls instead of index delta because selloffs were shallow, difficult to monetize and vol never really exploded or performed to the downside. So you'd want something more convex and less path sensitive with respect to the actual SPX itself. And so this all then becomes what causes the next thing, interestingly enough. And as you see, like some of these moments where VIX has spiked and ostensibly it happens through the lens of like I know the August one had a lot going on, a lot of confusion around whether it was VIX positioning, VIX derivatives positioning or a carry trade unwind. I think the safest assumption is that it was a part of VIX positioning and the VIX call spread, VIX call spread positioning that we witnessed in the SPX pass through.

Minute 16:

That moves quickly and it depends on the vanna position. But what my point was in March was that the SPX complex, the positioning actually in the options itself was starting to become more traditional and more like what we were used to before, where skew is going to go a little bit higher over time. And we would start to see the floor in skew, like the relative pricing of puts versus calls kind of normalize. What this means for us is that you see… I think it's actually more clear. To me, it's an easier market to trade. In a way, it doesn't mean that the market's more risky. Ironically, it might mean the opposite, right? Because if skew is structurally higher, that means as a whole, the participants that are here in the market actually do own puts again because they're hedging a real underlying position in the equities. Instead of doing things like equity replacement or selling puts for long beta, things that are inherently unstable, now it becomes actually more stable. And it means, of course, you're not going to get 25% rallies. It's strange to me to see people now calling for blow-off tops when, in some mechanical sense, the case for that is already gone.

Minute 17:

We've had that. It doesn't need to be a one and done moment. Look back at the last two years, the incredible rallies we've had. It would be strange now to have a spot-vol correlation shock to the upside when we've just started correcting to the downside with these shocks that keep landing us with skew at a higher level. So even just thinking in terms of next year for a longer term framework of what to expect, I would say it would be foolish to expect VIX to go back down to 10 or 12 or whatever. Like, yes, we have all these leveraged ETNs, but the structure is just different. Also, there's some interesting features and lagged correlations with VIX and interest rates for whatever reason that, on like a two-year lag, they actually do have a pretty strong positive correlation. And to the extent that rates remain high, that would, through that lens, at least imply that VIX should find a higher floor and also kind of stay there. I'd just be aware of anybody saying that VIX is going to go to levels like 10 or 12 or whatever was normal before.

Minute 18:

If you look at what's been happening, we kind of have been finding stronger levels in skew and vol. I don't have exact levels for next year, obviously, that’s premature. But just keep that in mind as you think about the potential paths. I think the path for next year is already, you know, without being overly sensational, I think the 25% rally or 20% rally type of year is not really implied in the positioning anymore at all. It's much more normal. So that's all I got for now. I'm going to cut here and drop some additional stuff into the VIP chat as well. Good luck.